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What impact does COVID-19 have on the Congolese economy and international trade?

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Abstract

COVID-19 is spreading at a rate that could cause fear for international trade. In the past three months, the total number of confirmed cases has increased. The virus has confined more than half of the planet, contaminating the functioning of industries, dysfunctioning infrastructure at the national level, such as health care, transport, commerce and public services. The slowdown in production in China has had effects worldwide, reflecting China's growing importance in global supply chains and in commodity markets. The Democratic Republic of the Congo (DRC), where foreign trade represents on average 60% of its economy, is severely affected by this pandemic. The economy is in recession, prices continue to climb, the value of the currency continues to depreciate and leads to a loss of confidence.

Keywords : COVID-19, International trade, economic growth

Résumé

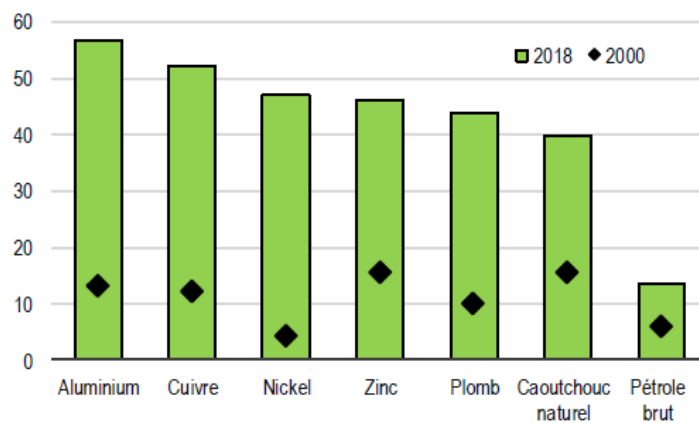
La COVID-19 se propage à un rythme qui pourrait faire craindre le commerce international. Au cours des trois derniers mois, le nombre total de cas confirmés ne cesse d'accroître. Le virus a confiné plus de la moitié de la planète, contaminant le fonctionnement des industries, dysfonctionnant les infrastructures au niveau national, comme les soins de santé, les transports, le commerce et les services publics. Le ralentissement de la croissance Chinoise a eu des effets dans le monde entier, reflétant l'importance croissante de la Chine dans les chaînes d'approvisionnement mondiales et sur les marchés des produits de base. La République démocratique du Congo, où le commerce extérieur représente en moyenne 60% de son économie, est gravement touchée par cette pandémie. L'économie est en récession, les prix continuent de grimper, la valeur de la monnaie continue de se déprécier et conduit à une perte de confiance.

Mots-clés : COVID-19, commerce internationale, croissance économique

I. INTRODUCTION

COVID-19 is spreading around the world, causing severe economic disruption and transforming into a global depression. This epidemic, which threatens countries around the world, is accelerating at a rate that could eventually cause more fear of international trade. In the past three months, the total number of confirmed cases has reached around 6,663,304 worldwide, contaminating the functioning of industries, malfunctioning infrastructure at the national level, such as healthcare, transport, commerce and public services. The virus has paralyzed much of China (the country where the virus was born), the world's second largest economy, and its impact has been felt in all industries. The contraction in production in China has had worldwide effects, reflecting China's growing importance in global supply chains and in commodity markets (Figure 1).

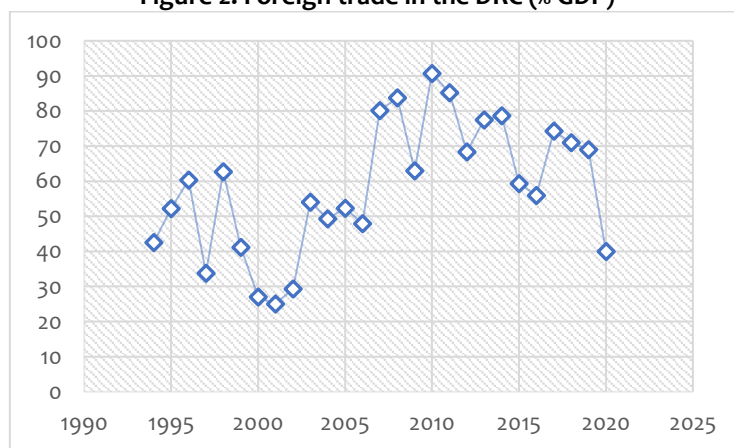
Figure 1. China has a significant share in global commodity demand (%)



