



**THE POTENTIAL EFFECT OF
CORONAVIRUS
ON THE NIGERIAN
ECONOMY**

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The data contained in this report is only up-to-date as at Friday, 21 February 2020. Some of it is subject to change during the natural course of events. SB Morgen cannot accept liability in respect of any errors or omissions that may follow such events that may invalidate data contained herein.

Our researchers employed methods such as desk research and polling to collate the available data. Our editors sifted through the data and prepared the report, using various proprietary tools to fact-check and copy edit the information gathered.

Our publicly released reports are formatted for easy and quick reading, and may not necessarily contain all the data that SB Morgen gathered during a given survey. Complete datasets can be made available on request.

All forecasts were built using data from a variety of sources. A baseline of accurate and comprehensive historic data is collected from respondents and publicly-available information, including from regulators, trade associations, research partners, newspapers and government agencies.

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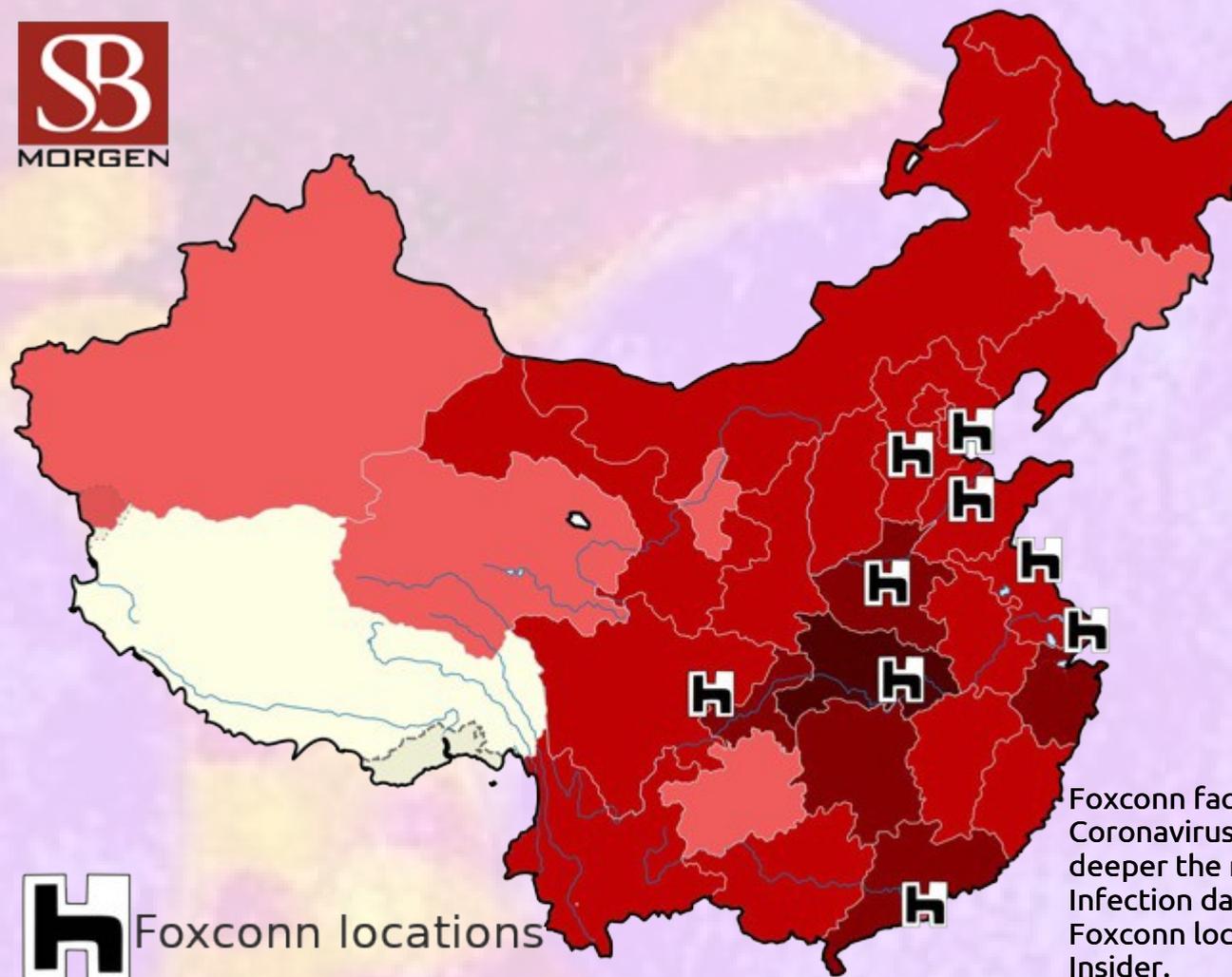
Introduction

