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The Impact of Public Economics to Public Debt: A Case of Southern African Development Countries (SADC)

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ABSTRACT

Public economics in the Southern African Development Countries (SADC) region apply the macroeconomic policies to stabilize the regional economy. There is a direct relationship between the public economy and public debt. The main aim of adopting the macroeconomic policies in the SADC region was to stabilize the inflation, sustain budget deficit, and minimize public debt and to have an equitable current account balance. The main purpose of conducting this study was to find the impact of public economics and public debts. There is a theoretical and practical gap on how to bridge a gap between the public economy and the public debt. The objectives of this paper were to examine the effectiveness of the SADC economic policies in achieving economic growth and sustainable development. The main objective of the SADC was to achieve economic growth and sustainable development so that people can have better economic opportunities. The secondary research methodology was used to reach conclusions on the impact of public economics and public debt. Journal articles, newspaper articles, conference papers, and online papers were used to analyze the impact of public economics and public debt. The economic regional integration was intended to include increased market size and improve regional trade and investment flow. Public economics has a direct link with the technological developments which has a direct impact on public debt. Public debts in the SADC region are affected by the decisions made by African leaders concerning the public economic policies. The overall economic development of countries in the SADC region is determined by public economic policies regarding the regional integration of the economy.

Keywords: Public debt, Economy, Interest rate, Public spending, Globalization, Exploitation.

Introduction

The Southern African Development Community (SADC) has established a Directorate of Trade Industry Finance and Investment to co-ordinate the economic integration in the SADC region. The SADC did not only establish this platform but another protocol was developed to safeguard the economy of the region, Protocol on Finance and Investment, and Protocol on trade in Services (Fall and Gasealahwe, 2017: 05). The overall goal of economic development and regional integration is to facilitate trade and financial liberation. The leadership in the SADC region have identified the following objectives to strengthen the economic condition in the region:

- Market integration;
- Macro-economic convergence;
- Strengthening of financial and capital markets;
- Attainment of deeper monetary cooperation;
- Increasing levels of investment; and
- Enhance SADC competitiveness.

Over and over the identified objectives, the leadership also engaged further in creating a trade free zone in the region (Aybarç, 2019: 05).

The normal public expenditures which are generally applicable in most countries are also applied in the SADC region. Public revenues such as taxes, duties, fees, parafiscal revenues, property and enterprise revenues, and penalties. Many countries in Africa are facing the public sector deficit due to various reasons such as large infrastructure investments, war, and natural disasters. Borrowing money from developed countries has become a habit in African countries and the SADC region is also affected by this behavior. The money borrowed by the state on behalf of the people becomes a burden to the people because of the obligation to repay the loan with interest (Eichengreen, 2019: 02). Usually, the money that is borrowed by African countries is spent irresponsibly because of being an easy income. The irresponsible use of such money, deteriorate the functioning of the economy and the well-being of the people. This wasted capital becomes a debt burden for the people and the debt is transferred to the next generations because of the inefficiency of leadership and poor control of public

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expenditure. Public borrowing is an indispensable source of financing but it brings the debt interest cycle and also increases poverty (Dent and Peters, 2019: 20). During and after the world war, it made sense to see a lot of countries borrowing money from countries that were less affected by the world war. The world war affected the economy of many countries and the economic recovery was impossible without borrowing some money to stabilize the economy (Stubbs, 2017: 10). Countries that need money for infrastructure development are being exploited by prominent financial institutions. The dominant financial institutions such as International Monetary Fund (IMF), World Bank (WB), International Finance Corporation (IFC), International Development Association (IDA), European Investment Bank (EIB), and Islamic Development Bank (IDB) are enjoying hegemony in the financial borrowing space. Developed countries and countries that have a better economy have benefitted drastically in the globalization process (Rodrik, 2018: 13). Globalization has developed a sense of economic competition amongst countries and African countries have been used to boost the economy of European countries. Public debts are classified into three groups; public debts according to maturity, resources, and voluntariness. Usually, the public debts according to maturities can be in the short term, medium-term and long term (Badoer and James, 2016: 458). Public debts according to sources is in the internal debts and external debts, this refers to internal borrowing from the national income and external borrowing from another country. Voluntary public debts refers to money borrowed by a country out of the willingness and desire of that country. More emphasis on the classification of public debts are illustrated in figure 1 below;

Fig.1 Classification of public debts Source: Intech open (2016).

