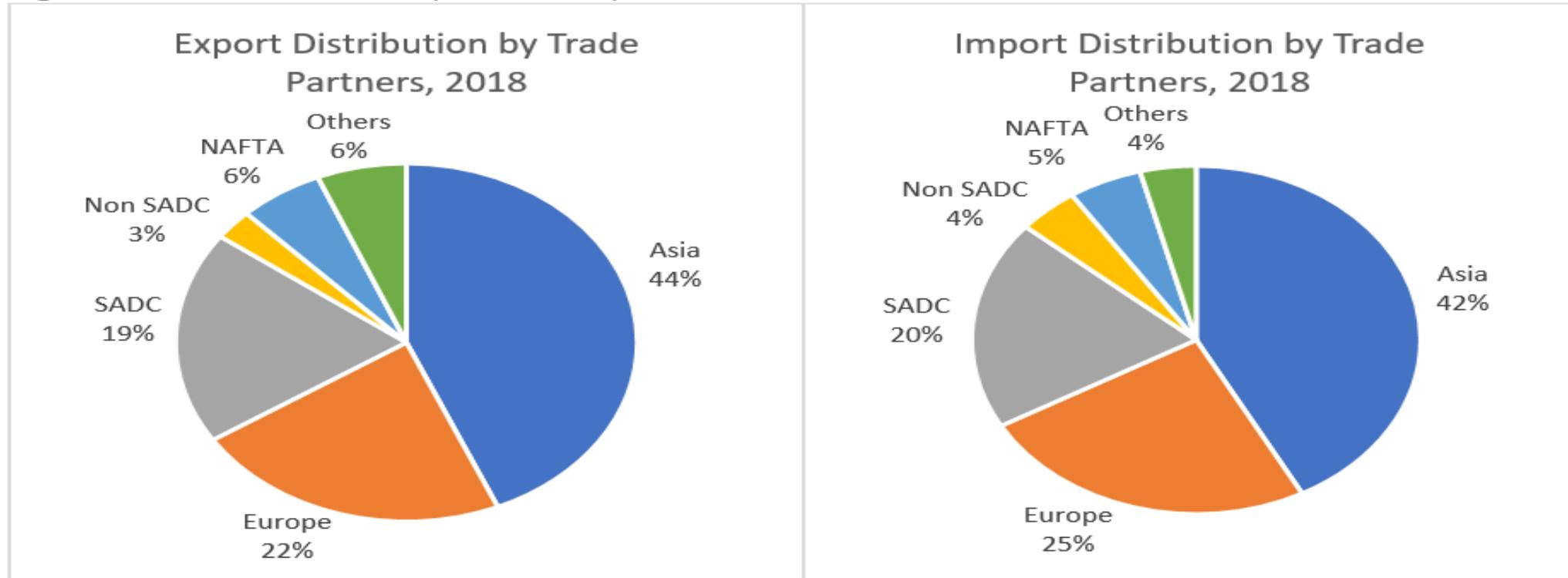


COVID-19 pandemic impact on Southern Africa

COVID-19 pandemic impact on Southern Africa - Main channels

- Southern Africa has a diverse set of trading partners in which the EU and China are the main trading partners: Slower growth in these regions could reduce demand for many Southern Africa's export and import products (especially, intermediate). As the most industrialized African region, Southern Africa will be adversely impacted as factories are closing throughout the world and manufacturing (e.g. auto sector), mining and other commodity supply chains are being disrupted. Businesses in industries most at-risk could close to mitigate infection risk for employees and customers alike. Tourism, transportation, retail and restaurants are possible examples.
- As an exporter of diverse commodity products (e.g. iron ore, aluminum, chrome, manganese, copper, gold, diamond, palladium, platinum, coal and oil) countries will be impacted differently. For instance, a run for safe commodities will benefit gold exporters even if the metal makes a tiny contribution to the overall GDPs; and the sharp drop in oil will benefit most countries but hurt Angola (with 92.4% of export earnings from oil in 2018 and China being Angola's largest oil importer). For South Africa, China is a key market for chrome, iron-ore, manganese and metallurgical coal. Overall, as the global demand for both manufactured goods and mineral resources drops, economies in Southern Africa will suffer, with less diverse economies (e.g. Zambia and Botswana) even more so.
- As a major tourist destination (for nature, sport, recreation and conferencing), Southern Africa is already feeling the impact, with Seychelles, Mauritius, South Africa, Zambia and Zimbabwe recording sharp drops in tourist arrivals. PwC estimates that 1,000 tourism-related jobs in SA alone are threatened in a country with already close to 30% unemployment rate. In Livingstone and Victoria Falls, hotel occupancy rates are as low 30% as tourists have cancelled bookings, short-term/contract staff have been laid-off.
