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Research Briefing | Africa

Ripple effects of a Russia-Ukraine war

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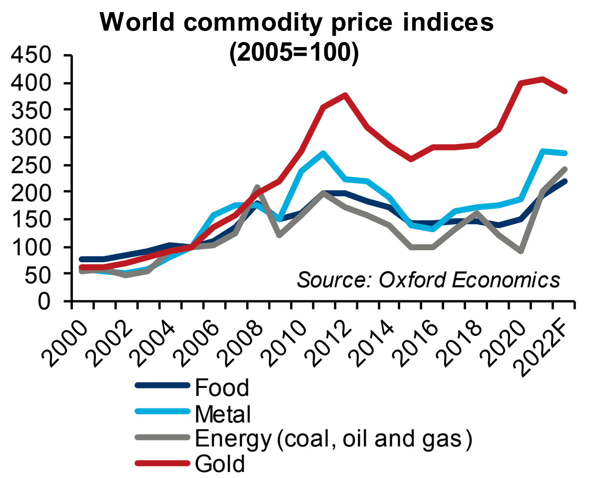
- **The Russia-Ukraine war is set to have implications for economies across the globe and African markets won't be spared. Trade disruptions and soaring commodity prices will be felt by some of Africa's more import-dependent countries, but commodity exporters will benefit from elevated commodity prices and new market opportunities.**
- The importance of African imports from Russia is not so much in the magnitude as it is in the make-up. Some African countries, particularly those in North Africa, are highly dependent on cereal imports from Russia and Ukraine. Higher international cereal prices amid a loss of access to primary source markets could have severe political implications – cost of living issues often translate into street demonstrations in North Africa, and in 1977 'bread riots' almost toppled the government in Egypt.
- Favourable terms of trade shocks resulting from higher commodity prices will benefit countries like South Africa, Namibia, Mozambique, and Zimbabwe. Africa's oil hydrocarbon exporters will also enjoy price tailwinds, although political concerns and structural constraints will prevent them from taking full advantage.
- Some African economies could also benefit from new market opportunities as trade relations between Russia and the West sour – but this will largely depend on the positions taken by African leaders. Efforts to maintain good economic relations with Europe and the US could force an anti-Russian stance.
- The loss in Russian and Ukrainian tourists will be felt by all. Egypt will feel the brunt, as hopes of an influx of Russian tourists following the lifting of a six-year ban on direct flights from Russia to Egypt fade.

Figure 1: World commodity prices



Given Russia's importance as a key commodity exporter, trade disruptions in the Black Sea nation are seeing commodity prices soar across the board. Metal prices, such as palladium, aluminium, copper, and nickel have skyrocketed in the past week – to the benefit of some African commodity exporters.

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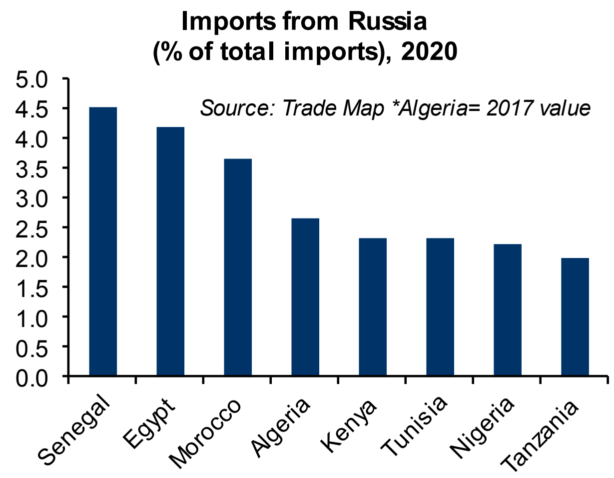
Supply issues and rising prices

As one of the world's largest exporters of agricultural products and metals, Russia is a major commodity market player. Hence, trade disruptions in the Black Sea nation since the start of the Russia-Ukraine war have seen prices of some key commodities skyrocket – and this may worsen in coming weeks as sanctions are intensified. This will bode ill for some of Africa's import-dependent countries, especially those where imports from Russia make up a significant share of total imports. These countries include Senegal, the North African countries (Egypt, Morocco, Algeria, and Tunisia), and then Nigeria and Tanzania.

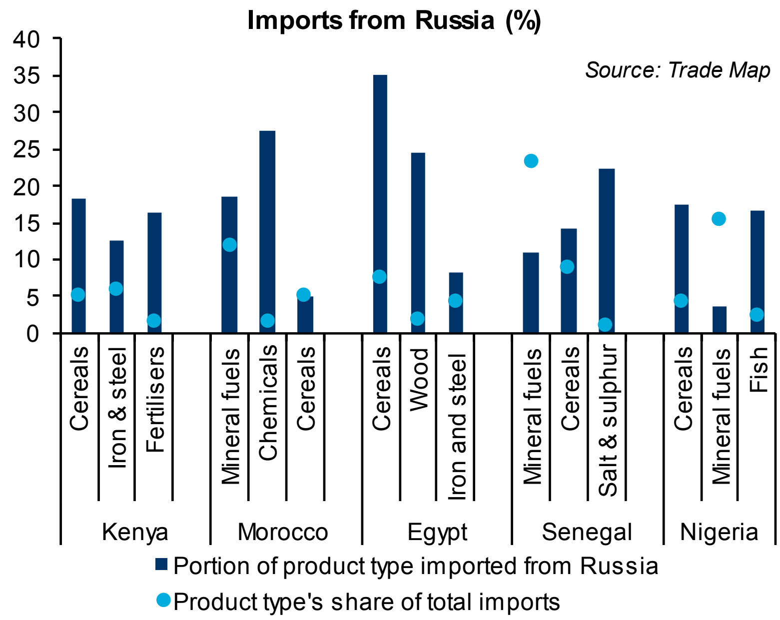
Figure 2: Africa's imports from Russia



Imports from Russia represent a significant share of total imports for some African countries. However, more important than the magnitude of trade is the make-up thereof, with essential goods forming a substantial share of imports from Russia.

Some of the key products imported from Russia to these African countries include cereals, mineral fuels, iron & steel, fertiliser, inorganic chemicals, wood, salt & sulphur, and fish. Many of these products are essential goods and will be at particular risk from supply chain disruptions and rising prices in coming weeks.

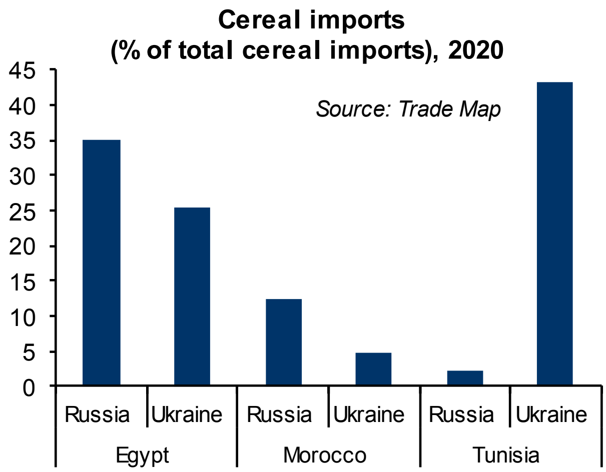
Figure 3: Imports from Russia by product type



Food stability is a particular concern in North Africa

Disruptions in the cereal supply chain are a key concern for North African countries, such as Egypt, Morocco, and Tunisia, that rely on cereal imports from Russia and Ukraine to meet consumption demands. Together, cereal imports from Russia and Ukraine account for over 60% of Egypt's total cereal imports. This figure is also high at 46% for Tunisia, but slightly lower at 17% for Morocco. Tunisia is particularly reliant on cereal imports from Ukraine – accounting for over 43% of Tunisia's total cereal imports. Many African nations are net importers of cereals, and these countries will have to endure higher global cereal prices. Indeed, North Africa will have to come to terms with higher food prices while their primary sources of cereal essentially go offline.

Figure 4: Africa's cereal imports from Russia and Ukraine



Disruptions in the global cereal supply chain and subsequent soaring prices for the commodity are a serious threat to import-reliant countries, particularly those in North Africa. This comes at a time when cost-of-living issues are more prevalent political risk factors across the region.

