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Twenty-Eighth Meeting of the Intergovernmental Committee of Senior Officials and Experts of Southern Africa

26-27 October 2022
Hybrid: Maputo, Mozambique and Virtual

Report on Recent Economic and Social Conditions in Southern Africa

SECTION 1: INTRODUCTION

1. This report on *Recent Social and Economic Conditions in Southern Africa* is presented annually to the ICSOE of Southern Africa. Its objectives are to: (i) provide member States with an update on the social and economic situation in the region; and (ii) offer recommendations on selected policy issues.

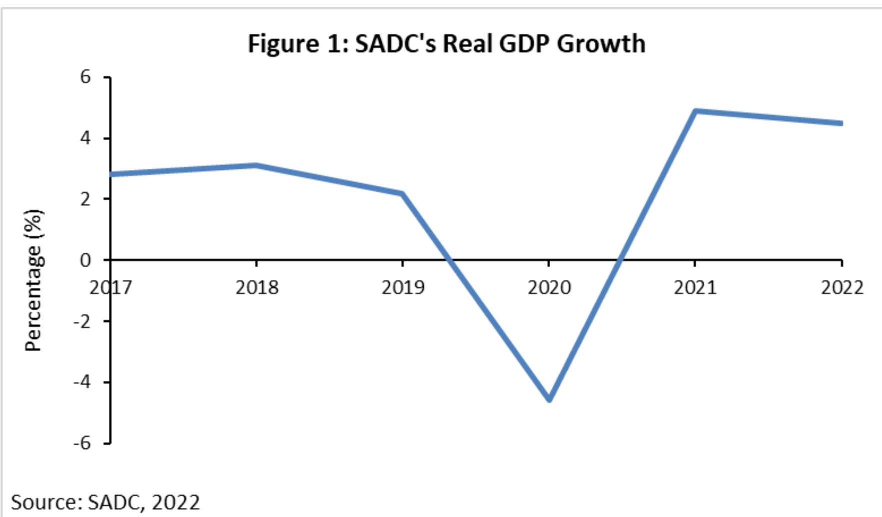
2. The report provides an overview of recent social and economic performance in Southern Africa. It highlights the adverse impacts of the COVID-19 pandemic, intensifying climate change challenges and the ongoing Russia-Ukraine war on Southern Africa's social and economic situation. On the positive side, the report notes how global economic recovery, elevated demand and prices for the region's commodities, international solidarity and member States' actions can help address challenges and promote prosperity.

3. Member States' representatives and other stakeholders attending the 28th ICSOE meeting are invited to deliberate on the report and its recommendations, and to share updated country data on social and economic conditions to improve future analysis.

SECTION 2: RECENT MACROECONOMIC PERFORMANCE

2.1 Economic performance overview

4. Figure 1 and table 1 show the overview economic performance in the SADC region. The regional GDP growth increased from a contraction of 4.6 per cent in 2020 to 4.9 per cent in 2021. Southern African countries that contracted the deepest in 2020 (Botswana, Eswatini, Malawi, South Africa, Zimbabwe) rebounded the most in 2021, underpinned by easing of pandemic lockdowns, favourable weather, and a rise in mining output on global minerals market recovery. At 0.7 per cent Angola's GDP grew the slowest; nonetheless this growth helped reverse a 5-year long recession streak due to low oil price, and recurring technical problems affecting oil production. Supported by high oil prices and robust non-oil sectors (agriculture, construction, transportation) Angola's growth prospects look brighter in the medium term.[1]



[1] International Monetary Fund (IMF), 2022, Sub-Saharan Africa: Regional Economic Outlook. Washington D.C. April.

5. Estimates from SADC, IMF and AfDB expect Southern Africa's real GDP growth to slow in 2022, reflecting ebbing of base effects, uncertainties around the COVID-19 pandemic's persistence, Russia–Ukraine conflict's impact, and a potential for civil unrests as occurred in July 2021 in South Africa, as poverty and inequality show no sign of slowing.