- In recent years Southern Africa has attracted most FDIs in the continent, but globally UNCTAD expects these inflows to fall by 5-15%. In South Africa the business confidence in all key sectors (manufacturers, building contractors, retailers, wholesalers and new vehicle dealers) has gone below 50 – i.e. negative – indicating that business conditions are deemed unsatisfactory.
- The Rand has weakened by 11% in the first 2 months of 2020, dragging down other SACU members' currencies; and the rating credit agency Moody's is expected to downgrade the country to a non-investment grade later in March 2020. The country had already slipped into recession in late 2019.
- Countercyclical policies are hampered by overall low growth (the region is growing the slowest of all African regions) and high levels of public debt. While central banks are expected to soften the pandemic blow, monetary policy alone will be ineffective in encouraging economic activity in the face of limited fiscal policy capacity. Also, countercyclical policies have limited ability to mitigate supply side impacts; for example they cannot make up for the absent workers dragging on the economy's productive capacity.

Figure 1: SADC Countries export and import distribution.

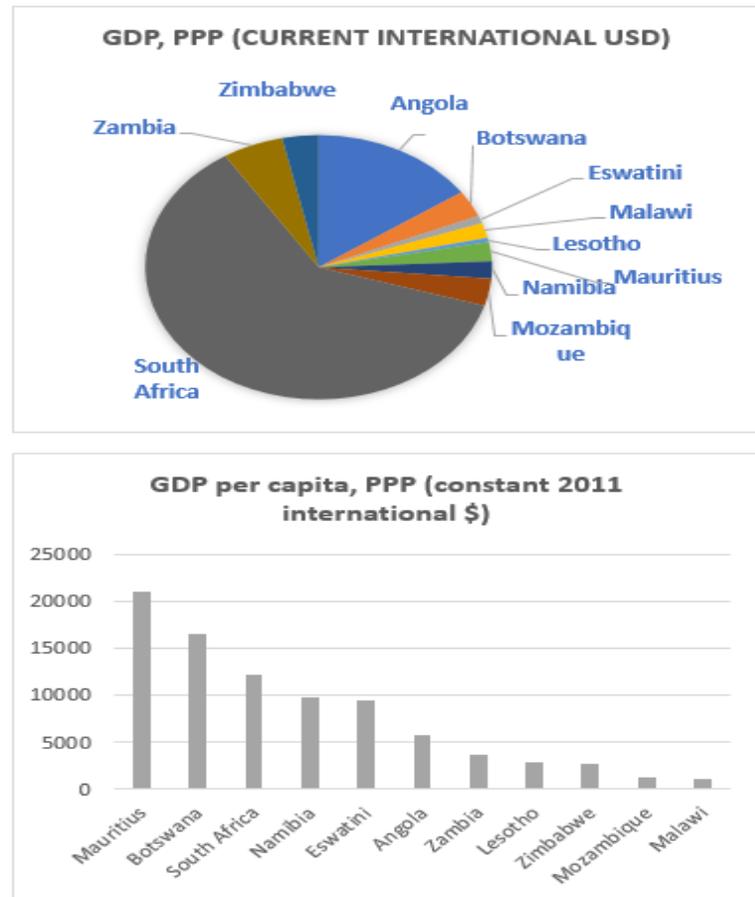


Source: International Trade Center

As COVID-19 has now spread throughout the world, South Africa, as Chair of the AU, should lead the continent in encouraging deeper intra-African trade and investment as a bulwark against external shocks to the continental economy and progress towards SDG attainment.