The above figure clearly explains the different types of public debts. Public debts are informed by various conditions, in many cases, public borrowing is caused by a government need to provide a specific service to the people. Lack of proper control measures on public funds makes it impossible to ensure that the money is effectively used for what it was borrowed for. This study is, therefore, presenting a view that public borrowing is doing more damage than becoming an economic solution in African countries. Most African countries fail to repay the loan because of the repayment terms and their interests. Countries that are borrowing African countries are in a mission to set up African countries for failure so that they can benefit in the economy of the African economy and be seen as the solution to save the collapsing economy of most African countries (Wani and Kabir, 2016: 02).

History has shown that the inflation rate in the SADC region has been highly volatile. The increase in the food markets worldwide hits the countries in the SADC region markets more than other countries. This situation has forced the leadership in the region to establish a memorandum of understanding of macroeconomic convergence. This protocol on finance and investment was established for purposes of promoting economic stability in the region. Member states agreed to this protocol because it also had a possibility of restricting inflation. This, however, did not take away the responsibility of each member states to take care of their economies (SADC Secretariat, 2012: 01).

Theoretical framework

Studies on economics and public debts have linked decision-makers with the countries that are offering

financial relief. This indicates that the leaders of African countries do not request financial assistance in any country in the world but they rather request assistance from their allies. In some instances, the countries that have a better understanding and a good relationship with African countries do not have a full capacity to offer financial support (Dreher, Fuchs, Hodler, Parks, Raschky and Tierney, 2019: 44). Some countries in Asia and Europe have consistently pretending to be a friend of Africa because of the natural resources that Africa has. Those countries have continuously created a business platform for Africa and offered to be business partners of Africa. Africa is not ahead in terms of the technology and industrial revolution, countries that are working with Africa took that advantage (Dreher, Fuchs, Parks, Strange and Tierney, 2018: 182). For example, China has been there for many African countries, offered financial assistance, and even offered business opportunities for African people. This type of friendship is only favoring one partner and a disadvantage to the other partner. Chinese loans have been viewed as a debt trap for many African countries, some countries have lost their economic dependency and assets because of failing to pay loans to China. The public debt in Africa has sparked a global debate about debt sustainability on the continent. This is because of the emergence of China as a major financier of African countries. This in a nutshell suggests that China is using debt to own African countries by trapping poor countries in unsustainable loans (Were, 2018: 22).

African countries do not have a good history of debt sustainability but China and many other developed countries go ahead and lend funds to African countries. This is because they know that African countries will fail to repay the loan and thereafter they can dictate how they want their loans repaid. In other words, China does not borrow money to African countries to recover that money with interests but the ulterior motive is to gain advantage and gain control of certain parts of the economy of African countries (Chevallier and Ndiritu, 2019). Countries that are in Sub-Saharan Africa have suffered most debts because of the infrastructure loans that were made in China. Poor economic conditions of this part of Africa made other countries see an opportunity to exploit the region and to create a permanent debt. There has been an attempt in the past few years to manage the debts and also to stop depending on loans from other countries. The public loan is a burden to the people especially because of the foreign exchange risks. The borrowed money with interest sometimes has to be repaid more than what was initially agreed upon because of the changes in the currency exchange rates (Dafe, Essers and Volz, 2018: 15).

African countries are experiencing an economic recession and debt crises which mostly affected many countries at the beginning of 2007. This has created a lot of debates on the relationship between public debts and economic growth. A popular view on the existing theoretical and empirical literature was that unsustainable public debt reduces the competitiveness of the financial markets of countries in Africa. This is due to mixed conflicts of interest by those who are lending money to African countries. Previous studies, Gavshon (2019: 06), have shown that public borrowing from the domestic market causes liquidity crises and interest hikes. Public debt enhances temporal economic growth even if the public services are offered effectively. This is because public services can be effective but this does not translate to economic growth. Public borrowing is a temporal solution to an immediate problem but it creates a long term problem for the country (Saungweme and Odhiambo, 2019: 09). African countries had money and valuable resources but mismanagement and poor leadership have caused economic crises for Africa. Lack of accountability and lack of effective consequences for wrongdoings in Africa have compromised the African economy. Leaders who exploit available government resources put more pressure on the national treasury. The unavailability of public funds because of money that is not accounted for by corrupt leaders force government leaders to borrow money to be able to offer public services (Calderon and Zeufack, 2020: 02)

