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NEVA MAKGETLA: Southern Africa on the short end again

Creditors simply refuse to fund the sort of aggressive fiscal stimulus that has boosted growth in the global North

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SA's economic wellbeing depends heavily on how well Southern Africa recovers from the pandemic. The region has been spared the worst of Covid-19, but in 2020 it saw a sharper economic decline than the rest of the world. Outside SA, the IMF forecasts it will grow 2% in 2021 — about a third as fast as the global economy.

That outcome arises from slow growth after the commodity boom ended a decade ago; the region's weakness relative to international lenders, which cuts the scope for fiscal stimulus; and the incoherence of national and regional economic strategies.

Despite low Covid-19 diagnoses in most of the region's countries, particularly outside the Southern African Customs Union, Southern Africa entered a depression in 2020. The IMF estimated the regional GDP would decline about 6% compared to 2019, or 5% if SA is excluded. For comparison, the world economy shrank 3% in 2020. In the global crisis in 2008/2009, the regional economy contracted 2%.

The pandemic depression has aggravated inequalities across Southern Africa, which were already among the worst in the world. Less skilled workers lost more livelihoods; small businesses were more likely to close down; and government cuts to services disproportionately hurt low-income households and communities.

Global trends deeply influence regional outcomes. Southern Africa is far more dependent on mining, and by extension international mineral markets, than the rest of the global South. Metals prices crashed in April 2020 but are now mostly higher than in 2019, limiting the economic disaster for most countries. But petroleum and diamonds recovered more slowly, complicating prospects for Angola and Botswana. Moreover, international tourism is at a fraction of prepandemic levels and will take years to return. And high-income countries' monopsony on vaccines is delaying recovery across the global South, including in Southern Africa.

In this context, the regional response has been weak at best, and often authoritarian, shaped largely by Southern Africa's deep inequalities. Business and government leaders can mostly isolate themselves from both the health and economic consequences of Covid-19. That makes them less likely to adopt disruptive measures to deal with the fallout among less privileged groups. These realities emerge from both an early shift to austerity budgets in 2021 and the weakness of official recovery plans.

On the fiscal side, in 2020 most countries maintained (but barely increased) expenditure to deal with the pandemic, despite the sharp decline in revenues and the GDP. Budget deficits soared everywhere except Zimbabwe. SA's climbed from 5% of GDP in 2019 to 12% in 2020; Botswana's from 8% to 13%; and Zambia's from 10% to 14%. In response, national budgets in 2021 slashed spending, terminating already inadequate relief for the poor and small businesses and slowing economic recovery. This response reflects countries' lack of leverage with foreign and domestic creditors, who have simply refused to fund the sort of aggressive fiscal stimulus that has boosted growth in the global North.

By the end of 2020 most governments had adopted a recovery plan. In practice, however, they tweaked existing programmes, largely seeking donors and foreign investors. None rose to the crisis with bold new initiatives to promote inclusive growth or diversify away from mining. Virtually all promised to increase investment in infrastructure, even as they slashed state spending, but without a visible commitment to leveraging regional synergies, for instance, with electricity and road transport.

Almost all recommitted themselves to local procurement, which can end up undermining regional value chains unless co-ordinated. Beyond that, they made minor changes to tax and other incentives, mostly to benefit the mining value chain and smallholder agriculture. Several established large credit guarantee schemes, which generally disbursed a fraction of the committed funds after only a few companies were prepared to take on more debt during a profound economic downturn.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies, which will publish an in-depth study of southern African responses to the pandemic later in the week.