Table 1: SADC. Macroeconomic Convergence Primary Indicators

ANNEX 1: MEC PRIMARY INDICATORS AND GDP

	2017 (Revised)				2018 (Revised)				2019 (Revised)				2020 (Revised)				MS 2021 (Provisional)				MS 2022 (Forecasts)			
	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)
Angola	30.4	-6.3	64.1	-0.1	19.7	2.1	88.6	-2.0	17.1	0.6	112.7	-0.7	22.2	-2.0	129.5	-5.8	25.7	3.8	83.1	0.7	22.3	6.3	63.1	2.7
Botswana	3.3	-1.2	21.0	2.9	3.2	-5.3	17.9	4.5	2.8	-6.3	19.0	3.0	1.9	-8.4	20.0	-8.5	6.7	-3.2	25.0	11.4	8.0	-3.2	25.0	11.4
DRC	25.1	0.0	18.2	3.7	10.6	-0.3	20.7	4.1	8.7	0.1	11.8	5.6	11.0	-0.9	12.6	1.7	9.0	-1.0	12.2	6.2	9.0	-1.0	12.2	6.1
Eswatini	6.2	-6.0	21.9	2.0	4.8	-6.9	26.7	2.4	2.6	-6.2	31.9	2.6	3.9	-6.7	39.3	-1.9	3.9	-6.7	42.5	5.8	4.2	-4.1	41.1	2.4
Lesotho	5.2	-5.7	36.0	-2.7	4.7	-1.9	42.4	1.2	5.3	-0.1	45.2	1.7	5.9	0.0	57.4	-6.5	5.4	-3.6	59.8	3.7	7.1	-7.7	59.8	3.0
Madagascar	8.6	-2.0	34.9	3.9	8.6	-2.0	30.0	3.2	5.6	-1.4	29.2	4.4	4.2	-3.5	33.6	-7.1	5.8	-3.1	34.8	4.3	9.4	-6.2	38.3	4.3
Malawi	11.5	-2.8	43.3	5.2	9.2	-4.4	45.7	4.4	9.4	-4.6	45.0	5.4	8.6	-6.6	48.0	0.8	9.3	-6.9	59.0	4.2	21.5	-7.7	61.0	1.7
Mauritius	3.7	-2.9	56.1	3.8	3.2	-3.2	56.1	4.0	0.5	-11.4	72.9	2.8	2.5	-6.7	83.4	-14.6	4.0	-5.0	77.3	3.6	8.6	-4.0	68.1	7.2
Mozambique	15.1	-1.9	78.7	3.7	3.9	-5.2	82.2	3.4	2.8	-0.5	78.7	2.3	3.1	-7.9	92.2	-1.2	5.7	-4.8	78.6	2.2	5.3	-9.4	NA	2.9
Namibia	6.7	-6.7	41.5	-1.0	4.2	-5.1	54.4	1.1	3.4	-5.0	62.3	-0.9	5.0	-8.0	67.8	-7.9	6.1	-8.7	73.4	2.4	5.7	-5.6	77.1	2.9
Seychelles	2.9	-3.0	64.3	4.2	3.7	-2.6	59.5	2.4	1.8	-2.6	57.0	4.5	1.2	-18.9	95.0	-7.7	9.8	-6.0	74.0	7.9	9.8	-6.0	74.0	7.9
South Africa	5.3	-4.5	53.0	1.4	4.7	-4.3	51.5	1.5	4.1	-6.1	57.4	0.3	3.3	-10.0	70.7	-6.4	4.5	-5.7	69.5	4.9	4.5	-5.7	69.9	2.0
Tanzania	5.3	-1.1	38.7	6.8	3.5	-1.4	39.8	7.0	3.4	-1.6	38.3	7.0	3.3	-1.9	38.3	4.8	3.7	-3.9	41.7	4.9	5.4	-3.4	41.7	4.7
Zambia	6.6	-6.1	53.8	3.4	7.5	-7.6	55.3	4.0	9.1	-9.1	75.5	1.4	15.7	-14.2	117.7	-2.8	22.1	-9.0	130.0	3.6	9.9	-6.7	130.0	3.5
Zimbabwe	0.9	-12.9	65.2	4.7	10.6	-6.0	46.9	4.8	255.3	0.2	55.1	-6.1	557.2	1.7	61.0	-5.3	94.6	-0.5	56.9	7.8	32.6	-1.5	56.7	5.5
SADC AVERAGE	9.1	-4.2	46.0	2.8	6.8	-3.6	47.8	3.1	22.1	-3.6	52.8	2.2	43.3	-6.3	64.4	-4.6	14.4	-4.3	61.2	4.9	10.9	-4.4	58.4	4.5
NO. ACHIEVING TARGET	10	8	11	0	9	6	13	1	10	8	10	1	10	5	7	0	9	3	8	3	5	3	7	3