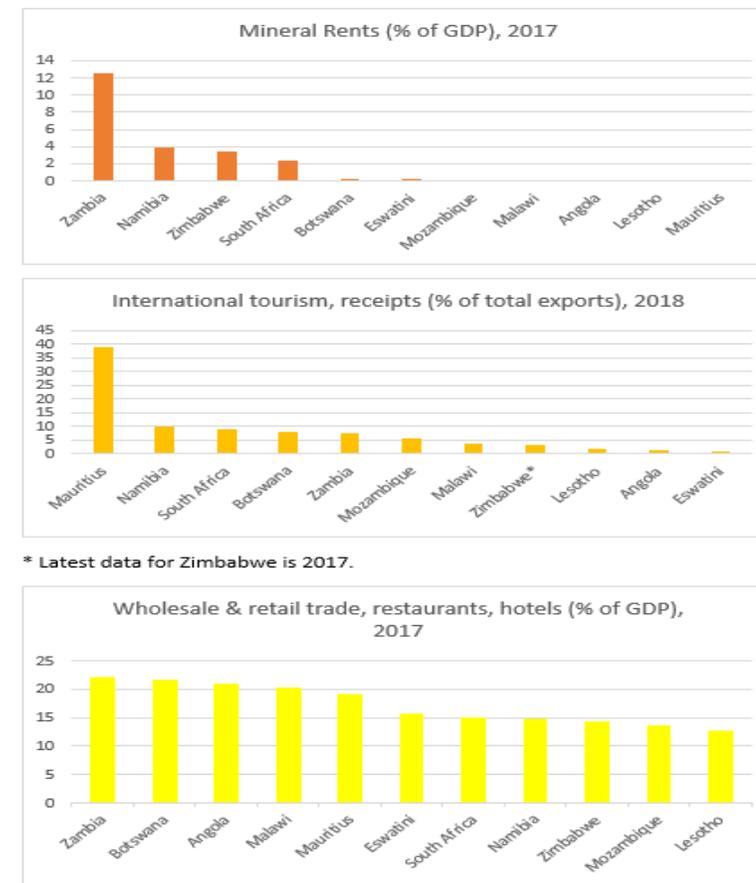
Southern Africa countries most exposed through the three main channels (commodities, tourism and trade)

Figure 2: Relative Sizes of Southern African Economies and GDP per capita.