The failure of Egypt's state grains buyer, the General Authority for Supply Commodities (GASC), to secure a purchase for an international wheat shipment in the last week, demonstrates the seriousness of the situation. The tender was cancelled as only three trading houses had participated, and most were not willing to cut prices. With countries reluctant to depart with their cereal stashes, against a backdrop of supply uncertainty and skyrocketing prices, food stability in import-reliant countries could come under serious threat. Further upward pressure on wheat prices also comes at a time when cost-of-living issues are becoming more prevalent political risk factors across the region – the Egyptian government has already tried and failed to scrap bread subsidies, and higher bread prices put into question the viability of scrapping them anytime soon.

Commodity exporters to benefit from price tailwinds

Africa's commodity exporters will benefit from higher commodity prices, especially those focussed on Russia's key exports, which include mineral fuels (oil, coals, and gas), precious and semi-precious metals & stones (gold, platinum, palladium, and diamonds) and non-precious metals (aluminium, copper, and nickel). These exports are being hit by economic sanctions, and Russia's ability to trade will be knocked further by the recent decision to exclude some Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), an international payment system. This will make it increasingly difficult for Russian traders to do business with the rest of the world, and their isolation will be exacerbated by the collapse of major sea, road, rail, and air routes into Russia. Some of the African countries set to benefit from surging oil and gas prices include fuel exporters Angola, Algeria, Nigeria, Libya, and Egypt, although not all will be able to take full advantage of the situation. Precious and semi-precious metal & stone producers South Africa, Botswana, Zimbabwe, Tanzania, and Ghana will also benefit from rising palladium, gold, and diamond prices, while higher iron & steel, aluminium and copper prices will be to the advantage of non-precious metal exporters Mozambique, South Africa, and Namibia. Trade profiles mean that most of these countries stand to gain on aggregate in an environment of higher commodity prices, and we currently expect many of these commodity prices to remain elevated for some time.

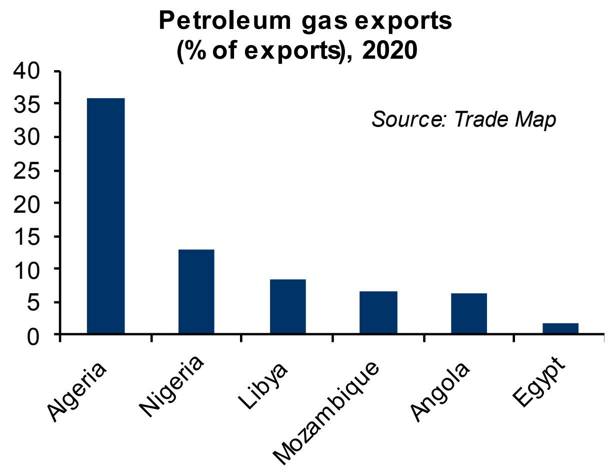
Figure 5: Exports of key African commodity producers

Some of Africa's commodity exporters will benefit from rising commodity prices, as Russian exports are hit by sanctions. Fuel exporters will profit from surging oil and gas prices, while higher precious, semi-precious and non-precious metal prices will be to the advantage of countries that produce these commodities.

Access to new markets?

Exports to Russia account for less than 1% of total exports of most African countries, except for Egypt and Kenya where this figure is closer to 2%. But African exporters could benefit from new market opportunities, as the collapse in trade between Russia and the EU (and other nations that have implemented/plan to implement economic sanctions) creates a void. The collapse of trade routes into Russia, coupled with their exclusion from the international payment system will make it increasingly hard to do business with the country. As trade ties between Europe and Russia sour, however, new market opportunities could also open in Europe − a more viable option for many African commodity exporters that already have strong ties with the region. After China, the Netherlands, United Kingdom, and Germany are the main destinations for Russian exports. While hydrocarbons dominate Russian exports to these trade partners, other significant exports include cereals, iron & steel, copper, nickel, aluminium, fertilisers, precious stones, metals, and inorganic chemicals. Nevertheless, the ability to fill this trade void may be affected by the diplomatic stance African governments take. We think that African countries that have strong trade partnerships with Europe and the US will prioritise the protection of those interests, particularly in the face of a faltering Russian economy. That said, some African countries have seen a deepening in relations with Russia of late, particularly in West Africa, and these countries will be treading carefully.