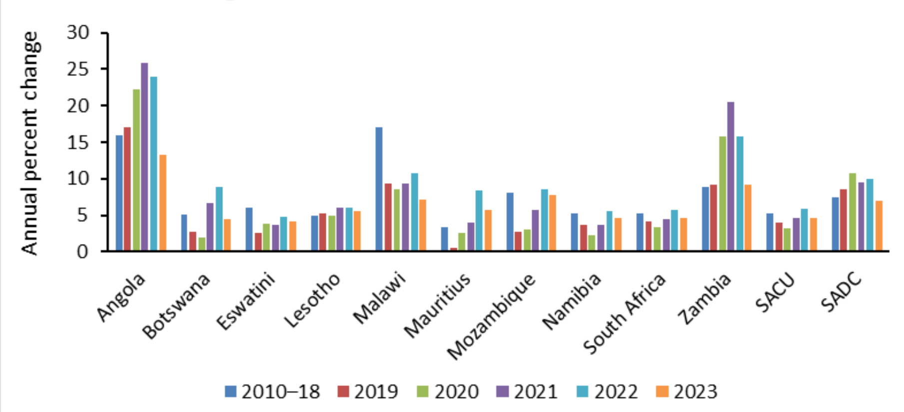
Source: Member States; WEO Database April 2022; and African Economic Outlook 2022

Source: SADC, 2022

2.2 Price movement developments

6. Figure 2 (excluding Zimbabwe) and table 1 show price movements in Southern Africa. SADC region annual inflation slowed down to an average of 14.4 per cent in 2021 from 43.3 per cent in 2020, largely due to a significant inflation slow-down in Zimbabwe. Stable exchange rates and lower food prices from a good agricultural season contributed to lower average price increases. Country analysis, however, shows that Angola, Botswana, Malawi, Mauritius, Mozambique, Namibia, South Africa and Zambia experienced elevated price pressures in 2021 emanating from rising fuel's cost, pent-up domestic demand, sharp currency depreciation (Malawi, Mozambique, Zambia), high transport prices (South

Figure 2: Southern Africa. Consumer Prices



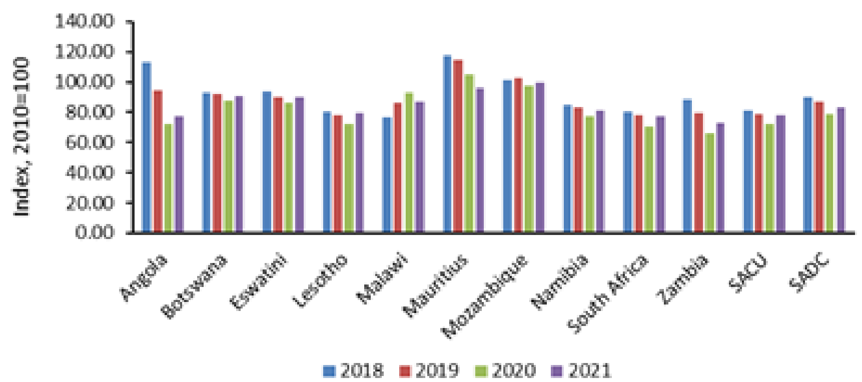
Source: IMF REO, April 2022

Africa), various adjustments to administered prices and an accommodative macroeconomic environment inherited from the height of the coronavirus era. While average inflation in Zimbabwe had slowed in 2021 from a year before it has since shot up, reaching (year-on-year) 285 per cent in August 2022. In late 2021 Southern African countries started withdrawing pandemic-inspired fiscal support and most central banks began a tightening cycle to tame inflation.