Countries in the SADC region are faced with several challenges such as high unemployment rate, poverty, inequality, and low economic growth. To address these recurring challenges, governments in the region embark on borrowing and incur public debt. Countries that have more debts are at risk of failing to repay because of various factors like currency weaknesses and credit downgrading (Kumar and Baldacci, 2010: 15). The increase in public debt results in fewer funds for private savings and a reduction in public debt can stimulate growth in the economy. The public debt could increase interest rates which harm cost for private credits. Borrowing money is not a solution to the long-existing economic problems in Africa because countries that have weak economic growth are likely to run a large government deficit (Engen, Gale and Scholz, 1996: 115). Large government deficit results in more borrowing and this is an endless cycle of poverty to the people. An unsustainable economic growth leads to high public debt and debt relief does not solve the economic challenges. Some scholars and economists might argue that it depends on how the funds are used however, the principal factor is that the government that is borrowing money is because of the need for financial assistance. The borrowed money is not going to be used

as an investment but it is rather used to pay for certain services that the government was not able to pay for because of the lack of funds. For this reason, this paper argues that the borrowed funds could not be a solution to the economic deficit because the needs will always rise while the borrowed money will remain the same (Meriläinen, 2016: 167). The borrowed money will have to be repaid with interest and this will increase the pressure on the government to increase the tax on citizens which will then cripple the economy further. Government attempts to repay loans pressurize citizens and in some instances, citizens relocate to other countries for better opportunities and relief. Government leaders in Africa that have failed to manage government funds properly could not be able to properly manage borrowed funds. Inappropriate or mismanagement of borrowed funds harms the national economy (Ncanywa and Masoga, 2018: 15).

Studies have shown that African economies have been characterized by a fiscal government who have acquired high debt owed to external creditors. The dependence on debt by African countries is caused by government failure to use collected tax effectively. For this reason, African governments have been forced to borrow money. The debt securities to financial institutions that lend money to African countries is harmful and alarming (Mhlaba and Phiri, 2019: 04).

Materials and Methods

According to (Travis, 2016: 01), there are two types of research activity the primary research (where you go out and discover stuff yourself); and secondary research (where you review what other people have done). Desk research is not about collecting data. Instead, your role as a user researcher carrying out desk research is to review previous research findings to gain a broad understanding of the field. On the other hand (B2B International, 2016: 59) defined desktop research as secondary research that source data from existing literature and relevant findings. In this study, to ensure the reliability of findings and relevance of data, the secondary research methodology was applied. Journal articles, newspaper articles, conference proceedings, and symposium reports were used and analyzed to unpack the impact of public debt on public economics.

Results and Discussion

Public debt refers to outstanding loans and guarantees that a government owes to its creditors. Public debt in the Southern African Development Community is to develop the economy of countries within the region. SADC region encourages all member states to develop policies that are aimed at fostering economic stability (Nzimande and Ngalawa, 2019: 87). Leadership in the SADC region also encourages member states to maintain a public debt to Gross Domestic Product (GDP) ratio of no greater than 60%. From the 1990s up to date, most SADC member states have experienced high levels of external debts. SADC member states have been economically struggling and borrowed money from the United States (US) on various occasions. The economy in the SADC region has been declining mostly because the external debt was greater than 100% of the GDP (Biyase, 2019: 02). The most affected countries in the SADC region are; Angola, Democratic Republic of Congo, Malawi, Mozambique, Tanzania, and Zambia. Five of these member states were classified and qualified for the Highly Indebted Poor Countries Initiatives (HIPCI), this initiative was established by International Monetary Fund (IMF) to provide debt relief for countries that are struggling and deep in debts.

Figure 2 illustrates the government debts of member states. Public debts of member states are informed by several factors such as the history of the country and the population rate. The above figure also shows that the countries that have a high population rate have a higher percentage of public debt. The member states of the SADC region have a budget deficit which is caused by a global economic downturn that began in 2008. Studies have shown that large budget deficits can be harmful to an economy if they are sustained over a long period (Bratton and Penar, 2018: 05). There has been a fluctuation of fiscal balances in most economies within the SADC region. GDP has decreased from 5% in 2008 to 3% in 2012 and this has been maintained by most countries in the region up to 2018. Countries that had a surplus budget had not been able to sustain their economies. Mismanagement of funds by government leaders has been identified as a major contributing factor.

