

## Prepared by The Middle East and Africa Division, Ministry of Foreign Affairs and Trade, Wellington

### Summary

- Pre-COVID, Africa was a growing market of 1.2 billion people increasingly of interest to New Zealand companies, albeit requiring significant resource outlays to access. In the COVID-19 world, African markets still present a unique set of opportunities and challenges to exporters, but the pandemic has focused attention on the region's ongoing development needs.

### Covid-19: Impact in Africa and Government Responses

The impact of COVID-19 in Africa is still unfolding but so far the continent has fared better than the initial dire predictions. All 54 of its countries have recorded cases, but Africa has been underrepresented within the pandemic's global spread, contributing just 3% of total confirmed cases. While the continent's rate of testing means that there is not yet a complete picture of the scale of infection, it is also clear that parts of Africa remain within the early stages of the pandemic.

In terms of immediate responses, Africa's lack of health infrastructure (it is estimated the continent averages fewer than one intensive care bed and one ventilator per 100,000 people) has imposed limitations on how governments have sought to manage the outbreak. Yet against this backdrop some countries have earned praise for their effective and forward-leaning policies, many heeding early warnings and putting into practice the lessons learned from previous outbreaks of infectious disease. Measures have not been uniform across the continent, with parts implementing some of the more restrictive lockdowns seen globally, while others opted for only partial sector closures. And although some African governments feature among the global leaders for their successful public health responses, others still grapple within the containment phase and face the ongoing challenge of weighing public health against pressure to revive their economies. A younger demographic also means that the Covid-19 death rate in Africa is likely to be lower than much of the developed world.

Longer term, African countries are expected to continue to feel the pressures of COVID-19 acutely. Many of the problems the region faces – institutional and economic reform challenges, humanitarian need, security challenges or weak infrastructure – will persist and could worsen. The considerable size and economic importance of Africa's informal economies pose a very specific challenge to how local governments are able to respond in terms of direct support. Some governments have unveiled modest fiscal packages, but most have been ill-placed to inject the sort of large fiscal stimuli favoured by other parts of the world.

Increased donor support and debt forgiveness measures will be important to support Africa's recovery, but in many countries, accelerating economic and political reforms will be more critical for sustainable economic progress in the medium and long term. The G20's suspension of debt repayments throughout 2020 has been welcomed by some African governments, but others are reluctant to take advantage of the relief offered, mindful of the impact on creditworthiness in the eyes of capital markets. South Africa's President Ramaphosa, the current Chair of the African Union, has championed the call for a \$200 billion externally-funded stimulus for Africa.

## COVID-19: Challenges for NZ Businesses

New Zealand's geographic distance from African markets has always presented challenges for exporters, but these have been exacerbated by the sharp hike in the cost of air freight and the inability of businesses to travel to markets – often an essential component of both setting-up and doing business in Africa. Some of this is being alleviated by targeted support, including the New Zealand Air Freight Capacity scheme, which has added capacity for high-value export cargo and trade links with key markets, including in Africa. And although some routes into Africa are beginning to resume, the high cost of air freight will continue to pose a challenge for exporters in the short and medium term. Exporters may qualify for the New Zealand government facilitated [International Airfreight Capacity](#) scheme.

On the other hand, sea ports (the vast majority of New Zealand's exports to Africa, particularly North Africa, travel by sea freight) are generally operating at only slightly reduced capacity, with slower processing times as a result of public health measures. In Egypt, for example, port activity has been steady and in some cases has increased since the pandemic began, as a result of a backlog of shipping, long-term supply contracts and Egypt's being in the midst of its agriculture export season.

While lockdowns across the continent are beginning to ease and commerce is reopening, the World Bank projects the Middle East and North Africa's (MENA) and sub-Saharan Africa's GDPs to contract by 4.2% and 2.8% respectively – with the latter facing its first recession in 25 years. There is not yet a full picture of how the pandemic has affected our exports to Africa but early indications suggest that commodities – which make up the bulk of this trade – have generally held-up well. The tourism and hospitality sectors, however, are likely to feel the biggest impact from COVID restrictions, both sectors in which New Zealand food exports are sold.

Across New Zealand's top five export markets in Africa (Algeria, South Africa, Egypt, Nigeria and Mauritius), the total value of our goods exports in the first six months of this year has seen a decrease of 5.4% when compared with the same period in 2019 – a drop which is to be expected within the context of a global economic shock. Dairy – by far our biggest export to Africa – has seen a drop of 4.9%, while the remainder of our total goods are down 6.4%. There is a marked deviation between how the the MENA and sub-Saharan markets have fared: Egypt and Algeria have seen slumps of 18.2% and 11.9%; meanwhile, South Africa, Mauritius and Nigeria have encouragingly recorded increases of 7.4%, 10.5% and 19.9% respectively. New Zealand's exports to African markets have historically been subject to some fluctuation and it is too early to say how much of the drop to Egypt and Algeria is attributable to the redirection of commodities to other markets (or other COVID-19 related factors) – or whether the growth in sub-Saharan markets will be sustained longer term.

Looking ahead, a shortage of foreign exchange – precipitated by the drop in oil prices and demand for other African exports particularly tourism – and the decline in remittance flows over time are also expected to have a downward pull on consumer demand in African markets. The fall in oil prices, in particular, will have a sharpened impact on non-diversified economies almost exclusively dependant on this trade (although it will bring relief for importers of fuel), and economies whose immediate future development is reliant on upcoming oil and gas projects are now adjusting to a slower track.

## COVID-19: Opportunities for NZ Businesses

That said, COVID-19 has highlighted two important challenges for Africa, both of which present opportunities for New Zealand exporters: food security and intra-continental supply chains. Africa's status as a net-food importer and its growing middle class mean that longer term there continue to be opportunities for New Zealand's high quality food and beverage exports – some of which have remained steady throughout Q1 2020.

The pandemic has also spurred greater demand for higher value health products - such as Mānuka honey - a niche market which some New Zealand businesses will be well-placed to tap into. Products known to contribute to overall health without making any claim in respect of COVID-19 also seem likely to grow in focus for high net worth consumers in Africa.

While regulatory requirements and documentation have often been barriers for exporters, our posts have observed a positive trend in parts of Africa toward the digitalisation – or even suspension – of some formalities, in favour of a high trust model which prioritises getting goods to market. Our goal continues to be promoting New Zealand's well renowned export credentials and advocating for the sustaining of this model longer term.

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Previously poised to begin implementation in July of the early stages of an ambitious plan for a single, integrated market, the African Continental Free Trade Area Agreement (AfCFTA) now looks to be on hold, with a revised date for commencement of trading under the Agreement of 1 January 2021 being floated. This delay, together with the shock on global supply chains, has exposed the fragility of Africa's current mechanisms to move goods within its borders.

For companies already with a foothold in markets, this may present opportunities for expansion into regional hubs, reaching markets previously serviced through other international supply. There is a risk that political space for an ambitious AfCFTA may narrow as African member states respond to protectionist impulses to shore up their own economies in the wake of the pandemic's shock. And although short-term expectations for the AfCFTA have been tempered, a number of regional customs unions are already in place to facilitate the sending of goods further afield.

In terms of scope for growth in other sectors, there will continue to be opportunities for New Zealand companies to offer innovative solutions to meet the needs of African countries. Some sectors – aviation and tourism, in particular – will take a hit in the short-medium term, but a shift toward digitalisation and the need to improve infrastructure across a number of sectors could also present opportunities for New Zealand innovation. We have also heard anecdotes of interest in New Zealand knowhow in a range of sectors, including remote management of oil and gas resources and digital solutions for high-value stock sales, which give an indication of the diversity of our niche and high-value services exports to Africa.

Tight constraints on travel will continue to pose challenges for businesses conscious of the particular emphasis given in Africa to the development of positive personal relationships as the basis of future deals. Our honorary consul network is likely to prove more vital than ever. But this disruption is also likely to generate innovation and an even greater focus on services that are designed to be delivered remotely.

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## How can we help you?

The New Zealand government understands that the spread of COVID-19 has brought uncertainty for New Zealand exporters, particularly for those with an interest in African markets which already presented a unique set of opportunities and challenges.

NZInc will continue to work together closely to seek the latest information and possible opportunities for New Zealand businesses. We have a network of posts who are working to assist New Zealand exporters by identifying and reporting on trends and market opportunities. These include the New Zealand Embassies in Cairo and Addis Ababa (which although temporarily closed is being run remotely), and the New Zealand High Commission in Pretoria. Morocco is accredited to the New Zealand Embassy in Spain. NZTE's Trade and Commercial adviser for Africa is based in Dubai.

Our network has been providing regular updates for markets around the world, including Africa on the New Zealand Trade and Enterprise (NZTE) website, see [here](#) for more information and for weekly podcasts.

[New Zealand Export Credit](#) (NSEC) has seen increasing demand for Trade Credit Insurance as exporters became more concerned about the payment risk from their buyers. As a response to this, NSEC has [streamlined](#) its 'top up cover' coinsurance in partnership with the four primary trade credit insurers in New Zealand. Businesses may also be eligible for the financial guarantees offered by NSEC.

We are also keen to hear from any business with questions related to Africa. You can reach our in-market teams directly by emailing:

- New Zealand Embassy Cairo: [enquiries@nzembassy.org.eg](mailto:enquiries@nzembassy.org.eg)
- New Zealand Embassy Addis Ababa: [aue@mfat.govt.nz](mailto:aue@mfat.govt.nz)
- New Zealand High Commission Pretoria: [enquiries@nzhc.co.za](mailto:enquiries@nzhc.co.za)
- New Zealand Embassy Spain: [madrid@embajadanuevazelandia.com](mailto:madrid@embajadanuevazelandia.com)
- New Zealand Consulate Dubai: [dubai@nzte.govt.nz](mailto:dubai@nzte.govt.nz)

*All trade statistics are sourced from Statistics New Zealand*

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