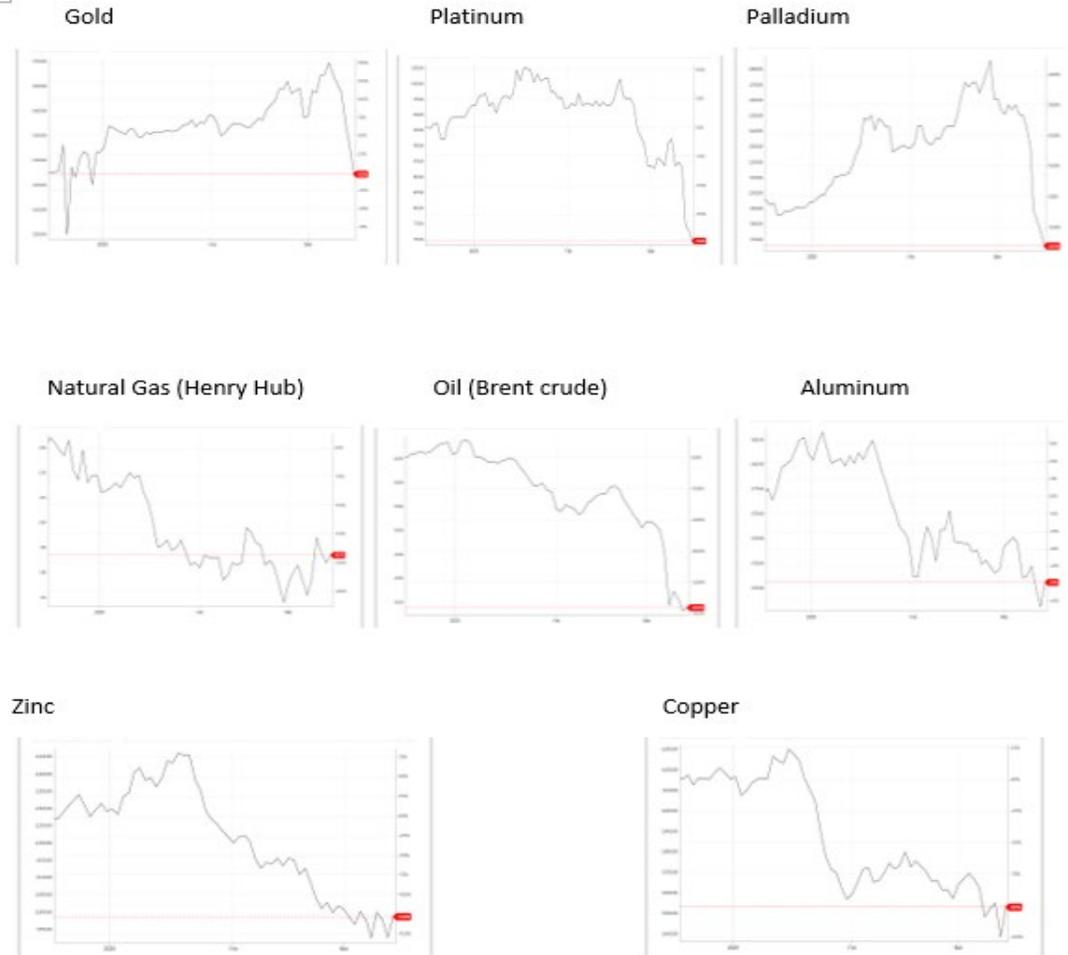
Source: World Bank Development Indicators

Figure 3: Mineral Rents (% of GDP), Tourism Receipts (% of Exports) and Wholesale & retail trade, restaurants, hotels (% of GDP)



Source: World Bank Development Indicators

COVID-19 outbreak expected impact via commodity demand and prices

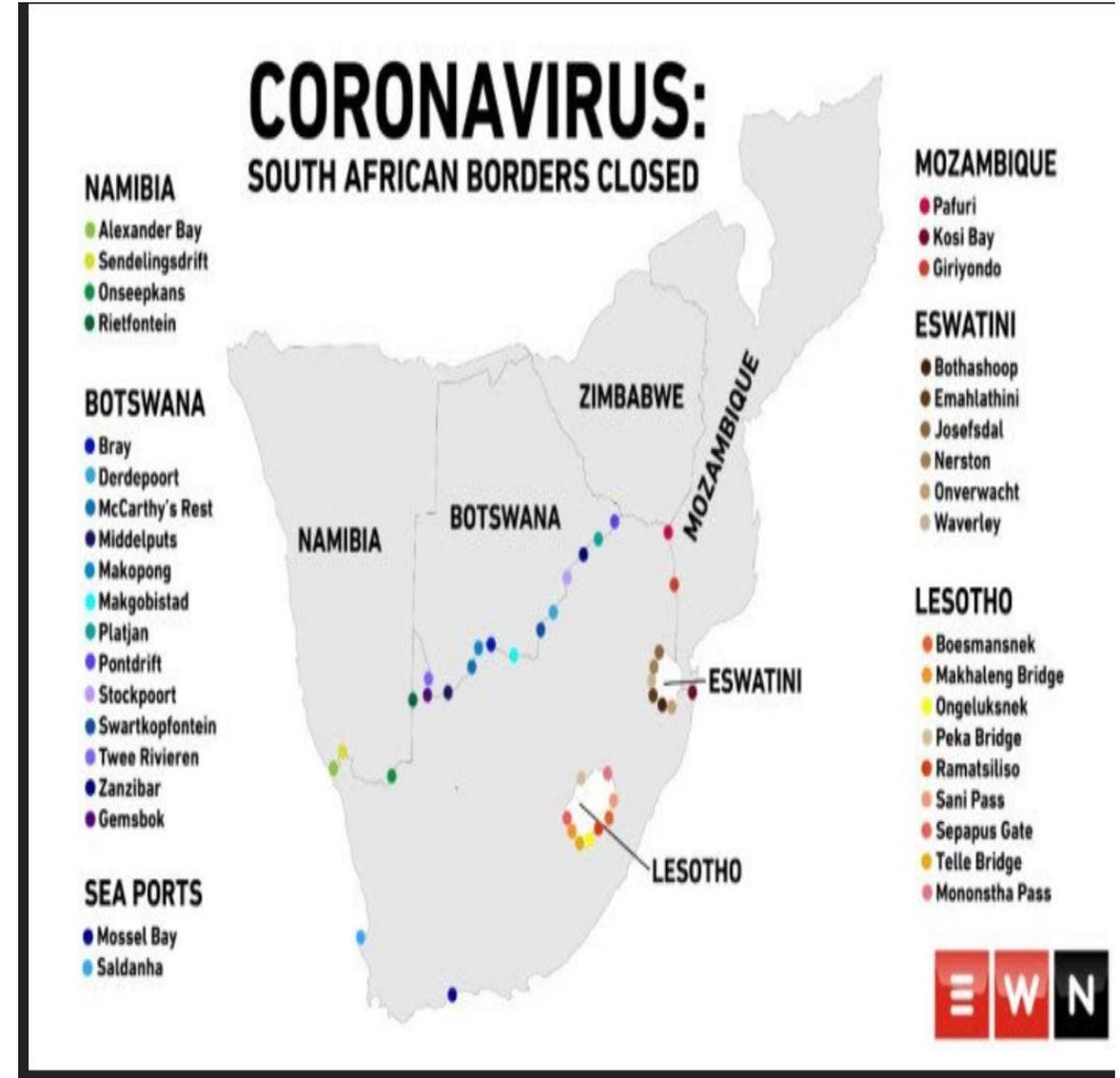


Source: Market Insider

- Gold prices rose as investors sought a haven due to the low returns in US\$ denominated securities;
- Prices of precious metals used for industrial applications are on the decline.
- Prices of base metals key for industrialization (copper, aluminum, chrome, manganese, etc.) have all weakened due to lower Chinese demand as China consumes about 45% of metallic minerals produced worldwide – South Africa is a key exporter to China.
- Although the COVID-19 outbreak seems to have reached a peak in China, the world's largest base metals consumer, base metals are unlikely to rebound firmly in the near term considering the current macro environment.
- Countries in the Southern Africa region are heavily reliant on petroleum products made from imported crude oil, particularly in their transport sectors. Most of these countries are net importers of these petroleum products, with Angola being an exception.
- Lower oil prices may help level the high balance of payments deficit in countries such as Malawi and Mozambique.