This study found that the SADC region loses US$8.8 billion a year because of trade misinvoicing and trade-related illicit outflows. These trade illicit related outflows affect the economic situation of the SADC region and this leads to countries having to borrow money from financial institutions. Public borrowing is a downfall of leaders because the public debt is repaid by the public through tax. Mismanagement of funds and misinvoicing is observed by leaders and leaders have to take full responsibility to protect the public. Failure to protect the public by leaders in Africa exposes the public to economic decline (Mhambi and Mishi, 2019: 1281). The governments in the region lose US$21.1 billion a year from external government debt payments and this affects the economy of the SADC region. Countries are paying a different amount of money, depends on the borrowed loan and interest

respectively. In the region, Angola is drained of US$12.1 billion a year in principal loans and repayments on public debt. There is no debt justice, countries that are developed and lend money to African countries dictate terms of borrowing and also set regulations that favor them. Developed countries do not have an interest in developing African countries but whatever financial assistance offered to African countries has to be repaid directly or indirectly. African poverty is seen as a business opportunity for developed countries (Enaifoghe and Adetiba, 2018: 136). The idea of borrowing money to provide public services is a good idea and in most cases countries borrow money as the last option. Public debts, however, have various negative impacts and strong consequences. Amongst important factors include, political, economic, and social impacts, and this has great importance. The political effects of borrowing money have negative political consequences because of political changes in government leadership. In most cases, government spending increases during the build-up to national elections and during the elections in Africa. The debt made by the government is transferred to the newly elected government and that becomes a burden of the new government to repay the debt (Devarajan, Gill and Karakulah, 2019: 10).

This paper analyzes the relationship between public debt, economic growth, and inflation in the SADC region. The public debt stops the economic growth of most countries in the SADC region because countries have to pay a debt instead of investing (Lopes da Veiga, Ferreira-Lopes and Sequeira, 2016). Even though this study has found that the public debt stop the economic development in Africa but there has been a development. Several African countries have slightly developed in the last 10 years in infrastructural investments, health, social welfare, and education. Tax revenues are mostly insufficient to fund all the investments and developments that countries need. The budget deficits of countries in the SADC region are a burden and a concern on how to finance investment programs. The increase in taxes becomes the only option to save the economy of African countries that are economically suffering and in deep debt. Countries in the SADC region use debt as the primary solution to uplift the economy which is supposed to be the supplementary medium of rescuing member states. Challenges related to substantial revenue generation is the motive that drives African leaders to borrow money. The available sectors of the economy in Africa and particularly in the SADC region affect the repayment ability (Lartey, Musah, Okyere and Yusif, 2018: 12).

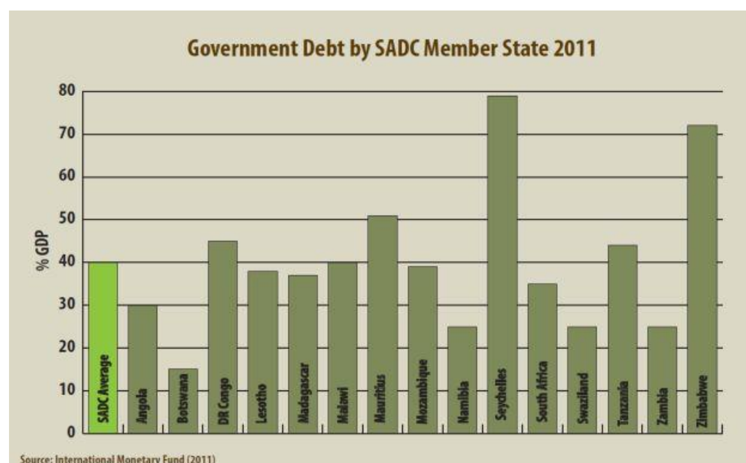

Fig.2 Government Debt by SADC Member States 2011. Source: International Monetary Fund (2011)

Poor management of public expenditure on infrastructure, public goods, interest payments, and recurrent expenditure has been a major factor that led to African leaders to borrow money from developed countries. Such expenditure by the government does not change immediately after borrowing money from financial institutions. The financial spending patterns and financial health in government institutions in the SADC region need serious attention. Proper financial planning and sound financial advice for leaders in the SADC region are imminent and that leads to wrong decisions (Wentworth, Markowitz, Ngidi, Makwati and Grobbelaar, 2018: 02). Government leaders in Africa are concerned and preoccupied with temporal solutions to economic problems. Temporal solutions to save the economy in Africa relate to finding temporal employment for the public. Another popular solution

made by leaders is to create temporal employment and social relief funds. Such intervention does not last long and it creates a burden for the government to forever provide for the people. Stabilizing the economy by creating better business opportunities is not only saving the economy of the country but it also saves governments from having to borrow money from foreign countries. Countries that have stable economic conditions are assisted by private businesses and if needs be, the government borrows money from those private businesses. Africa does not have a stable economy and that increases the gap on the haves and have nots. It is therefore not possible for governments in Africa to create equal opportunities for the people because of unstable economic conditions and the debts that these governments have to repay (Whajah, Bokpin and Kuttu, 2019: 10).

Even though several studies, Bronauer and Yoon (2018: 12), and Govindaraj, Herbst, Clark, Heller, Tandon and Cashin (2017: 02) are of the view that the economic development of countries requires investment in infrastructure but this paper is presenting a different view. This study found that economic development is more effective if countries create business opportunities for their citizens. Sustainable business opportunities allow the government to focus on infrastructure development instead of focusing on uplifting the economic conditions of people. Public debt is therefore not a solution to economic development if it is used to support the people and not to create business opportunities. This study also found that there is no link between debt and economic growth which suggests that public debt could not lift the economy. Public debt harms the national economy in the long run (Owusu-Nantwi and Erickson, 2016: 05).

Countries in the SADC region have been a reliance on public debt to be able to provide public services for the people. Public debt has been used as a first option to access funds to sustain government operations in Africa. This approach has subjected African countries to be treated as sub-nations by countries that are offering financial assistance because of the failure to have a sustainable economy. Public debt remains the same amount while the burden of the government to offer services rises because of the rise of the population. The economic recession of 2008 in many countries affected the national budgets and forced countries to borrow money to meet the needs of the people. That is how most countries in the SADC region had public debt of which they are still repaying even today (SanusI, Hassan and Meyer, 2019: 15). The lack of connection between economic growth and public debt has been caused by a lack of effective and concrete policy on the appropriate level of total public debt.

Failure of sustaining the economy in the SADC region is also caused by the economic approach that is applied in the region. The macroeconomic approach has established several mechanisms to ensure that public debt influences economic growth but none has materialized. The idea was to develop a strong GDP in member states to strengthen the national economies. All the attempts to better the economy in the region led to high-interest rates and depressed economic growth (Makate, Mahonye and Mandishara, 2018: 15).

The future of African countries is shattered by a dark cloud because of economic failures caused by endless debt. The public debt made by African leaders are paid for more than 20 years and in some instances depending on the debt, is paid more than 50 years. The focus of SADC leaders is to develop a sustainable economy for member states but the economy cannot be sustained because of the repayment of the debt (Nzimande and Ngalawa, 2019: 86).

African Countries that borrowed money from China and the outcomes

Economic colonialization in Africa is a reality and many countries are owing to China which led to various businesses in Africa being owned by China. China is consistently borrowing more money to African countries, in 2010, African countries owed US$10 billion and this has increased to US$30 billion in 2016. China is not just lending money to African countries but there is a major project the country is advancing. China is in a mission to become an economic superpower hence Africa is dominated by businesses from China. Again, the public debt from China to African countries contributed to infrastructure development such as roads, railways, and ports (Laurance, Campbell, Alamgir and Mahmoud, 2017: 75). This type of intervention does not sustain the economy but only improve the infrastructure. China is, therefore, creating a burden of financial dependency for African countries. China used a different strategy compared to many financial institutions, because of financial security, various private-sector financial institutions offered to borrow money to African countries at a higher interest rate of about 55%. China capitalized in this situation by offering public debt in Africa for the exchange of jobs and natural resources. African leaders thought this is a better option not knowing that this will give more power for China to own most institutions in Africa. China has a clear and solid project of concurring with the world (Blanchard and Flint, 2017: 01). Belt and Road Initiative (BRI) is a multi-billion dollar project of China to expand its power around the whole world through lending money to countries that have a weak economy. This project was launched in 2013 and the initial idea was to lend money to countries not only in Africa but even in other

continents such as Europe and Asia (Yu, 2017: 355). China lends money for the exchange of gaining global trade opportunities and economic advantage. For Africa, the risks involved are too high, African countries are losing the local economy and the control of economic activities because of the intervention of China. Debt from China has unfairly created an illicit trade between China and African countries. Because of the relationship caused by debt between China and African countries, African countries receive imports from china which are cheap because of the cheap labor and the locals choose to consume those products from China. Cheap imports suffocate the local businesses and Chinese businesses are overwhelmingly receiving more customers and makes more profit (Horn, Reinhart and Trebesch, 2020: 01).

