Q1 2020 REPORT

OUR WORLD; TRADE DEVELOPMENT AND INFORMALITY

Doing Business in Special Contexts

April 2020

Geneva, Switzerland

ABSTRACT

2020 marks a turning point in world history where the status quo is challenged so significantly that humanity is forced to rethink the core principles that have underlined international and national relationships until
now.

This report reflects at a high level on the global economy by analyzing the state of the world today through select international events including the novel corona-virus. The report explores the interconnected nature of these events in the context of new economic relationships and social development. The resulting analysis highlights what could be considered the real human impact of the pandemic and does so from the perspective of poverty alleviation through job creation. The report ends by presenting high-level recommendations to consider as decision makers prepare for a post coronavirus world.

Note that given the dynamic nature of the corona-virus pandemic, aspects or all of this report may be subject to change as countries and the international community adjust to the effects of the virus. All figures represented hold true as of 17th April 2020.

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GLOBAL TRADE AND THE GLOBAL ECONOMY

Global trade (which grew in tandem with global GDP by approximately 26% between 2008 and 2018) and the global economy, have experienced their fair share of fluctuations in the decade leading up to 2020. According to the WTO, world merchandise exports rose from US$17.33 trillion in 2017, to approximately US$19.48 trillion in 2018[1] but are threatened now with a steep fall anywhere between 13 – 32% as a result of the ongoing Covid-19 Pandemic[2]. The projected decline signals negatively for intricate value chains as well as for national economies dependent on providing components of these value chains, as is the case across Asia and Africa. Over the same 2008 – 2018 period, the value of global commercial services increased 46%, remaining resilient through 2019. In early Q1 2020 however, the value of global services slumped, owing to wide-ranging social distancing measures enacted to slow the spread of the coronavirus.

The International Monetary Fund (IMF) notes that in Q4 2018, and Q1 2019, the global economic outlook was weak, with a 3% estimated growth rate through 2019, which, as of September that year, was expected to pick up to 3.4% in 2020[3]. Current estimates for 2020 released by the IMF on 14th April expect the global economy to contract by -3% before picking up again to 5.8% in 2021[4].

[1] World Trade Statistics 2019, World Trade Organisation
[2] Trade Set to Plunge as COVID-19 Pandemic Upends Global Economy, April 2020, World Trade Organisation
[3] World Economic Outlook; Global Manufacturing Downturn, Rising Trade Barriers, Oct 2019, International Monetary Fund (IMF)
[4] World Economic Outlook; The Great Lockdown, April 2020, International Monetary Fund (IMF)

AFRICAN ECONOMIC OUTLOOK

The African continent has experienced similar fluctuations. The African Development Bank noted the 2019 growth rate to remain at the 3.4% level seen in 2018, a point which is below the 5% average seen for the continent over the past decade. In the AfDB's initial outlook for 2020, growth is expected to pick up to 3.9% in 2020 and 4.1% in 2021[5], however these figures are likely to be revised significantly in light of the current Covid-19 pandemic, which is now threatening health and economic systems on the continent. There were also varying levels of growth across the regions on the continent, owing to a variety of factors ranging from policy environments to governance and resource dispositions. Growth rates in 2019 were 5% in East Africa, 4.1% in North Africa, 3.7% in West Africa up from 3.4% in 2018, 3.2% in Central Africa up from 2.7% in 2018, and 0.7% in Southern Africa down from 1.2% in 2018[6].

Growth for the continent has largely been driven by investments and exports as are highlighted in later sections of this report. An immediate challenge exists for Governments because the Covid-19 pandemic has affected investor prioritisation and seen an interim pause in investments to the region. At the same time, the global slowdown in merchandise trade is reducing export demand across value chains. The impact of the current economic slowdown will likely serve as a headwind on the continent's prospects to reach the 3% target for poverty alleviation set in the SDGs; pre-Covid-19, extreme poverty was expected to fall from 33.4% in 2018 to 24.7% in 2030.

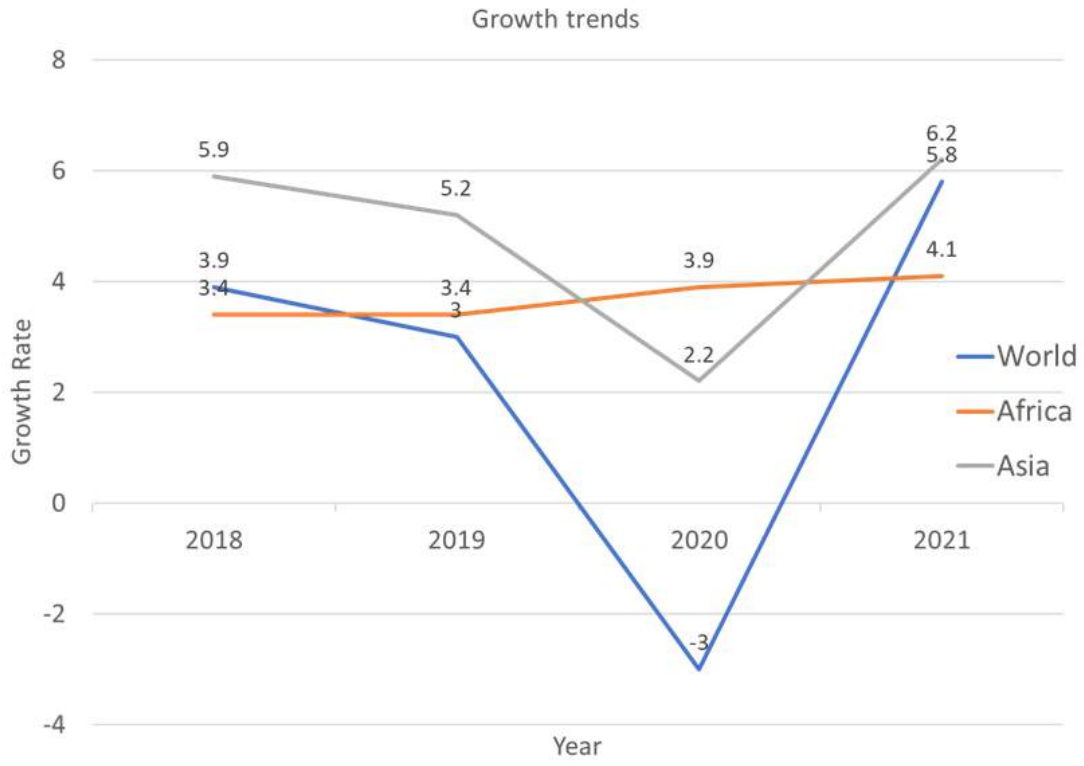
As part of the 2020 outlook, the AfDB has set out policy recommendations highlighting the need to:

- **Deepen structural reforms**
- **Sustain macroeconomic stability and improve public financial management**
- **Strengthen domestic capacity to cushion extreme weather events**
- **Address obstacles to labour mobility**
- **Expand social safety nets and increase efficiency of existing ones**

[5] African Economic Outlook 2020, African Development Bank
[6] Economies in the Southern Africa region struggled to recover after the devastating effects of extreme weather events

ASIAN DEVELOPMENT OUTLOOK

Covering 46 countries, the Asian Development Outlook for 2020 highlights a slowed growth rate to 2.2%, before rising to 6.2% in 2021. These estimates, like the those highlighted in earlier sections of this report, are based on scenarios where the Covid-19 virus is brought under control by the second half of 2020, allowing economic and social activity to begin the recovery process from Q4 2020 into 2021. 2020 estimates for the region fall from growth levels of 5.2% in 2019 and 5.9% in 2018; a downward trend that was influenced significantly but not exclusively by regional trade tensions. GDP growth rate in China has also experienced a similar decline from 6.7% in 2018, to 6.1% in 2019, to an estimated 2.3% in 2020. Growth is expected to rebound in China to 7.3% in 2021[7], a possibility given that the country is likely to return to economic activity earlier in the year than others. Note however that as of 14th April 2020, the IMF had released new estimates suggesting 1.2% in 2020 and 9.2% in 2021. Growth in India, another major economy in the region has also declined from 6.1% in 2018, to 5% in 2019 with an estimated 4% rate in 2020 before picking up again to 6.2% in 2021. The IMF updated estimates for India show 1.9% for 2020 and 9.2% for 2021.



[7] Asian Development Outlook 2020, Asian Development Bank

UPWARD TRENDS AND CAUTIOUS OPTIMISM

Despite 2019's global growth rate being the lowest since 2008/2009 levels, several global events had occurred over the 2010's to inspire a level of cautious optimism for the 2020's, not only so because the world inches closer to the Sustainable Development Goals (SDGs) and the prospects for poverty alleviation that achieving the goals holds. This report focuses on 2 such events from Asia and Africa that buttress the significance of the period. These include the launch of the 'Belt and Road Initiative' which would redefine Asia in the context of global trade; and organisation towards the 'African Continental Free Trade Area' (AfCFTA) which would create the world's largest free trade zone. While several other events have occurred of international importance, this report reflects on these events based on their interconnected nature and in the context of new economic relationships, socio-economic development and poverty alleviation in some of the most underserved and marginalized regions of the world.

BELT AND ROAD INITIATIVE (BRI)

Launched in 2013 by Chinese President Xi Jinping, the Belt and Road Initiative (BRI)[8] is China's effort to improve global trade connectivity by establishing and/or strengthening trade routes and relationships through Asia and the rest of the world. The BRI would open land and sea trade corridors modeled after the ancient 'silk road'[9] and is developed around a set of core collaborative principles which are[10]:

- Policy coordination
- Infrastructure connectivity
- Unimpeded trade
- Financial integration
- Connecting people

[8] Formerly known as One Belt One Road Initiative
[9] Understanding China's Belt and Road Infrastructure Projects in Africa, David Dollar, Sept 2019, Brookings Institute
[10] Action Plan on the Belt and Road Initiative, Mar 2015, The State Council People Republic of China

As of March 2020, 138 countries around the world had signed an MOU relating to the Belt and Road Initiative[11] including Italy[12] in 2019. 40 countries on the African continent have signed on to the initiative[13]. The core approach of the BRI is to provide loans to Governments for investment in the core sectors of infrastructure and power. Sub-sectors benefiting from strong BRI investment include railroads and highways as well as seaports, hydropower outfits and water supply projects, communication, real estate and manufacturing. The loans are typically provided by the 'China Policy Bank' and the 'Export-Import Bank of China' (EXIM Bank), with a majority of other lending support coming from private Chinese institutions. A database managed by Refinitiv on BRI projects shows a combined value of US$3.7 trillion across 2,631 projects. In addition, China notes that over $440 billion worth of infrastructure projects have been supported within countries participating in the BRI. This represents significant investment for countries and was one of the underlying factors of growth highlighted in the previous section.

Country	Money borrowed from China 2015 – 2017 (US$)	Total External Debt 2016 (US$)	Total External Debt 2017 (US$)
Angola	8 billion	35.3 billion	37.2 billion
Kenya	1.2 billion	22.3 billion	26.4 billion
South Africa	1.1 billion	146 billion	176 billion
Egypt	1 billion	67.6 billion	82.8 billion
Zambia	980 million	15.5 billion	16.3 billion
Cameroon	769 million	8.1 billion	10.4 billion
RO Congo	756 million	3.8 billion	4.4 billion
Uganda	738 million	9.5 billion	11.1 billion
Ethiopia	730 million	23.7 billion	26.5 billion
Nigeria	422 million	31.1 billion	40.2 billion

[11] Countries and the Belt and Road Initiative, Green Belt and Road Initiative Centre
[12] Italy is the only G7 country to have signed on to the BRI. Rhetoric from Western Nations has positioned the BRI as China's attempt to export its ideology and extend its influence using debt traps, although several analysts conclude that the BRI will be more positive and success than negative
[13] Making the Belt and Road Initiative Work for Africa, Oct 2019, Overseas Development Institute

The result of large-scale investments in beneficiary economies would potentially increase domestic production and open up new labor opportunities. Even if a majority of these new jobs are low skilled and labour intensive, this has the potential to improve short-term consumer spending in the region. The potentially negating factor to this would be the import of Chinese workers to work on the infrastructure projects which Chinese loans are investing in, however statistics show a drop in the rate of labour importation from China. Note that estimates put jobs created globally by the BRI at over 300,000[14]. These investments, coupled with the prospects of an open labour market presented by the African Continental Free Trade Area, increased the odds for job creation and micro-economic expansion.

AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA)

Representing a notable milestone for the African Union, African Governments and the people on the continent, the African Continental Free Trade Area (AfCFTA) will establish a market of approximately 1.2 billion people, making it the largest free trade zone in the world. As of 2020, the continent had a combined GDP over US$2 trillion, however effective implementation of the AfCFTA could see this grow exponentially by facilitating the flow of goods and services around the region.

Intra-continental trade on the African continent which currently stands at a meagre 15% does not compare well with Europe at 67%, North America at 48%, Asia at 58% and Latin America at 20%. In principle, the increased intra-African trade resulting from successful implementation of the free trade agreement would suggest job creation for Africa's young population[15]. The AfCFTA also signals positively for Small and Medium Enterprises (SMEs) who would benefit by participating in the broader production and distribution ecosystem created by this new demand, however it is important to note the importance of effective national policies for any true integration efforts to be successful.

[14] BRI Connect: An Initiative in Numbers, 2019, Refinitiv
[15] AfCFTA; Thriving in a New Africa, 2019, Pricewaterhouse Coopers

WHAT DO THE BRI AND AFCFTA MEAN FOR THE AFRICAN INFORMAL ECONOMY

The BRI and AfCFTA both hold positive prospects for job creation and the informal economy on the African continent. In the first instance, formal jobs created (even though low-skilled), would channel resources into households and increase domestic spending. These jobs would require new goods and services which would enable a broader ecosystem of service providers especially in food and transportation. Given the low-skilled nature of majority of these jobs, their needs are likely to be met by small enterprises operating in the informal sector. In the other instance, the AfCFTA would open labour markets making it easier for geographic and occupational labour mobility. Workers will travel seeking new opportunities and are likely to head towards geographies with large projects, at the same time, certain labor categories with new capital may choose to diversify into different occupations. It is common for low-income households' majority of the informal economy, the have multiple occupations and sources of cash and in-kind income[16]. With these prospects for job creation for young populations, consumer confidence was high going into 2020.

The novel coronavirus (Covid-19) pandemic however has resulted in an unprecedented slow-down in human activity. This has led to investor reprioritizing in the short-run, which in-turn will mean that large scale projects are put on hold, further slowing down much needed capital injection into regional economies and threatening the ecosystem of jobs that would have otherwise been created/sustained.

[16] Are African Households' Heterogenous, 2015, International Monetary Fund

PANDEMIC ECONOMICS AND THE INFORMAL ECONOMY

In addition to the economic impacts highlighted above, the Covid-19 pandemic is likely to result in a staggering of national and regional investment in non-health sectors, as Governments channel financing towards their respective Covid-19 responses. Managing external debt for countries will also be an essential aspect of resource management, several leaders from the continent are already calling for bilateral debt relief to African nations[17], to allow effective resource re-allocation towards the pandemic response[18].

The result of the pandemic has had critical impact on every industry, everywhere and will have long-term repercussions, however no group has already been as affected by this as those living and operating in the informal economy. The informal economy represents socio-economic activity that is neither regulated through or controlled by the Government and is not registered or captured by any coordinating systems. This definition includes a vast array of non-structured jobs and working arrangements, with the International Labour Organisation (ILO) noting that 6 in 10 workers and 4 in 5 enterprises around the world operate in the informal economy[19]. This represents approximately 60% of global jobs or 2 billion people.

In Asia approximately 68% of people work in the informal economy, while in Africa, this number is estimated at an alarming 85%. Working in the informal economy means that people are not recognized or accounted for by formal economic systems. This means that as Governments plan economic relief and stimulus packages, these packages in most cases will not reach a significant portion of the 2 billion people who work on a daily basis in informal sectors.

While several estimates for economic and trade activity show a rebound for formal economic activity after the pandemic, the real impact of this lull is likely to last a while longer unless essential measures are taken to improve integration of informal economies.

[17] African Debt Must be Reduced to Fight the Coronavirus, April 2020, Jeune Afrique
[18] IMF Executive Board Approves Immediate Debt Relief for 25 Countries, April 2020, IMF
[19] Informal economy, 2015, International Labour Organisation (ILO)

Sustained measures put in place to stem the spread of the virus are likely to have wide-ranging effects on economic and social activity. This report has identified the following lasting effects on economic activity based on their effects on informal sectors:

- **Falling voter confidence in Governments** – this will likely be the first response in cases where populations feel that their needs are not being met. Any consumer spending during this period will focus on essentials like food and will circulate within the informal sector. This is likely to result in short-term low consumer confidence, which in turn will keep domestic investor appetite low
- **Sustained inflation** – this will result from strained supply chains not being able to meet local demand, reduced production and service capacity as well as inflation that is not offset by the temporary relief provided to formal businesses. Inflation in the context of strained supply chains will mean higher demand than supply for basic goods and services.
- **Falling external investment** – in addition to foreign investors seeking more stable options to hedge against fluctuations and uncertainty created by the pandemic, possible increases in the cost of doing business in Africa may further deter investment.
- **Sustained unemployment** – unemployment in Africa is likely to recover last compared to other regions in the world as a result of limited structural reforms which will be highlighted by this pandemic
- **Increased taxation in the medium-term** – Governments in low-middle income countries may resort to increased taxation as one of the means to improve national revenue as effects of the pandemic ease up. Increased taxes will result in increased prices which will further dampen consumer confidence.

The potential real human outlook from the pandemic will not rebound as optimistically as will the high-level estimates for global economic activity, if quick measures aren't taken to address these and other crucial social issues. Governments already face a herculean task in managing sensitive populations and economies in Asia and Africa, a situation that is not complimentary of a global pandemic. This report recognizes these challenges and notes the added difficulty to implementing any recommendations under the current circumstances. Nonetheless, the recommendations presented here are take into account the unique context and try as best possible to consider the real human impact of the ongoing economic slump and public health emergency.