COVID-19 outbreak expected impact via travel restrictions and border closures

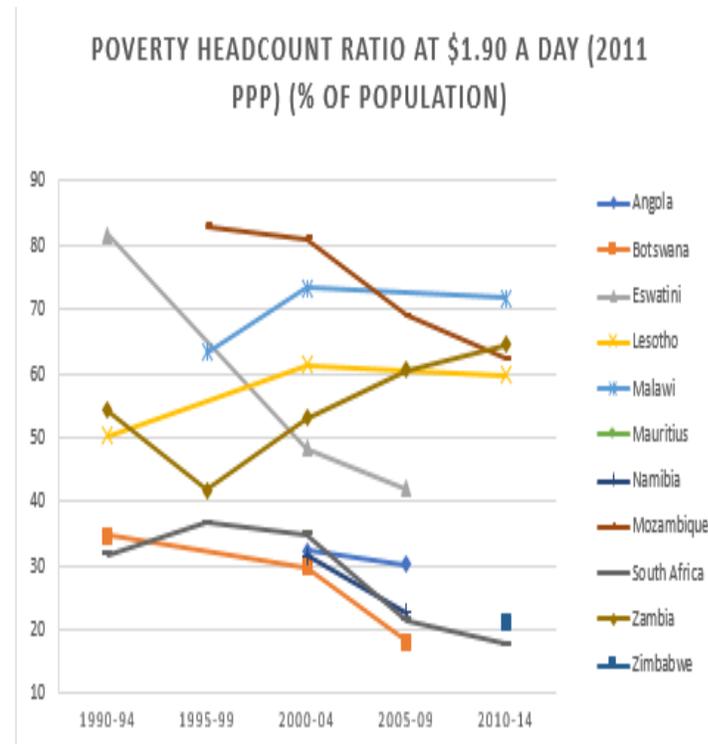
- South Africa, with the highest COVID-19 numbers (62) in the region (the second-highest in the continent) has recently declared a "national state of disaster." The country has also put in place a number of travel restrictions, including the closure of half of the country's land ports. **More countries in the region are expected to impose similar travel restrictions on foreign nationals to contain the spread of the pandemic, and protect their citizens and the economies.**
- **The border closures will have negative consequences for not only the tourism sector and cargo flows (with more delays), but also for traders, especially informal ones throughout the region, with South Africa being a major source of goods purchased by the traders:** Informal cross-border trade is a significant feature of regional trade and international mobility in Southern Africa. Indeed, small-scale trade generates substantial income and employment in the region, allowing vulnerable populations to access goods and services that are key for their economic and social recovery-hence playing a critical role in poverty alleviation, food security and household livelihoods.
- Demographically, women and youth constitute a significant proportion of cross-border traders. **The border closures are expected to disproportionately affect women and youth.**



Serious challenge to SDGs' achievement as we are entering the decade of action

SDGs implementation which should be gaining momentum during this decade will slowdown thus putting many countries off target

- Reduction in social protection programmes means more vulnerabilities
- Significant job losses, particularly in the informal sector where job protection is weaker
- Levels of inequalities, already very high in Southern Africa, will continue to increase



Source: ECA SRO-SA calculations, World Bank Development Indicators



Source: UNDP (2017)

Policy measures

- Member States should use expansionary monetary policies as a short-term measure to boost their economies given the moderate inflationary environment in most countries;
- Member States should intensify concerted economic diversification efforts (including value addition and beneficiation), as well as faster rollout of regional industrialization programmes (accelerated domestication and implementation of regional industrialization protocols and strategies) to boost industry and cushion economies against the adverse effects of the decline in global economic growth;
- Member States should invest into the diversification of export destinations, including through deepening intra-African trade and faster execution of regional and continental trade protocols such as the AfCFTA;
- Member States should create conducive and consistent economic policies and stable macroeconomic environments with fiscal sustainability to endear good economic governance and boost investor confidence thereby encouraging local and foreign investment in large, medium and small enterprises;
- Member States should intensify efforts towards addressing poverty and inequalities for long term social and political stability; and
- Member States should collaborate amongst themselves and with other stakeholders (private sector, CSO's academia etc.) at the national and regional levels for coordinated responses to the pandemic.