Despite the loan that is owed to China by African countries, the infrastructure is still collapsing and the economy is declining. The new pandemic, COVID-19, puts more pressure on the African economy and this will force most African countries to borrow money from China. The pandemic has disrupted most economic activities that directly affect the developing countries. Many countries are pleading for debt relief because of the impact of the pandemic (Reinhart and Trebesch, 2016: 216). Many countries could not be able to commit to repaying the debt because of the pandemic impact, however, some financial institutions have not offered any form of debt relief. So many international players in the international community have offered debt relief but China has been silent. China is the biggest financial lender in the world but none has been said about assisting crippling states to repay the loan. Financial problems of Africa are complex and vary from countries and they have called for debt relief programs. The biggest concern of China on debt relief is the type of debt each African country took from China. China has previously forgiven debt for poor African countries who unable to repay the loan. The debt relief of 150 loans owed by 32 African poor countries has conditions amongst those conditions include the diplomatic relations with China. Diplomatic relations allow China to access the economy of those African countries. The economy of China also suffered because of the COVID-19 pandemic this is making it difficult for China to forgive loans for African countries and other countries that are owing to China (Sun, 2020: 01). The participation of global financial institutions in a call for debt relief because of the COVID-19 pandemic is not enough if China is not positively responding to this call. China has been silent on whether it will provide a form of relief for countries or not. Even debt relief will not be effective even if other countries or financial institutions offer debt relief if China is not participating. China is in the driver's seat of debt in many countries. Debts write offs by China and a form of interest relief will reduce the pressure from African countries. Even though there is nothing positive that has been said by China but at least there is a sign of light. Beijing has endorsed a temporary freeze on debt payments by African countries but this does not indicate that the debt is erased. The struggling economy in Africa has been the centre for countries globally to propose a debt relief. Countries that have a direct relationship with the leadership of the SADC region have contributed significantly to a call for debt relief for Africa. The call for debt relief was also meant to do away with the normal commercial conditions that are associated with debt reliefs that happened previously. China is a major financial partner for Africa and that superseded financial institutions that had an upper hand in African affairs. The study found that it is unlikely that China will forgive loans for a substantial bulk of loans (Bavier, Leng and Shalal, 2020: 03).

China does not participate in a business agreement without a solid profit or a clear benefit. The win-win situation approach by China explains the reason why China is not keen on an idea of debt relief to economically struggling countries. The political independence of African states is incomplete without an economic independency and that exposes Africa to countries such as China for financial support and terms of debt (Dahir, 2018: 02). This indicates that China is not empathetic to Africa but they offer financial assistance in other to make more profits for themselves. This assertion is supported by what is happening in Sri Lanka, the country's strategic institutions have been controlled by China. The port of Hambantota in Sri Lanka is a classic example of how China strategically concur the world by offering economically struggling countries a public debt. This is a debt trap that is hidden under the diplomacy term, the relationship between China and African countries is purely for business and those businesses benefit China and Chinese people. The sovereignty of vulnerable African countries is being compromised because the agenda of China is to imperialize the world (Gopaldas, 2018: 02). Zambia is amongst the SADC countries that are not in good economic terms with China, Zambia has a struggling economy yet the country is owing US$10 billion. Because of this arears, China has suspended various projects in Zambia because of a lack of payment. Instead of finding a better solution, China is pushing Zambia to voluntarily declare a default on the loan payment. China is seeking for a new collateral arrangement that will give power to China to make the decisions in key institutions of Zambia (Smith, 2020: 01).

Chinese financing could pose a threat to

Conclusion

African leaders have convened various meetings to discuss the African economy and the economic systems that should be used in Africa. All the attempts made by leaders have been unsuccessful because of the historical background of Africa. This study has analyzed the public debt and the relationship between public debt and the public economy in the SADC region. Public debt has been proven to be a burden of the public and it does not uplift the public economy. Public debt is not contributing to the economic system of African countries but rather to provide public services.

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