Promoting growth and economic transformation in Southern Africa: The challenges and implications of declining commodity prices

United Nations
Economic Commission for Africa

PROMOTING GROWTH AND ECONOMIC TRANSFORMATION IN SOUTHERN AFRICA: THE CHALLENGES AND IMPLICATIONS OF DECLINING COMMODITY PRICES

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Executive summary

Heavy reliance on primary commodities has rendered many of the economies of Southern Africa vulnerable to fluctuations in international markets as shown by the case of the region's mineral resource and agricultural sectors. A key observation indicated in the present study is that the high dependence of resource-rich Southern African economies on commodities makes them vulnerable to commodity price fluctuations, which has resulted in the unexpected contraction of public resources and, in certain instances, created negative spill over effects into the rest of the economy.

Sound macroeconomic management is, therefore, required to enable the region's resource-rich countries to effectively address the challenges arising from declining commodity prices. Sound policies also attract investment in primary and secondary sectors and diversification of the economy and broad-based economic development will be critical for the long-term sustainable development of Southern Africa.

The macroeconomic consequences of the decline in commodity price are felt mainly through exchange rate appreciation for countries with a flexible exchange rate system, rising inflation, loss in fiscal and corporate revenue, and loss in employment. These challenges have implications on fiscal balances, foreign currency reserves and economic growth.

The fiscal space for pursuing countercyclical policies, however, has largely been eroded since the onset of the global financial crisis, apart from some commodity exporters that had managed to build up financial buffers. Such precautionary policies provide only temporary cover, where commodity price decline persists. Some countries, such as Botswana, have managed to carry out countercyclical measures through setting up Sovereign Wealth Funds. Countercyclical monetary intervention needs to be supported by countercyclical fiscal intervention.

The Southern African Development Community Industrial Development Policy Framework sets out areas of regional cooperation to build a diversified, innovative and globally competitive industrial base, which contributes to sustainable growth and the creation of employment. The Framework provides a reference point and will guide the coordination of complex complementary policies, activities and processes. It also communicates the region's industrialization aspirations and provides direction to the private sector. It outlines a regional vision and mission for the Southern African industrial economy, and key interventions for implementation in the short, medium and longer term to move towards this vision.

The Ad-hoc Experts Group Meeting on the study on the theme "Promoting growth and economic transformation in Southern Africa: the challenges and implications of declining commodity prices" held in Walvis Bay, Namibia, on 16 and 17 November 2017 highlighted the following observations:

Continued reliance of Southern African countries on primary commodities increases their vulnerability to global commodities markets, such as fluctuations in demand and prices;

Such vulnerability compounds macroeconomic vulnerability (inflation and exchange rates);

Southern Africa can use technology to shift its comparative advantage to a competitive advantage and support economic diversification;

Despite the rhetoric on diversification, there has been limited value addition to natural resources in the Southern African countries for most of the region's primary commodities;

a) Sovereign wealth funds offer an opportunity to smoothen revenue throughout commodity cycles;

b) Capacity gaps in contract negotiations limit the ability of countries to derive optimal benefits from their natural resources sector;

c) Land reform is key to the realization of the full potential of the agricultural sector;

d) Governance challenges in the commodities sector continue to impede the management of revenues from natural resources;

e) A scorecard on natural resources exploitation will assist member States in identifying and prioritizing actions for economic diversification and value addition;

f) Effective regional integration – including free movement of people, goods and capital – is critical in promoting regional value chains;

g) Affirmative procurement could serve to promote small and medium-sized enterprises, particularly those owned by women and youth.V

The following are recommendations given in the study on how the region can better prepare for future commodity super-cycles:

a) Economies in the region need to improve the business operating environment in order to facilitate a favourable environment for diversification and industrialization efforts;

b) Strengthening of institutional governance, coupled with sound macroeconomic management, is important for successful diversification and improved linkages at both national and international levels. Though there is no one-size-fits-all approach to turn an economy's resources' rents into development outcomes, the experience of Chile does generally represent an empirically proven successful general model;

c) Mineral-rich economies in Southern Africa should seriously consider diversification of the composition of exports as an important factor supporting the resilience of growth episodes in the region. The establishment of mineral diversification and linkages strategy will add more value through beneficiation than actually mining;

d) Diversification and industrial densification through value chains is a sure route to sustained regional industrial diversification in transformation of the current Regional Economic Communities' free trade areas to a position of facilitating or implementing agents of the Tripartite Free Trade Area across borders subsequently reducing costs and helping value chains emanating from mining firms to become competitive enough in the larger economic space;

e) Establish sovereign wealth funds as special purpose investment funds or arrangements that are owned by governments. Because mineral resource revenue largely originates from abroad, they often give rise to sizable rents, having the potential to encourage rent-seeking and corruption by public officials and business leaders. It also increases the risk of civil unrest as rival groups squabble over mineral or oil deposits.