2.3 Exchange rates

7. Figure 3 reflects increased real effective exchange rates (REER) for most member States, reflecting firm commodity prices but curbed by energy's high import bills. For a region that is pursuing an industrialization agenda, the negative side of rising REER is that exports become more expensive and imports cheaper; therefore, an increase indicates a loss in trade competitiveness. Simultaneously, countries can use the opportunity of rising REER to import capacity improving materials for future enhanced productivity.

Figure 3: Southern Africa. Real Effective Exchange Rates



Source: IMF REO, April 2022

8. Exchange rates in Southern African mimic the movements of global demand for the region's exports. In 2021 a gradual recovery in the global economy, firmer commodity prices and a return to healthy levels of foreign-exchange reserves stabilized the region's exchange rates. The Zambian kwacha's recent strength reflects continued firming of copper prices and improved reserves due to recent Special Drawing Rights (SDRs) allocation by the IMF. Moreover, the election in 2021 of a government considered to be business-friendly, the IMF's extended credit facility (ECF)[2] arrangement agreement, and an expected public debt restructuring later in 2022 have boosted investor confidence in the country with promises of more FDI inflows soon.

9. Malawi's kwacha weakened sharply in 2021 reflecting large current-account deficit and high inflation. The currency averaged MK805.9:US$1 in 2021 but depreciated in early 2022 before a large devaluation was implemented in May 2022, causing the currency to move from MK817:US$1 before the devaluation to about MK1,020:US$1.

10. The rand continued its gyrations with the nominal effective exchange rate (NEER) decreasing by 4.5 per cent and 4.1 per cent in Q3 and Q4 of 2021, respectively. In October and November 2021, the NEER decreased mainly on concerns over high global inflation and an anticipation of a monetary policy tightening in the US and Europe. The NEER recovered in Q1 2022 largely supported by higher export commodity prices.

[2] The ECF supports countries' economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

Possible 'grey-listing' of South Africa by the Financial Action Task Force (FATF)[3] could weigh on the rand, but the country's modest external debt stock, healthy foreign-exchange reserves (six months of import cover) and interest-rate increases will partly shield the currency.

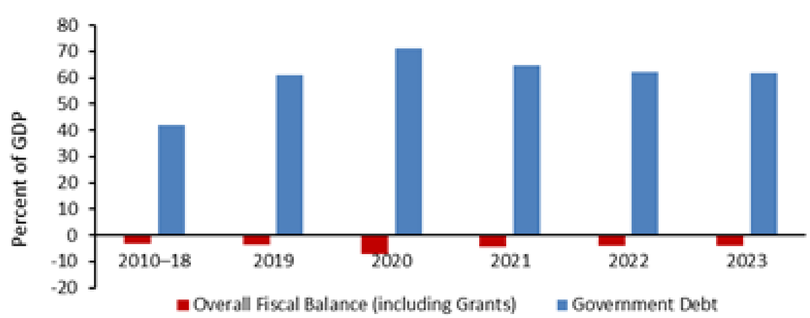
11. Zimbabwe is yet to find the right policy mix to durably resolve its currency challenges. In June 2020 the country adopted a weekly foreign-exchange auction system to bring transparency and efficiency in the trading of foreign currency. The shortage of foreign currency has however led to delays in the settlement of foreign-currency auction bids by the central bank. In the event, the gap between the official exchange rate and parallel spot exchange rate has widened. Zimbabwe's massive demand for foreign currency stems from a huge import requirement for fuel, electricity and grains.

2.4 Fiscal performance and public debt

12. Figure 4 and table 1 show SADC's overall fiscal balance and government debt. On average the region's fiscal deficit improved in 2021, highlighting regional economic recovery, albeit from a low base of the pandemic-stricken prior period. Zimbabwe achieved the smallest fiscal deficit of 0.5 per cent of GDP due to improved revenue mobilization and expenditure restraint; the country was thus the only one achieving the regional fiscal deficit target of 3 per cent of GDP in 2021.[4]