Source: Organization for Economic Co-operation and Development (OECD), *Economic Outlook*, March 2020

The Democratic Republic of the Congo, where foreign trade represents on average 60% of its economy (Figure 2), has been seized by this pandemic, hence, it is relevant to analyze the impact of the coronavirus on foreign trade as well than on the economy.

Figure 2. Foreign trade in the DRC (% GDP)



Source : World Bank Group, *World Development Indicators* (2020)

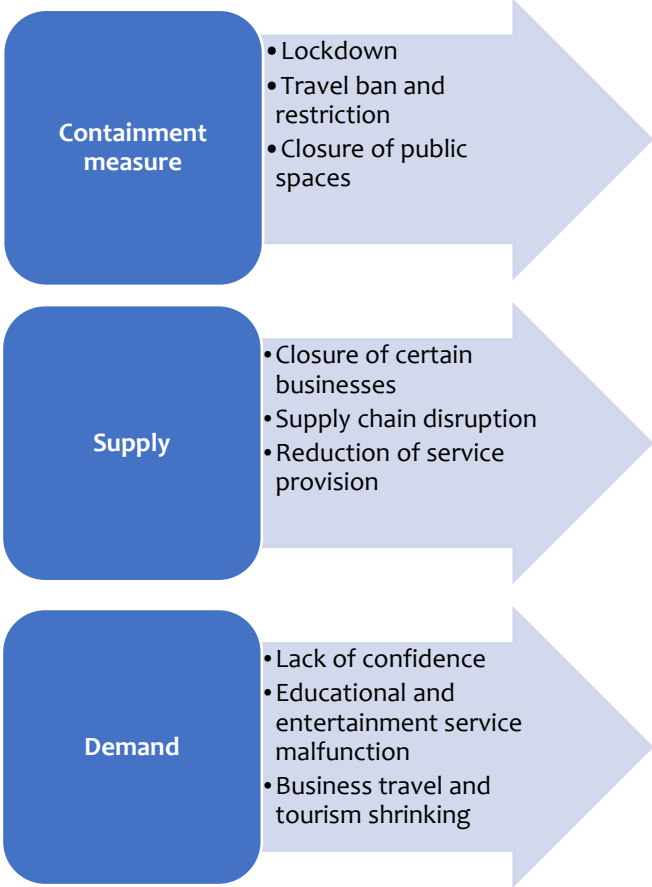
In addition, China remains the leading trading partner on the one hand, in terms of demand for Congolese products, systemic effect on exports and on the other hand, in terms of

supply of Chinese goods and services, systematic effect on the imports. With these Chinese systemic effects, the Congolese trade balance is deteriorating further and weighs down all forecasts of an economic recovery following the previous commodity shocks in 2015, the spillover effects of which continued to plague the economy until 2019.

II. IMPACT OF COVID-19

The drop in commodity price combined with the shock of COVID-19 paralyzes the Congolese economy as a whole and its effects (Figure 3) are felt on exports and imports, especially with travel restrictions, the immobility of trading partners, the increased need for internal demand. GDP growth slowed down from over 7% per year between 2010 and 2015 to 2.6% in 2016 due to the fall in commodity prices and a recovery from over 3% per year between 2017 and 2019, and it should falter even more and reach a recession of -2% in 2020 (Figure 4).