On the last day of 2019, the World Health Organisation's (WHO) China office heard the first reports of a previously unknown virus. It had triggered a number of pneumonia cases in Wuhan, the capital of Hubei province in Central China, with a population of over 11 million. The virus, which has been renamed Coronavirus Disease 2019 or COVID-19 (it was formerly known as the 2019-nCoV acute respiratory disease) by the WHO, has infected 76,936 people in mainland China, with a further 2,051 cases reported from 30 other countries.

At least 2,470 people have died from the virus, a death toll far exceeding that of SARS (Severe Acute Respiratory Syndrome Virus where 774 people were killed in more than two dozen countries in 2003). On Thursday 6 February, a 60-year-old US citizen - the first confirmed non-Chinese victim of the illness - died in Wuhan's Jinyintan Hospital. Two days later, France confirmed five new cases in its Haute-Savoie region, including a nine-year-old boy, bringing the number of infected persons in the country to 11. An 80-year-old Chinese tourist was said to have died in France on 15 February, making this the first casualty in Europe. Egypt's health ministry confirmed the first case of the disease in Africa. Officials say that the affected person was a foreigner who did not show any serious symptoms.

Global economic outlook

As China struggles with dealing with the virus, the fallout will not only affect the Chinese economy, the world's second-largest and main manufacturing hub, but also its important trading partners. Apple's manufacturing partners Foxconn is currently experiencing production cuts and delays, with Apple warning that¹ it would not be able to meet sales targets for the first quarter of the year due to production delays.



Foxconn factory locations overlaid on Coronavirus hit Chinese provinces, the deeper the red, the more infections. Infection data provided by Wikipedia, Foxconn locations provided by Apple Insider.

Car companies² like Nissan and Hyundai have publicly reported that they are deeply affected by the reduction in production and demand. Samsung Electronics has launched smartphone delivery services for customers to test its new products as the spread of the coronavirus has prompted the tech giant to cancel promotional events and brace for weak store sales. Jaguar Land Rover said³ it has enough parts from China to maintain its UK production for the next two weeks but not beyond that. In Germany, Deutsche Bank says the outbreak may contribute to a recession. German investor sentiment has already crashed to its lowest point since December 2019⁴.

1 - Asian stocks fall after Apple warns of lower profit due to virus | Al Jazeera, 18/2/20 | <http://bit.ly/38TLmTk>

2 - The economic effects of the COVID-19 coronavirus around the world | World Economic Forum, 17/2/20 | <http://bit.ly/2umVrZO>

3 - China coronavirus outbreak: All the latest updates | Al Jazeera, 18/2/20 | <http://bit.ly/38S1Z1v>

4 - Germany Zew Economic Sentiment Index | Trading Economics | <http://bit.ly/32n4qXn>