13. Zambia's budget deficit remained high at 9 per cent of GDP (even if an improvement from 2020) in 2021 on higher than programmed spending on agricultural inputs and fuel subsidies, election related expenditure and capital project rollouts. Namibia's budget deficit also remained elevated at 8.7 per cent of GDP driven by COVID-19–related spending and lower revenues. Looking ahead, Namibia, with high poverty and inequality, is expected to expand welfare expenditure and economic support programmes. However, the rise in commodity prices will improve Namibia's revenue prospects, enabling the country to manage these financing pressures without creating a long-term unsustainable deficit.[5]

Figure 4: Southern Africa. Overall Fiscal Balance (including Grants) and Government Debt



Source: IMF REO, 2022

14. Following overall improved fiscal situations, the public debt on average also improved in 2021 but countries varied wildly with Botswana (25 per cent of GDP) registering the lowest and Zambia (130 per

[3] FATF, an international watchdog, recently identified significant weaknesses in parts of South Africa's financial regulation. Shortfalls resulting in the possibility of high cases of money laundering and terrorism funding were uncovered.

[4] Southern African Development Community (SADC), 2022. *Regional Economic Performance and The Business Environment In 2021 and Medium-Term Prospects*. Gaborone. August.

[5] African Development Bank (AfDB), 2022. African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa. African Development Bank Group. Abidjan

cent of GDP) the highest. Botswana's public debt had however risen by 5 percentage points from the previous year's on persistent fiscal deficits as pandemic-induced spending had put pressure on the budget. To lower the deficit Botswana has introduced more revenue mobilization measures to build back buffers, and the luxury market rebound and the uptick in diamond demand and prices in the context of supply deficit, will assist Botswana's fiscal consolidation efforts.

15. Zambia requested an IMF's ECF in 2020, and in September 2022 the Fund approved the country's request for a US$1.3 billion program to readjust its debt-laden economy. The program seeks to restore macroeconomic stability and foster higher and inclusive growth. With this IMF program the Eurobond holders and other creditors are expected to agree on Zambia's public debt restructuring later in 2022 thus easing debt burden. Zambia joins 3 other Southern African countries (Angola, Malawi, Mozambique) with IMF's ECF arrangement with Mozambique having recently undergone a successful first review and thus eligible to receive a first disbursement under the facility.

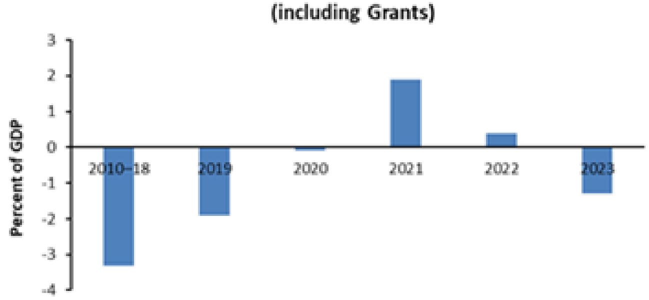
16. Finally, Angola, Lesotho, Malawi, Mozambique and Zambia have benefitted from the Debt Service Suspension Initiative (DSSI)[6]. The DSSI has helped reduce the debt burden for member States, enabling them to concentrate on social sector spending.

2.5 Balance of payments developments

17. Figure 5 and table 2 show the external current account of balance of payments (BOP) in Southern Africa. The regional external sector was relatively strong in 2021 mainly due to firm commodity prices. On the capital account of BOP side, the global SDRs disbursement by the IMF has enhanced the stability of the external sector by bolstering countries' foreign reserves. Additionally, most member States' (Angola, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa) foreign reserves were bolstered by the IMF's Rapid Credit Facility that provides concessional financial assistance to countries facing an urgent BOP need. However, recent developments such as protectionism policies pursued by major trading partners and deterioration in competitiveness (see section 2.3) may adversely affect the region's manufacturing sector.[7]

18. Mozambique's current account balance deficit exceeded 20 per cent of GDP in 2021, largely reflecting the negative trade balance. The country's imports far outweighed exports due to the need to purchase intermediate goods and machinery for the implementation of gas projects in the Rovuma basin. Furthermore, exports fell due to operational constraints still faced by companies affected by the cyclones Idai and Kenneth that hit the country in April 2019. These cyclones also partly explain

Figure 5: Southern Africa. External Current Account (including Grants)



Source: IMF REO, April 2022

[6]DSSI was established in May 2020 by World Bank, IMF and G20 countries to help low-income countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people.
[7] SADC, 2022, ibid.

huge current account deficits of Malawi and Mauritius in 2021, but pandemic related lockdowns (Mauritius) and falling exports (Malawi) also played a role.