Figure 3. Economic effect of COVID-19

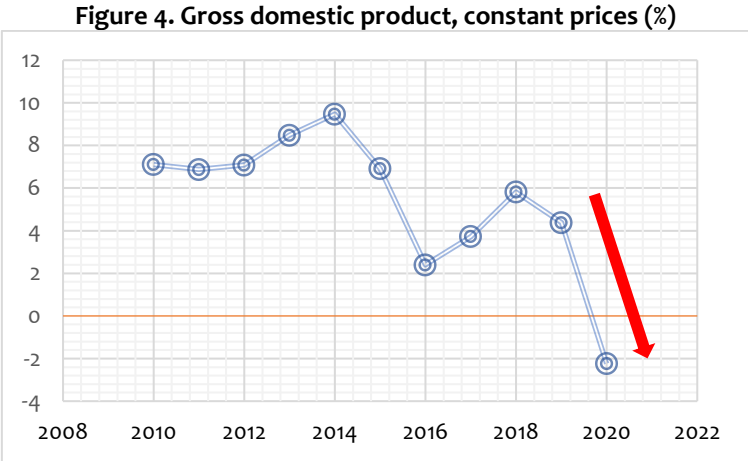


Source: adapted from the OECD

The fall in exports has immediate repercussions on businesses and households. Foreign investment in commodity extraction and related sectors tends to decrease, which means that the phenomenon of this decline does not only concern real production, but also affects potential production. Importers in China cancel orders due to port closures and

reduced consumption in China. Sellers of products in the DRC are forced to unload their products elsewhere at a reduced price. The impact of COVID-19 is also being felt in the manufacturing sectors. Since China is part of the major supply chain, factory closings increase the risk of global supply disruptions, raw material shortages, increased costs and reduced orders already affecting Congolese businesses.

The slowdown in growth in China and its rebalancing towards stronger domestic demand will reduce Chinese demand in favor of Congolese exports. As a result, the trade balance will widen further and further, thus also making a negative contribution to international reserves, the budgetary balance (following the decline in receipts from production and exports of basic products) and growth (and increased unemployment). The drop in foreign trade could lead to a massive withdrawal of deposits, given that the sudden loss of revenue often forces the state and commodity-dependent companies to draw on their bank deposits and this liquidity shock forces banks to lower their credits, which leads to a disturbance in the banking system, combined with a depreciation of the exchange rate (linked to the drastic fall in reserves), the latter a fall in confidence and high inflation.



Source : IMF, World Economic Outlook Database, April, 2020

III. STRATEGY FOR CONGOLESE COMPANIES

Congolese companies operating in the import-export sector should prepare for this shock from COVID-19. By implementing a few strategies, such as intensifying food and agricultural production, as the global economy is rapidly plunging into a food crisis, in addition, millions of people around the world depend on international trade for food security and livelihoods; dynamism in the pharmaceutical sector, with the development of cinchona for example and the local processing of materials extracted from DRC mines into finished products; research sector development as well as service production and so many more. These strategies could help mitigate the effects of the economic recession in the DRC and strengthen economic resilience to shocks.

In addition, it is also expected that once COVID-19 is under control, a ripple effect which will result in an increase in demand for raw materials and a resumption of trade by 2021,

but it will depend on the uncertain duration of the pandemic and the effectiveness of the measures adopted to deal with it.

Public authorities also have a role to play in supporting these businesses, which are the levers of the economy. Subsidies and bailouts of liquidity to allow its companies to cope with shocks and to intensify their production in the sector mentioned above, tax reductions, development of a securities market regulated by the Central Bank, allowing companies to sell these titles at almost zero rates, this in order to maintain the level of production and their conversion into different production sectors. However, Small and Medium Enterprises will be the most supported to maintain a balance in the productive apparatus. These actions would save the economy from the coming depression, reduce the extroversion of our economy and put less pressure on the DRC's foreign exchange reserves.

IV. REFERENCE

OECD (2020), OECD Economic Outlook, Interim Report March 2020, Éditions OCDE, Paris, <https://doi.org/10.1787/7969896b-en>.