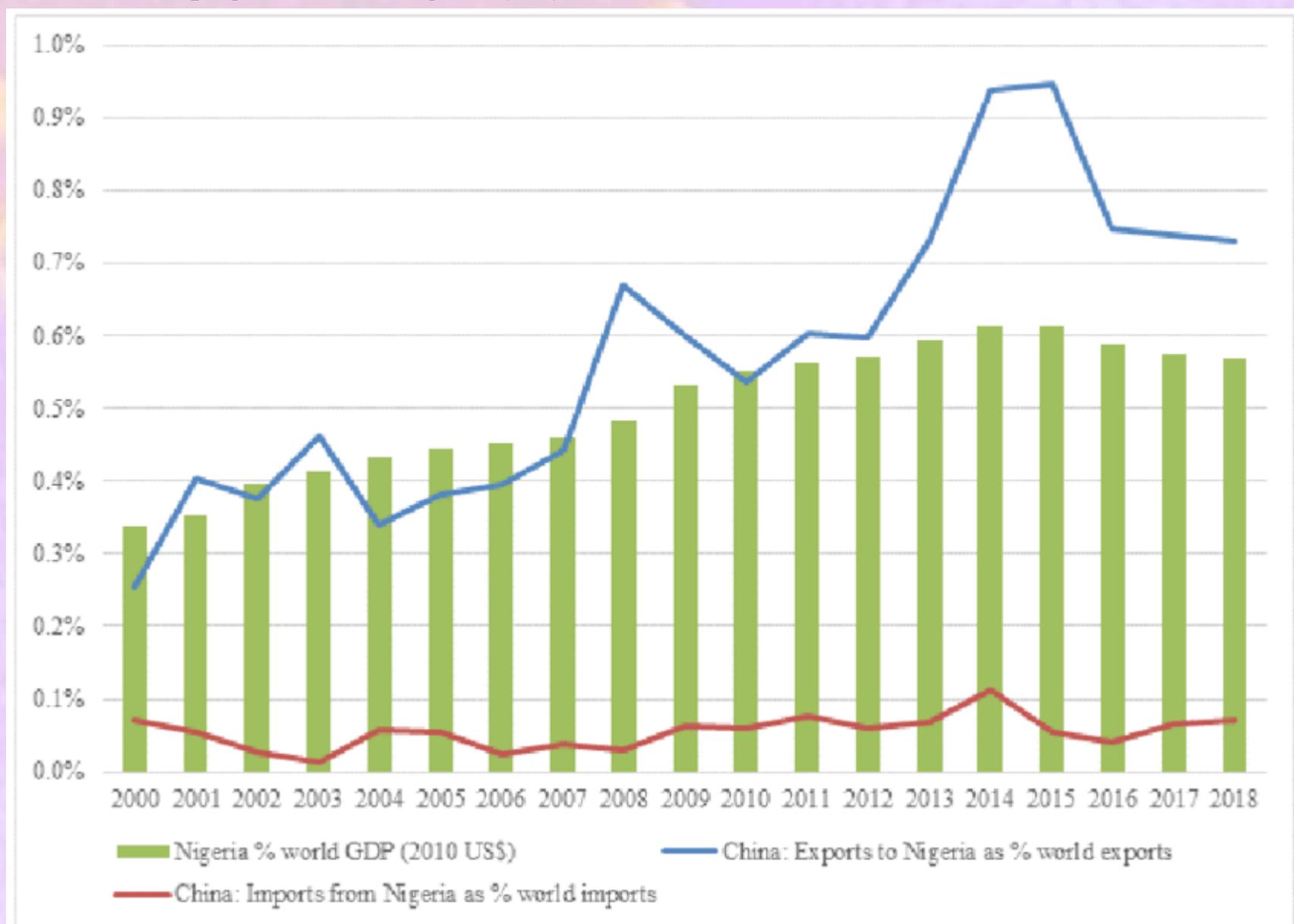
Global economic outlook (cont...)

Factories in China are only just restarting, with the virus affecting the manufacturing and travel sectors. Singapore Airlines said it would temporarily cut flights across its global network in March, April and May due to weaker demand. Global businesses are dealing with the erratic condition of the market, loss of revenue and disrupted supply chain due to the lockdown of millions of people in the cities of China especially. Other sectors of the Chinese economy that have been affected include pharmaceutical companies, trade shows, sporting events as well as tourism.

While China's ambassador to the European Union, Zhang Ming, said that the economic impact of the coronavirus outbreak would be "limited, short term and manageable" and that Beijing has enough resources to step in if needed. China's economy⁵ is expected to slow to 4.5% in the first quarter of 2020 down from 6% in the previous quarter. The global demand for oil has also been hit by a reduction in the demand of oil from China as the world's biggest oil importer. The Organisation of Petroleum Exporting Countries (OPEC) is expected to cut production quota amongst its member countries as the global demand for oil is expected to fall by 435,000 barrels for Q1 2020.

The Nigerian picture

China's non-financial investment in Nigeria stood at three billion dollars as of April 2019, while China-Nigeria's bilateral trade volume soared to 15.3 billion dollars in 2011, 0.8% higher than the previous year. According to data from the Nigerian Bureau of Statistics, Nigeria's imports from China hit ₦1.9 trillion in the first half of 2019. The country almost doubled total imports from China, rising by 88% in half-year (H1) 2019.



China: Trade with Nigeria Compared to Nigerian GDP, 2000-2018. (Source: GDP: World Bank World Development Indicators 2019; Trade: IMF DOTS 2019.)