Table 2: Southern Africa. External Current Account, including grants

SADC member States						
External Current Account incl Grants, 2019-2023						
(Percent of GDP)						
	2010–18	2019	2020	2021	2022	2023
Angola	3.3	6.1	1.5	11.3	11	4.9
Botswana	2.1	-7	-10.8	-0.5	0.5	2.8
Eswatini	4.6	4.3	6.7	0.5	-2.1	-0.2
Lesotho	-6.5	-2.1	-2	-9.3	-15.6	-8.9
Malawi	-9.3	-12.6	-13.8	-14.5	-17.3	-15.4
Mauritius	-6.5	-5.4	-12.5	-11.1	-14	-8
Mozambique	-30.7	-19.1	-27.6	-22.4	-44.9	-39
Namibia	-8.3	-1.8	3	-7.3	-6.9	-4.4
South Africa	-3.4	-2.6	2	3.7	1.3	-1
Zambia	1.1	0.6	12	6.7	4.4	4.3
Zimbabwe	-9.9	4	4.7	3.6	2.5	1.5
SACU	-3.3	-2.7	1.5	3.1	0.9	-1
SADC	-3.3	-1.9	-0.1	1.9	0.4	-1.3

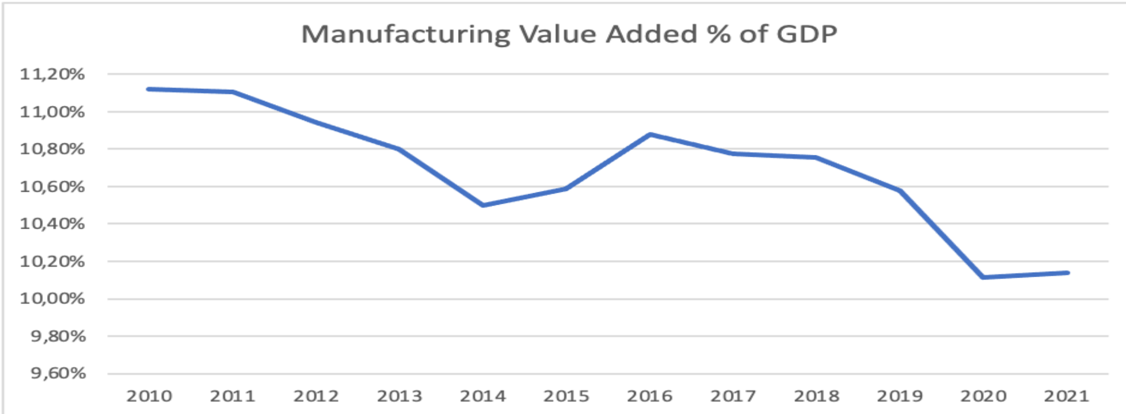
Source: IMF REO, 2022

SECTION 3: INDUSTRIALIZATION

3.1 Manufacturing value added as a percentage of GDP

19. Manufacturing value added (MVA) as a percentage of GDP has been declining since 2010 apart from an increase between 2014 and 2016. In 2020, MVA contracted by 8.6 per cent before recovering to 4.5 per cent in 2021. The COVID-19 crisis exacerbated the decline in MVA, which was already slowing down before the pandemic outbreak (figure 6). The manufacturing sector share of GDP in the region increased marginally from an average of 10.5 per cent in 2014 to 10.88 per cent in 2018 before falling to 10.1 per cent in 2020.