These recommendations are presented from the perspective of doing business in special contexts, keeping in mind the needs of SMEs and informal sector workers who make up the bulk of the workforce in the respective regions:

- Increase local investor confidence to spur local production. Local production capacity is vital to meeting intra-African trade demand. While successful implementation of the AfCFTA is dependent not only on regional policies but also on national policies, leaders are encouraged to prioritize the AfCFTA so that the resulting surge in demand can bolster job creation

- Increase foreign investor confidence to reignite capital injection into projects the period of extensive lock-downs is over. These projects will typically create standard low-mid skilled level jobs; the benefit here lies in the ecosystem of support services that will be needed to satisfy workers, from transportation to food and merchandise trade. Foreign investment from typical borrowers will be limited given the resources that will be channeled into the global Covid-19 response. African Governments will therefore need to prioritize carefully to ensure that what little investment capital exists in the short-medium term can be channeled into the most effective and efficient possible projects; keeping in mind not only the economic but also the social impact of said projects.

- Stimulus packages targeting SMEs in poorest regions. Stimulus packages should target key business sectors such as feeding and transportation, in the poorest and most underserved states/communities. This support will likely offset the need by SMEs to drastically hike price in a supply shortage setting. This in turn means that households in the informal sector will not be hard pressed for basic goods and services.

- Continued investment in health systems. Investing in health systems offers two opportunities; it presents much needed support and security against diseases and outbreaks; and it is a sector where job creation is not wasted, as is evident from the current crisis.

This report started by painting a broad picture of the economy to highlight how while growth trends had been upwards for the past decade, global economic growth was starting to slow, made worse by the unprecedented corona-virus pandemic. The report focused on two regions to underline essential economic relationships that were driving growth. Pen-ultimately, the report reflected on the impact of the pandemic on these economic relationships, and the indirect impact on the individual, before ending with recommendations on how institutions and leaders could safeguard these livelihoods.

Resources and Further Reading

Center for Strategic and International Studies - https://www.csis.org/give-and-take-bri-africa

International Labor Organisation - https://www.ilo.org/global/topics/employment-promotion/informal-economy/lang--en/index.htm

European Bank for Reconstruction and Development - https://www.ebrd.com/what-we-do/belt-and-road/overview.html

Brookings Institute - https://www.brookings.edu/wp-content/uploads/2019/09/FP_20190930_china_bri_dollar.pdf

Organisation for Economic Cooperation and Development - https://stats.oecd.org/Index.aspx?DataSetCode=AEO

International Monetary Fund - https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

https://www.imf.org/external/pubs/ft/wp/2015/wp15102.pdf

Chinese Government - http://english.www.gov.cn/beltAndRoad/

http://english.www.gov.cn/policies/infographics/2015/04/23/content_281475094425039.htm

http://english.www.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm

World Trade Organisation - ***https://www.wto.org/english/news_e/pres20_e/pr855_e.htm***

https://www.wto.org/english/news_e/pres19_e/pr837_e.htm

https://www.wto.org/english/res_e/statis_e/wts2019_e/wts2019_e.pdf

Asian Development Bank - https://www.adb.org/sites/default/files/publication/575626/ado2020.pdf

https://www.adb.org/sites/default/files/publication/543066/ado-supplement-december-2019.pdf

African Development Bank - https://www.afdb.org/en/knowledge/publications/african-economic-outlook

Refinitiv - https://www.refinitiv.com/content/dam/marketing/en_us/documents/reports/refinitiv-zawya-belt-and-road-initiative-report-2019.pdf

Pricewaterhouse Coopers - https://www.pwc.com/ng/en/assets/pdf/afcfta-2019.pdf

Jeune Afrique - https://www.jeuneafrique.com/925491/economie/tribune-il-faut-alleger-la-dette-africaine-pour-combattre-le-coronavirus/

Overseas Development Institute - https://www.odi.org/blogs/10797-making-belt-and-road-initiative-work-africa

Green Belt and Road Initiative Centre - https://green-bri.org/countries-of-the-belt-and-road-initiative-bri

Note that given the dynamic nature of the corona-virus pandemic, aspects or all of this report may be subject to change as countries and the international community adjust measures and forecasts due to the effects of the virus. All figures represented hold true as of 17 April 2020. The findings and recommendations presented here are based on research and identified best practices, but should not be taken as binding or obligatory.

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