

# The Economic Consequences of Covid-19 in Africa Particularly in Senegal

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## **Abstract**

China has become rapidly the crossroad of the world's trade. The country is even commonly called the world's factory. Because of that, what affects China, has necessarily an impact in many other parts of the globe. Since December 2019, Covid-19 is impacting on all continents, bringing tremendous economic consequences. Many sectors have been touched and countries are actively trying to take actions in order to minimize damages. West Africa has suffered from the negative economic impacts of Covid-19, particularly Senegal. This paper shows the decreasing on imports and exports for main goods like oil, gas, foods...

**Keywords:** Imports, Exports, Coronavirus

## 1. Introduction

In recent decades, Chinese commerce has grown at a breakneck pace. In 1995, the value of Chinese merchandise imports and exports was totally \$ 280.9 billion, or 3% of world trade. In 2018, its total merchandise trade jumped to \$ 4.6 trillion, in other words, 12.4% of world trade.

Excluding trade with the United States and Hong Kong, China exported \$ 1.71 trillion and imported \$ 1.97 trillion in goods in 2018.

It is also important to consider the value of China's trade in services. As the Chinese economy has matured, the demand for services has increased. Between 2000 and 2017, the value of services imported by China increased from \$ 36 billion to \$ 470 billion.

China is one of the most important trading partners for African countries. The value of Sino-African trade in 2018 was \$ 185 billion, up from \$ 155 billion in 2017.

In 2018, Africa's largest exporter to China was Angola, followed by South Africa and the Republic of Congo. South Africa was the largest buyer of Chinese products, followed by Nigeria and Egypt.

In the east, food products such as livestock, coffee and grains are the largest exports to China.

Textiles, once dominant in North African countries like Morocco and Tunisia, have been overtaken by ores and plastic products, respectively.

Cotton product exports remained strong for small economies in Mali and Benin, while Niger experienced explosive growth in cotton export levels. In the south, ores and other precious metals are still the main sources of income.

The economic ties between China and the African continent have deepened as the Chinese economy flourished. China surpassed the United States as Africa's main trading partner in 2009. China is a destination for 15 to 16% of exports from sub-Saharan Africa and the source of 14 to 21% of imports from the region, Although the majority of African exports to China consist of mineral fuels, lubricants and related materials, it also exports iron, ore, metals and other commodities, as well as small quantities of food product and agriculture. China exports a range of machinery, transport and communication equipment as well as manufactured products to African countries.

According to the Chinese Embassy in Senegal, trade between the two partners, reached 2.27 billion US dollars in 2018, accelerated in 2019, and China has become one of the most popular destinations for men and women for Senegalese affairs.

In 2019, the inauguration of the Diamniadio industrial park, built by China, about 30 km from Dakar, received a positive response from the Senegalese authorities.

In terms of infrastructure, cooperation continued with good momentum after the opening of the Museum of Black Civilizations, the Thiès-Touba, Dakar-Mbour and Dakar-Thiès

motorways, the Grand Theater of Dakar and the Hospital for children of Diamniadio.

In the political field, Senegal is now co-president of the Forum on Sino-African Cooperation. China and Senegal have worked closely together to advance their comprehensive strategic cooperation partnership, thereby setting a good example of high quality, sustainable cooperation.

In 2019, the Chinese Embassy in Senegal awarded scholarships to 48 Senegalese students to continue their studies in China in various fields.

China and Senegal also continued to strengthen cooperation in the area of public health. This year, the 17th Chinese medical team, made up of 13 professionals of health, treated 76,489 patients, including nearly 200 seriously sickness, performing 5,000 operations in Senegal.

The volume of trade between Senegal and China has increased 16 times in a decade. Indeed, it went from 141 Million dollars to 2.356 Billion Dollars.

The volume of trade between China and Africa has exceeded 200 billion dollars, 22 times more than in 2000, and more than 3,100 Chinese companies are investing or are present in Africa, especially in Senegal.

China is Senegal's second global partner behind France. Senegal's exports to China were over 82 billion FCFA in 2017 and the main goods are zircon, titanium, peanuts. Imports from China are estimated to 317 billion FCFA in the same year.

All this shows the close collaboration of China and the rest of the world and that, what affects China will inevitably have worldwide repercussions.

Since the beginning of the pandemic of Corona virus in December 2019, the volume of trade exchange and business travelling has decreased, it dissipated until now because of restrictions in both sides to protect from pandemic consequences. Less than 40 percent of goods are trading across the two borders. That has large consequences in the economic domain.