Figure 6: Manufacturing value added (% of GDP)[8]

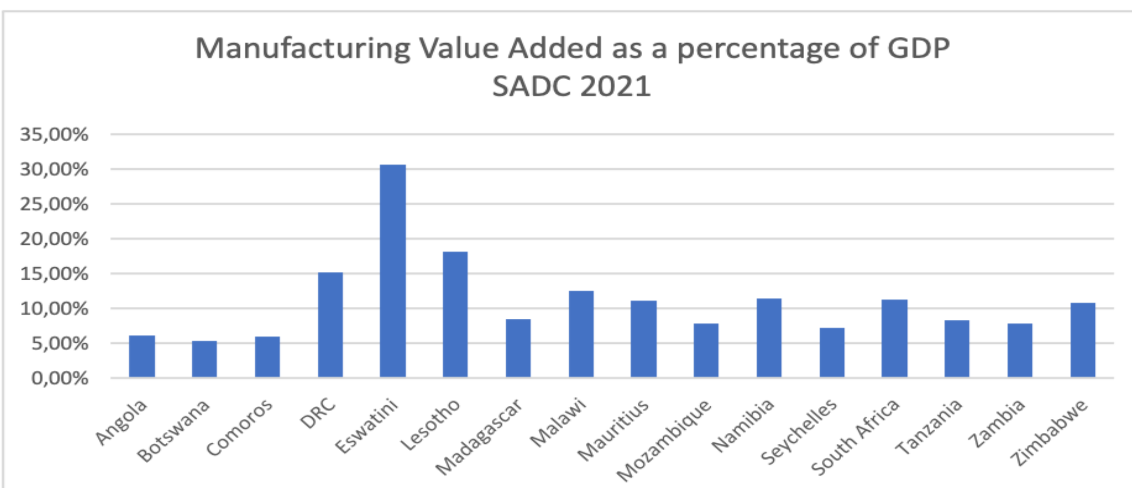


Source: UNIDO, 2021

20. The low levels of MVA as a percentage of GDP in the member States is an indication of untapped manufacturing capacity which could be realized by intensified commitment towards value addition and beneficiation in SADC. In addition, the structure of the economies of SADC member States remains undiversified with a growing resource-based sector such as agriculture and mining, which accounts for an average of over 25 per cent of GDP.[9] Diversification of the economies should therefore be a priority.

21. For individual member States MVA as percentage of GDP varies widely with Eswatini registering the highest percentage of 30.54 per cent and Botswana the lowest with 5.32 per cent (figure 7).

Figure 7: SADC: Manufacturing value added (% of GDP)



Source: UNIDO, 2021 (ibid)

[8] UNIDO, 2021. Statistical Data Portal National Accounts https://stat.unido.org/database/Nationalper cent20Accountsper cent20 Database accessed 9 September 2022.
[9] SADC, 2020. Southern African Development Community: Annual Report 2020/2021 Available at www.sadc.int. Accessed on 12th September 2020.

3.2 Recent Regional Initiatives in Support of Industrialization

22. The Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) have developed Industrialization policies and strategies to anchor regional trade and accelerate economic transformation.

23. The COMESA Industrialization Strategy (2017-2026),[10] anchored on COMESA industrialization policy (2015–2030),[11] provides for member States to cooperate in industrial development and the formulation of a regional industrialization strategy to promote linkages among industries and facilitate the development of micro, small and medium-sized enterprises (MSMEs). Recent initiatives to bolster industrial policy harmonization and industrialization in the COMESA region have included the adoption, in 2021, of a COMESA Local Content Policy and Implementation Plan[12] and a Regional Framework on Special Economic Zones (SEZs) and Industrial Parks.[13] The two frameworks support the regional value chains agenda and industrial development.

24. The SADC Industrialization Strategy and Roadmap (2015-2063)[14] supported by its Action Plan (2016-2030) is a long-term modernization and economic transformation framework anchored on the three pillars of industrialization, competitiveness and regional integration and supported by natural resource-led growth and enhanced participation in domestic, regional and global value chains. Recent activities in the implementation of the SADC industrialization strategy have included profiling mineral value chains, studies on pharmaceutical value chains and on agricultural value chains to isolate the entry points for the private sector.[15]