Specifically, Nigeria's imports from China rose from ₦1.06 trillion in half-year 2018 to ₦1.99 trillion in the same period in 2019. These are likely to take hits as China struggles to contain the spread of the virus. Also, following the lockdown of much of the Chinese mainland (up to 150 million Chinese nationals are under mandatory movement restrictions), production of goods and services will continue to slow, and in some cases, shut down completely, affecting exports to Nigeria. Nigeria's imports from China in the second and third quarter of 2019, (April to September) stood at ₦2.2 trillion according to the National Bureau of Statistics. This should slow down for at least the first half of 2020.

The Nigerian picture (cont...)

As global oil prices trend lower at \$57 dollar per barrel as of mid-February, the subsistence of the coronavirus will continue to dampen appetite, which will put a lid on oil prices well into March. If oil demand continues to fall with no OPEC intervention in the form of production cuts, tightening supply, a country like Nigeria will be negatively impacted by the downward price trend.



It only gets worse for Nigeria as oil is the biggest revenue generating sector of the economy; expected revenue to be generated from the oil sector in the 2020 budget is ₦2.64 trillion⁶, with the rest of the non-oil economy contributing a further ₦5.5 trillion. Oil prices do not only affect the revenue generated from this sector but also disrupt prices in other sectors such as manufacturing and production, thereby causing inflation to go up.

Nigeria's oil production still stands (positive) at 1.8 million dollar per barrel. This is because India is the country's largest importer of oil, therefore a fall in demand from China hasn't really affected the country's oil supply. The country can only be optimistic that the virus comes to a halt so global oil prices can be positive and stable.

The Nigerian picture (cont...)

Still on revenue generation, the country risks another recession if the oil price continues to fall and other production and sales activities between China and Nigeria remain weak. Recall in 2015, when global crude oil price fell, and there was a significant reduction in crude oil production as well as insufficient foreign exchange (forex) to fund imports due to the shortfall in oil exports invariably diminishing the forex reserves. All these were contributing factors to the Nigeria recession in 2016. It will be of no surprise if the Chinese COVID-19 oil price shake leads to another recession, due to the over reliance on proceeds from the oil sector as the biggest foreign exchange earner.

The Federal Government's plan to borrow ₦2 trillion from the Contributory Pension Scheme (CPS) has been met with opposition from many quarters. Simultaneously, the government has sought a new \$17 billion loan from China in order to finance its 2020 budget. The situation in China presently leaves little room for international trade and aid, as the Chinese economy slows due to reduction in production of goods. The loan is thus, unlikely to come when it will be needed, strengthening the resolve of the Federal Government to borrow from the CPS, creating ripple effects on the economy.

There are also implications on the governance front. On 4 February, the House of Representatives rejected⁷ a motion seeking the urgent evacuation of 60 Nigerians trapped in Wuhan, China. The legislators gave their reason for not evacuating the Nigerians, who had not yet been infected by the virus, as China having better health facilities for managing the situation than Nigeria does. This seeming rejection of diaspora Nigerians will have been noted, and could have an effect on the centrifugal forces within Nigeria itself. At the moment, public opinion is divided on the issue with many Nigerians of the view that the government's nonchalance in repatriating Nigerians back home is reminiscent of the usual nonchalance of the Nigerian government on matters that affect its citizens at home and abroad, while others are wary of the public health implications of returning Nigerians who may be infected with the virus. It is worth noting at this point that there are no reports of any infected Nigerian in China or at home.

Nigeria dealt decisively with the Ebola outbreak of 2013-2014 in a short time by establishing quarantine measures in Lagos to help isolate patients with the virus. The same logic is expected to be applied by the Nigerian government as regards the evacuation of Nigerians in Wuhan, China to the quarantine in Lagos, Nigeria. Local health authorities have expressed a readiness to tackle any cases of the coronavirus in the country and a number of investigated cases have proven negative. That does not mean we are out of the woods yet. As the government looks to diversify and policymakers increasingly look East, it pays to watch closely what may inevitably arrive at our shores, if not in its physical expression, then in its economic effect.



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Since 2013, we have provided data analytics and strategic communication solutions to clients across various sectors in Nigeria, Ghana, the Ivory Coast, Kenya, South Africa, the UK, France and the United States. In 2015 we became a partner to Stratfor, an American geopolitical intelligence firm that provides strategic analysis and forecasting to individuals and organisations around the world, including the various US departments and agencies like the Department of Defense (DoD) and the Federal Bureau of Investigations (FBI). We also have a partnership with GeoMarkets Africa, an American market research firm focused on explaining the African market for American audiences.