We are going to discuss about two mains points, first the economic impact then the consequences of this pandemic by using the comparative situations before and during the pandemic of Covid-19.

## **2. Economic Impact of Covid-19 in China and Africa**

We are aware that the coronavirus has become one of the worst threats in the world. Some fear that it will enter the record as part of epidemics that have changed the course of history such as the plague or smallpox.

More than 11,635,939 confirmed cases of COVID-19, including 539,026 deaths, within the first year, reported by the World Health Organization (WHO), in more than 177 regions and countries. Almost the entire globe is now affected by COVID-19.

The first cases have been reported in China and the country has been among the most infected. Of course, measures have been taken by the Chinese government to contain the spread of the virus by advocating containment, until isolation in parts of the country.

These measures are not without consequences for Chinese economy. Chinese exports decreased in the first two months of the year, as the coronavirus epidemic disrupted global supply chains, dampened business activity and blocked transportation in the world's second largest economy.

Imports decreased of 4%. China posted a trade deficit of \$ 7.1 billion in the first two months of the year. Retail sales fell of 20.5% in January and February; industrial production fell of 13.5%, and capital investment nearly of 25%, according to the National Bureau of Statistics. The three data points were much weaker than analysts had expected, and the decline in industrial production was the sharpest contraction in many years.

The coronavirus pandemic could have worst impacts in Africa, since most countries remain highly dependent on the price of raw materials. Africa could lose up to half of its GDP.

Globalization has many good aspects, however, it is an intimate bond between countries, making that what affects a region inevitably affects its partners. Foreign Direct Investment will see a decline, as well as a slowdown in the financial market and investments.

This will affect the job market and therefore the unemployment rate will increase. In the tourism sector alone, the consequences will not be the least.

The Covid-19 has caused a global slowdown, particularly in China, the United States and the European Union, which are the main trading partners of the continent. It goes without saying that Africa will also be affected and will risk losing 101 Billion Dollars from its export earnings during the year 2020.

For oil exporting countries, knowing that a barrel is at its lowest level since February 2016, the loss of revenue is estimated at 65 billion dollars, and Nigeria could hit hard with losses of up to 19 billion dollars.

Studies by investment bank Goldman Sachs have shown that demand for a barrel of oil could be reduced by up to 260,000 barrels per day. Given the decrease in travel, the demand for kerosene will drop; this could have repercussions and even in the short term on countries like Angola or Sudan, exporter of Petroleum.

It remains obvious that following this pandemic, expenses, especially for basic necessities, will increase while incomes will fall. More expenses, less income, will necessarily lead to a growth of the debt.

The additional spending on health alone could add up to 10.6 billion dollars.

China alone has over 150 million vacationers, the fifth in the world. The destination of Africa was more and more popular. The tourism sector represents more than 108 billion of Africa's GDP, more than 7% of the continent's GDP. After several strategies by African states to grow the African destination among the Chinese population, China-Africa flights have increased by 630% in the space of a decade, going from less than one flight per day to 7 flights per day.

However, this sector will be greatly affected because of the Covid-19, in particular with the closure of several airports as well as the numerous rules fixed in different countries to limit

the spread.

Senegal, where particularly the tourism sector was beginning to establish itself as a real engine of the economy, has taken restrictive measures. Indeed, the travel, international and domestic trade sectors are under serious threat from the spread of the epidemic, which is a major blow to the national economy.

The coronavirus has created a certain psychosis among the population which avoids the “made in China”. This will inevitably have consequences on imports, which we know are highly dependent on China.

And at a more basic level, covid-19 will cause a sharp drop in trade within the country. The majority of the population spends only on basic necessities, which considerably reduces the income of other sectors.

Senegal is in partial containment at the moment, and might go to a complete one. It will be a heavy blow for the total economy of the country, and it will also be felt by the population who for the most part makes daily receipts, it is the case of traders in the markets, itinerant merchants or even laborers who get paid per day.

It would be relevant for banks to review interest rates downward, to allow SMEs among others to recover from this phase.

This situation would perhaps be a chance for Senegal to accentuate “local consumption”, in order to minimize the damage, especially economic, that could be caused by covid-19.

### **3. Comparative Study Before and During the Covid-19**

By affecting China, the world’s factory, the Covid-19 has seriously disrupted supply chains across the globe.

