OPINION / COLUMNISTS

NEVA MAKGETLA: Despite its lofty spot, SA must foster regional growth

Creating stronger export links will help Sadc countries reduce their reliance on mining

BL PREMIUM

28 OCTOBER 2019 - 14:16 *by* NEVA MAKGETLA

The South African flag is shown at the lighthouse and Donkin memorial in Port Elizabeth, South Africa. Picture: 123RF/VANESSA BENTLEY

John Donne wrote that "No man is an island entire of itself; every man is a piece of the continent, a part of the main." The same is true of countries: no economy can develop in isolation from its neighbours.

For SA, the Southern African Development Commuiuty (Sadc) is a critical source of demand for exports of manufactures and services. Moreover, experiences in other parts of the world, and especially fast-growing East Asia, point to the importance of regional partnerships for investments — from industry to energy and international logistics.

However, regional economic partnerships in Southern Africa face practical obstacles that are ignored by abstract assertions of solidarity, while business as usual continues on the economic front. Above all, Southern Africa is unusually dependent on exports of energy and mineral products. That in turn means its fortunes rise and fall with international commodity price cycles.

As a result, the entire region, not just SA, has endured a sharp slowdown since the end of the latest commodity boom, which lasted from 2002 to 2011. Regional growth averaged 4.3% a year during the commodity boom but fell to 1.5% a year over the past five years. Southern Africa also leads the world in inequality, which fuels political as well as economic instability.

SA dominates Southern Africa, making it easy to downplay the importance of regional links. In 2018, SA accounted for 18% of the population of the 12 countries in continental Sadc, and 53% of the GDP. The SA economy is twice as large as the average for developing countries, while other Sadc economies come in at just a fifth. SA's GDP per person is about four times that of the rest of continental Sadc.

In contrast, the other regional powers in the Brics grouping have incomes only slightly higher than those of neighbouring countries, which facilitates regional synergies.

Despite these disparities, Southern Africa is a critical market for SA's manufacturing industries and, consequently, a pillar for SA's industrialisation. Continental Sadc accounts for only a fifth of SA's total foreign sales, but it buys a third of manufactured exports, including 15% for auto, 35% for food, 38% for capital equipment, 39% for chemicals and 55% for clothing.

But dependence on mining exports leaves the region highly vulnerable to swings in global markets. Excluding SA, only 5% of regional exports are manufactures, while energy and minerals contribute 85% and agriculture 20%.

In contrast, manufactures comprise two-fifths of SA exports, compared to half for Latin America and two-thirds for East Asia, even excluding China. As a result, crashing metal and oil prices in 2011 meant regional exports in US dollars fell almost 30% through 2017, while world exports dropped 4%. The decline in the value of mineral sales underpinned slowing growth and rising import prices across the region.

Southern Africa is also unusually inequitable, in part because it depends on capital-intensive extractive industries. Worldwide, in the past decade only 13 countries reported a Gini coefficient of more than 0.5, which indicates unusually deep inequality. Seven of those nations were in continental Sadc. Many mining- and petroleum-dependent economies outside the region don't report on inequality at all. Even so, Sadc's dominance at the wrong end of the scale is striking.

These challenges affect SA by constraining exports and investment. If SA is serious about industrialisation, it has to support regional development.

But that endeavour means facing up to the need for greater investments in the region, with the associated trade-offs. Key steps would be to upgrade regional logistics and energy trade; increase financing for capital goods exports, so that SA manufacturers can compete with heavily subsidised overseas producers; and promote regional manufacturing.

But investments won't be sustainable without stable democratic systems. SA has to find a strategy to promote good governance in the region, since experience shows that ignoring political repression ultimately only compounds economic crises.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies.