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COVID-19 leaves SADC poor worse off

While the southern African economy has recovered better than expected a year ago, the pandemic has left the region with even deeper inequalities, higher levels of public debt and greater dependence on global mining markets. In these circumstances, governments in the region need to coordinate around more innovative and decisive economic reconstruction plans.

This emerged as a central theme during a Trade and Industrial Policy Strategies (TIPS) webinar held yesterday on the Pandemic and the state of the SADC economy, which drew on a forthcoming paper to be published in collaboration with UNU-WIDER. TIPS senior economist Neva Makgetla opened the discussions with an overview of the impact of the pandemic on the regional economy and the main policy responses, which were followed by case studies on Namibia, Zimbabwe and Botswana.

Makgetla pointed out that following a deep downturn in the second quarter of 2020, most economies had experienced a stronger recovery in GDP than originally expected. A core driver was the sharp rebound in metals prices, because most southern African economies, including South Africa, remain heavily reliant on mining exports. In contrast, the broader hospitality sector, and with it tourism, cannot fully recover until the pandemic has come to an end, because of its inherent risks for spreading COVID-19.

Makgetla argued that the pandemic deepened inequality in southern Africa because lower-level and informal workers were more likely both to be exposed to the virus and to lose their livelihoods due to lockdowns, layoffs and restrictions on entertainment services. Moreover, low interest rates have increased prices for stocks and housing – but wealth is even more unequally distributed than incomes.

Makgetla noted that whilst initially most southern African countries, including SA, increased grants and support to the poor, they cut the relief long before their economies recovered. The main reason was that deficits increased in most countries, rising above 8% across the Southern African Customs Union. Zambia had to enter into talks on debt restructuring. Given the relatively weak positon of southern African countries in relationship to international lenders, the only solution was to adopt a more innovative and disruptive funding strategy to bolster reconstruction. Options included for instance a temporary solidarity tax, such as a surcharge on income tax; borrowing strategically from social security and retirement funds; and public-private partnerships.

The issue of income inequality was taken up by Klaus Schade, an independent economic analyst in Namibia who pointed out that despite the range of stimulus measures introduced, the economy had contracted by 8%, the largest decline since the 1990’s and the recovery would see the worsening of the already high levels of inequality. In terms of a policy response, Schade would like to see a reprioritization of expenditure towards social infrastructure such as access to water and sanitation; investment in educational facilities (with proper classrooms and the infrastructure that goes with this);

investment in health facilities and in ICT. In addition, he proposed the strengthening of the social safety net, which has been long overdue and regaining fiscal space through a range of measures.

In the case of Zimbabwe, Gibson Chigumira, the Executive Director of the Zimbabwe Economic Policy Analysis & Research Unit (ZEPARU) highlighted the continued dominance of mining within the economy. However, in moving forward, there was a need to mobilise resources to capacitate the health care system; support local industries to boost local manufacturing in a range of areas such as food stuffs, pharmaceuticals and the like but also to revive industry as a whole.

Turning to the state of Botswana, Itumeleng Mokoena, an economist at TIPS, highlighted how the country's GDP had declined more than any other SADC economy. This, he explained, was largely due to the economy's heavy dependence on diamond exports and international tourism, which made it particularly vulnerable as, unlike other mining products, diamond prices remained relatively low while the pandemic brought international travel to a near-standstill. Mokoena concluded, "COVID -19 has exposed Botswana's vulnerabilities as the economy is heavily reliant on mining, in particular diamonds for its growth."

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