Figure 6: Africa's top petroleum gas exporters

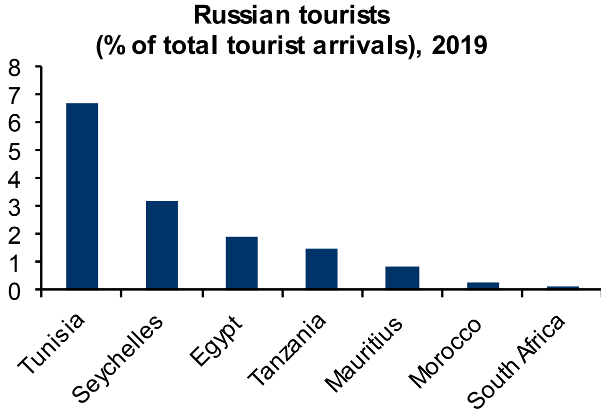


Algeria's state energy firm Sonatrach has said that it is ready to ramp up gas supply to Europe from its surplus via the Transmed pipeline, but only after it has met domestic needs. Other African countries eyeing EU gas opportunities include Nigeria, Egypt, and Mozambique. But political instability, infrastructural deficiencies and corruption complicate the prospects of becoming a key gas supplier to Europe.

Yet another blow to tourism

Africa has become a popular travel destination for Russians in recent years. In 2019 (pre-pandemic), Russian tourists accounted for just under 7% of total tourist arrivals in Tunisia. Seychelles, Egypt, and Tanzania followed as popular tourist destinations, with Russian tourist arrivals accounting for 3.2%, 1.9% and 1.5% of total arrivals, respectively. More importantly, Russian tourists played a disproportionate role in the recovery in tourism in some African nations, particularly for Egypt and Seychelles. The sanctions imposed by the West on Russia coupled with growing uncertainty around travel restrictions will be off-putting for Russian tourists. This will deal a blow to the recovery in the African tourism sector, with some highly tourism-reliant countries still being plagued by weak vaccination rates.

Figure 7: Russian tourist arrivals in Africa



Source: Oxford Economics

Tourism-reliant countries will be hard-hit as bookings from Russian and Ukrainian tourists come to a halt amid the ongoing war. Russian tourists account for a sizeable share of tourist arrivals in some African countries and have played a substantial role in the sector's recovery.

Egyptians had especially been banking on a strong influx of Russian tourists, after an almost six-year ban on direct flights between Egypt and Russia was removed in July last year. The flight ban was instituted after a Russian aircraft was bombed over the Sinai Peninsula in 2015, killing 224 people on board. The lifting of the ban last year saw Egyptian travel receipts surge by 62% q-o-q in Q4 and by 73% y-o-y to $5.9bn over the first three quarters of 2021. Prior to the ban, Russian tourists had accounted for just over a third of tourist arrivals in the North African country – hence their return was welcomed with open arms. But tour operators have noted that bookings from Russia have stopped altogether since the start of the conflict, stifling hopes of a strong recovery this year. Instability in Ukraine will also decimate Ukrainian tourist arrivals in Africa, which had been rising in recent years.

Global commodity market positioning a tell-tale

The implications of the Russia-Ukraine war on Africa will largely depend on the positioning of African countries in global commodity markets. Trade disruptions and soaring commodity prices will be felt by some of Africa's more import-dependent countries, but commodity exporters could benefit from elevated commodity prices and new market opportunities. Beyond merchandise trade, the booting from SWIFT and economic turmoil at home mean that Russia might be forced to turn inwards, which would result in a reversal of a recent trend of Russian capital and aid increasingly being directed towards Africa. The loss in Russian and Ukrainian tourists, however, will be felt by all. It is clear that the war will have serious global implications, but it is still early days and the way these scenarios play out will only become clearer at a later stage.