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covid-19 Brief

January 2022

Impact of Trade Shocks on Growth and Poverty in Cameroon.

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The COVID-19 pandemic is affecting economies through several channels, including through changes in global commodity markets. This brief presents a short overview of an assessment of the growth and poverty effects of disruption in primary commodity markets in Cameroon. The analysis focuses exclusively on the impact of the disruption in global commodity trade, that is, of changes in global prices and market access.

To measure the impact of the pandemic, the difference between the World Bank's pre and post-Covid projections of the global commodity prices are used¹. The combined variation of prices of Cameroon's primary commodities² translates to an average drop in the country's export price index by 13.4 pp (Figure 1). The corresponding decline in the average import price index is 4.0 pp. The predicted negative change in prices compounded by reduced access to foreign markets, has resulted in declining exports and imports of primary commodities and affected economic growth negatively. As can be seen in Figure 1, the pressures from global commodity markets induced a decline in imports from -5.2 to -13.3 pp, while exports changed to a lesser extent, with a rate of decline ranging from -1.9 to -4.0 pp (Figure 1). The ultimate effects of the pandemic on the national economy will depend on the capacity of each country to respond to changes in global trade conditions. Indeed, the extent to which governments succeed in adopting interventions to control the pandemic that minimize disruption to economic activity is critical to determining the magnitude of the effects on the domestic economy. To have a more accurate picture of how each economy

is affected, varying degrees of responsiveness to the changes in prices and market access were considered in the COVID scenarios. The numbers on the horizontal axis represent decreasing degrees of responsiveness from 1 (highest) to 35 (lowest) as one moves from left to right. The measure for responsiveness is a combination of elasticities of export supply and import demand by Cameroonian firms and consumers, as well as elasticities of demand for Cameroon's exports in foreign markets.

The above changes reflect adjustments in the broader economy to changing global market conditions, with potentially serious consequences for overall growth and poverty rates. Figure 2 shows the probable effects on economic growth, with changes in GDP growth rates ranging from -0.8 pp to -3.6 pp. The decline in GDP growth is the more likely outcome, given the limited capacity by the economy to respond to global price changes due to the widespread disruption in domestic supply chains. Table 1 shows simulated changes in poverty rates resulting from the deteriorating global trading environment and adjustments by the Cameroonian economy. The figures are based on the lowest responsiveness scenarios, as indicated earlier. As the country battles to gain control over the pandemic, the measures put in place are likely to slow down economic activities. It is therefore more likely that the actual ability to adjust to changing global trade conditions will be limited, meaning that actual responsiveness is more likely to be closer to the low scenario case. Poverty rates are thus estimated to increase by 2.2 pp across the country. Poverty is estimated to increase by more in rural areas (2.5 pp) compared to

¹ World Bank. Commodity Markets. Retrieved on July 2020. www.worldbank.org/en/research/commodity-markets#2

² See Figures 2 and 4 in Brief 023.

urban areas (1.9 pp). These rates are estimated based on the highest decline in imports (-13.4 pp) and exports (-4.0 pp) and highest reduction in GDP growth (-3.6 pp). Higher responsiveness to the changing global trade environment would lead to more pronounced reaction by economic actors, with positive effects on imports and exports, economic growth, and poverty. This outcome is more

likely the longer the disruption in global markets persists and the more firms and households find ways to adjust. The findings, highlighted above, show the importance of getting policy implementation right. A careful choice and implementation of interventions is critical to respond to shocks that are certain to happen in the future.

Figure 1: Trade Effects of Global Commodity Market Disruption (pp)

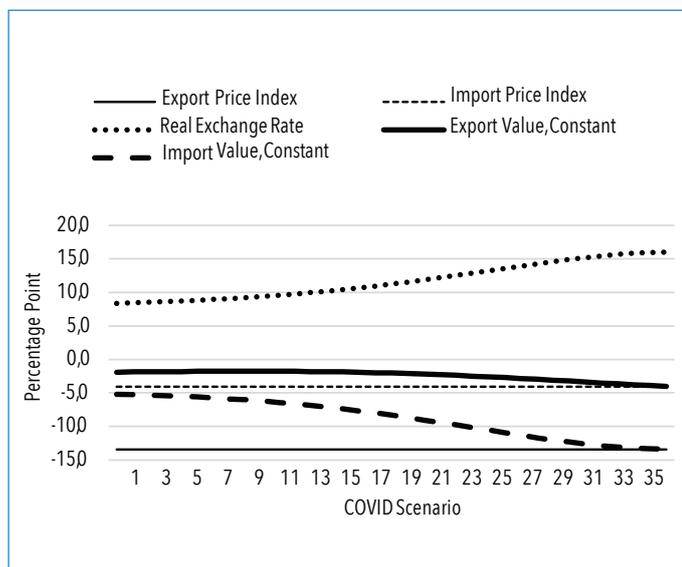
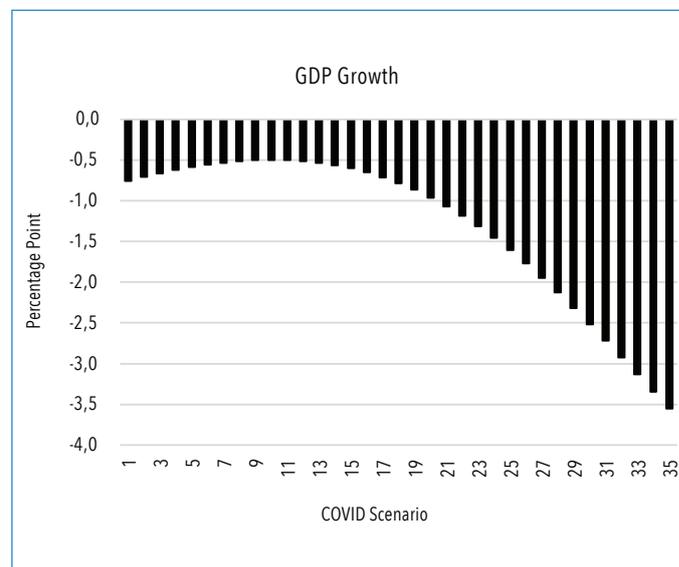


Figure 2: GDP Growth Effects of Global Commodity Market Disruption (pp)



Note: The COVID scenarios (1 to 35) combine different values of trade (import and export) elasticities across commodities to mimic the responsiveness of Cameroon’s economy to changing global market conditions. Scenario 1 uses the highest and scenario 35 the lowest elasticity values. The remaining scenarios combine difference values of elasticities between the two extremes. Export price refers to the average weighted F.O.B. price indexes. Import price refers to the average weighted C.I.F. price indexes. Export and import values are in constant 2019 prices.

Table 1: Change in poverty headcount ratio resulting from global trade disruption (pp)

	Cameroon	Urban	Rural
Ratio (pp)	2.2	1.9	2.5
Number	421 409	157 894	263 515

Source: Authors’ calculations.

Note: The results are based on COVID scenario 35 which combines the lowest values of trade (import and export) elasticities with the shock in commodity prices.



AKADEMIYA2063 is grateful to USAID for funding for this work through a Feed the Future grant with Policy LINK. Any opinions stated here are those of the author(s) and are not necessarily representative of or endorsed by AKADEMIYA2063.