Transport difficulties coming and going from China are heavy, given the restrictions adopted by several countries. This naturally affects trade between China and the rest of the world.

Shipping companies unable to make stops in China estimate their losses to \$ 350 million a week.

The indirect effects of the crisis are also starting to be felt, especially in terms of raw materials such as oil, copper, cobalt, iron, zinc.

The price of Brent is also affected and went from 66 to 59 Dollars in a month.

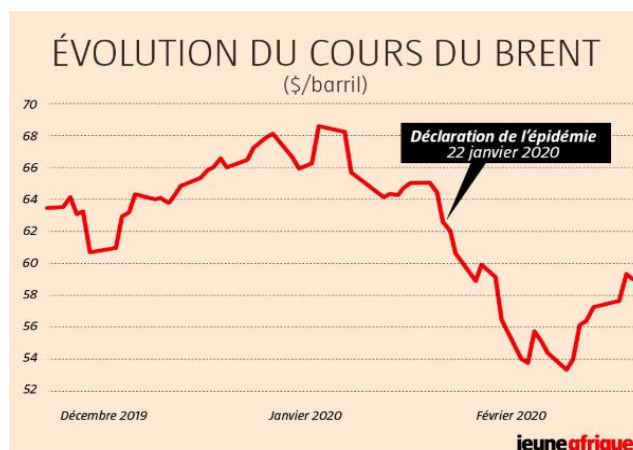


Figure 1. Evolution of the Brent price

Source: Jeune Afrique 2020.

Nigeria's economy is highly dependent on crude oil, accounting for 94% of its trade and more than half of the state's revenues. As a result, the drop in the price of a barrel of oil hit it hard and this lowered its growth from 2.5% to 2%.

Copper has not escaped this punishment; it has seen its price drop from 6,300 to 5,700 dollars per ton. This will be felt especially in the DRC and Zambia which are the top two African exporters



Figure 2. Evolution of Copper price

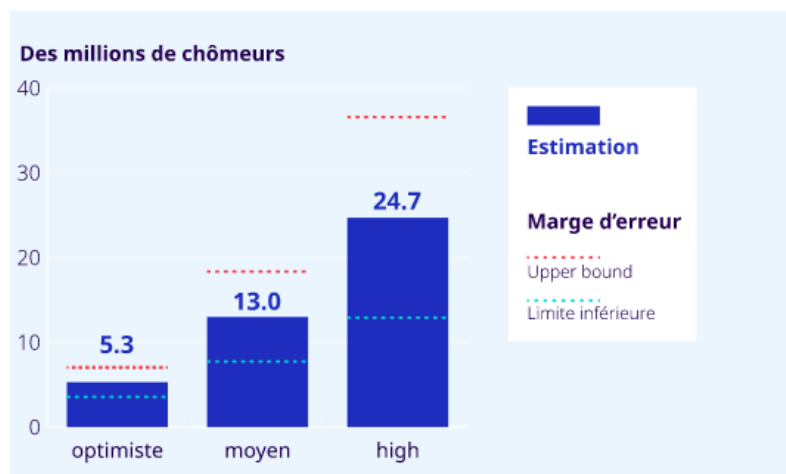
Source: Jeune Afrique 2020.

Zinc prices are also affected, thus have an impact on South Africa and Eritrea, which are major producers, in addition to iron, which is important for Mauritania.

The coronavirus will have an impact on many sectors and the unemployment rate will not be spared.

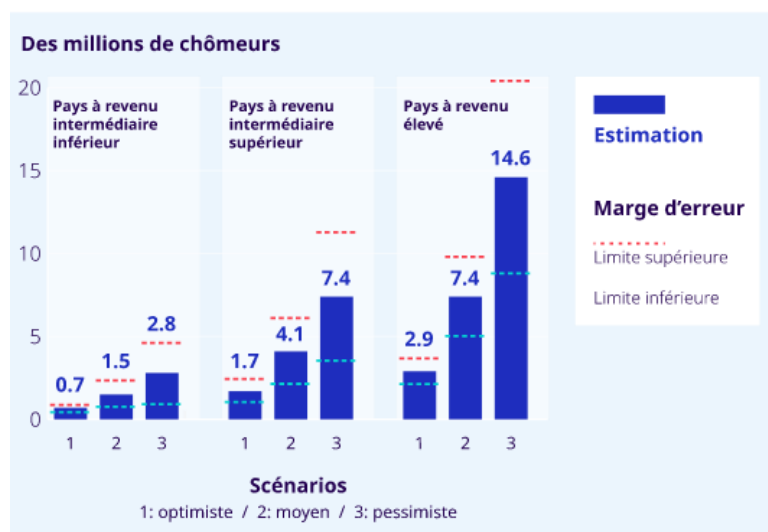
ILO (International Labor Organization) estimates a rise in unemployment from 5.3 million to 24.7 million worldwide.

### Croissance du chômage, monde



Source: ILO (International Labor Organization).

### Croissance du chômage, groupes de revenus



Source: ILO (International Labor Organization).

The labor supply is declining due to quarantine measures and a drop-in economic activity. The workers' losses are already estimated to more than 30,000 months of work.

The World Bank and IMF group, claim that about a third of the economic losses associated with the disease will be direct costs related to loss of life, work closings and quarantine.

The remaining two-thirds will be indirect, reflecting restraining behavior on the part of consumers and businesses, and tightening financial markets.

According to the BCEAO, economic activity slowed sharply in the first quarter of the year with an increase of 3.3% in the region, year-on-year, after 6.5% recorded a quarter earlier.



This deceleration of economic activity is especially marked by the tertiary sector, whose contribution to growth has halved compared to the previous quarter, thus reflecting the first impacts of the spread of the pandemic, particularly in tourism, hotels, transport and commerce. For the whole of 2020, the forecasts made by the Central Bank forecast a Union economic growth rate of 2.6% compared to an initial forecast of 6.6%.

In Senegal, many sectors will be influenced by the pandemic. Tourism (hotels, restaurants, travel agencies, etc.), with more than 1,600,000 visitors per year who will be strongly impacted by the suspension of flights to and from the affected countries, major suppliers of tourists.

Thus, a spread of the pandemic will lead to a drop in the turnover of companies providing services to tourists, with consequences for the jobs and demand for goods and services of suppliers to the tourism and trade sectors.

Economic growth could halve up to 3% against the coronavirus. Sectors however remain privileged because of their status as a safe haven investment. The price of an ounce of gold is currently peaking at 1600 dollars and countries like Mali, Sudan, South Africa, Ghana, and Senegal are expected benefits.

With the economic recession, the gold price started falling since the end of January, but keeps the trend that is not deeply decreasing due to the specific character of gold that is the former international currency. Money is needed to refinance economic recession caused by the pandemic. That's the main reason why gold price is not going weaker.



Source: Jeune Afrique.

#### 4. Conclusion

Covid-19 has affected the whole world and the economy has not been spared. Because of globalization, all countries are linked in a way, and what affects one will have repercussion on others. Almost all sectors felt the impact of coronavirus. Tourism, export, import, services



etc. and it is a vicious circle, if those are affected, the working market is affected as well, and therefore the purchasing power of the household will follow. All this have direct consequences on the entire economy.

The global economy is set to expand 5.6 percent in 2021 being the strongest post-recession pace in 80 years.

In Europe, the coronavirus has had a tremendous impact notably in the growth rate but also in the GDP.

Exceptionally low interest rates provide an opportunity to use fiscal policy more actively to strengthen short-term demand, including temporary spending to cushion the impact of the coronavirus epidemic on social groups and vulnerable businesses. In other words, extraordinary actions will help support the economy, for a limited cost, including the most vulnerable countries.

Covid-19 has underlined the importance of the need to invest enough in public infrastructures like health services or education.

The pandemic situation has affected the whole world and Senegal is not an exception.

But the country can recover from this tragic situation by carrying out structural transformations and by mobilizing our fellow citizens, youth, around a clear-sighted strategic vision carried by efficient economic and social policies.

But most importantly this is “a lesson” to show the “cruciality” to be self-dependent.

The World Bank’s assistance to Senegal focuses on three points: accelerated growth and wealth creation; human development and shared growth; and rural and urban synergies.

Most of African countries are highly dependent on raw material trade, they do not transform, so not only they don’t have consistent benefits with it, but they don’t use it and just wait for importers to come and buy it.

Even our medicine is coming from the North. This situation should teach us how crucial it is to have our own industries and to take endogenous actions to solve our endogenous problems.

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## **Glossary**

**DRC** : Democratic Republic of Congo

**GDP** : Gross Domestic Product

**SME** : Small and Medium Enterprise

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