3.3 Industrialization and promotion of industrial activities in regional member States

25. On the implementation of industrialization policies and strategies, Zambia’s programmes on value chain development, skills development, and the promotion of investment in value addition activities in the Multi-Facility Economic Zones all support the acceleration of industrialization.[16] Furthermore, with support from ECA, Zambia has drafted an Action Plan for domestication of the regional industrialization policy frameworks.[17] In Mozambique, the Industrial Policy and Strategy (2016-2025) is aligned to the strategic objectives of the regional industrialization framework including the elaboration intervention areas of infrastructure, skills development, and financing.[18] Malawi is reviewing the national industrial policy with a view to aligning it with the

[10] COMESA, 2017. COMESA Industrialization Strategy (2017-2026) Available at https://www.comesa.int/wp-content/uploads/2020/10/COMESA-Industrial-Strategy-Final-Eng_.pdf. Accessed on 8th September 2022

[11] COMESA, 2015. COMESA Industrialization Policy (2015-2030) Available at https://www.comesa.int Accessed on 8th September 2022

[12] COMESA, 2018. COMESA Regional Local Content Policy Guidelines: Enhancing Regional Benefits from Industrialization. Available at https://www.comesa.int/wp-content/uploads/2020/10/COMESA-Regional-LC-Policy-Guidelines-Final-ENG.pdf Accessed on 8th September 2022

[13] COMESA, 2022. Tripartite Framework win Accolades at the AU Mid-Year Summit Available at https://www.comesa.int/tripartite-framework-win-accolades-at-Southe-au-summit. Accessed on 8 September 2022

[14] SADC, 2015. Southern African Development Community Industrialization Strategy and Roadmap (2015-2063). Available at https://sadc-eu.sardc.net/sadc-industrialization-strategy-roadmap-2015-2063. Accessed on 8th September 2022

[15] SADC, 2020. 40 Years of SADC: Enhancing Regional Cooperation and Integration. SADC, Gaborone

[16] UNIDO, 2022. Programme for country partnership between UNIDO and the Republic of Zambia 2021-2026 Available at https://www.unido.org. Accessed on 12th September 2022.

[17] UNECA, 2015. Economic Report on Africa: Industrialization through trade, Addis Ababa.

[18] UNCTAD, 2022. Industrial Policy in Southern Africa: Mozambique's experience Available at https://unctad.org. Accessed on 12th September.

regional frameworks and with *Malawi Vision 2063* and is also developing industrial parks in Blantyre, Lilongwe and Mzuzu. In Namibia**,** recent support under the Industrial Upgrading and Modernization Program contributed to the drafting and finalization of a mineral beneficiation strategy and a mineral value addition policy framework.[19] In Zimbabwe, the National Industrial Development Policy (2019-2023) is being implemented through the sector strategies that include the Leather Sector Strategy (2021–2030), Pharmaceutical Sector Strategy and Fertilizer Import Substitution Roadmap. The Cotton to Clothing Strategy and the Sugar Strategy are currently under development in Zimbabwe.

26. On cross border special economic zones and in line with Article 99 of the COMESA Treaty and through a Memorandum of Understanding on Industrial Cooperation, Zambia and Zimbabwe are in the process of establishing a common agro-industrial park (CAIP) to support agro-processing and the development of value chains. The pre-feasibility study on the CAIP identifies eight value chains which could be the initial target based on the profiling studies already completed in the two member States. Modalities for the detailed feasibility study to establish the CAIP are currently under discussion.

3.4 Accelerating industrialization in Southern Africa

27. Industrial development has been placed at the core of the developmental integration agenda of the SADC region.[20] The SADC Regional Indicative Strategic Development Plan (RISDP 2020-2030)[21] and *SADC Vision 2050* are two strategic plans which seek to accelerate industrialization in Southern Africa, among other objectives.

28. The efforts to accelerate industrialization in the region have been constrained by several factors, including most recently the COVID-19 crisis, which resulted in a notable decrease in manufacturing production in 2020. The crisis worsened de-industrialization that the region has already been facing due (i) lack of finance for industrial development; (ii) poor and inadequate infrastructure; (iii) limited investment in research and development, science, innovation and technology; (vi) limited industrial skills; (v) small private sector; (vi) environmental regulations and international trade issues; (vii) lack of policy harmonization; and (vii) limited access to raw materials.[22]

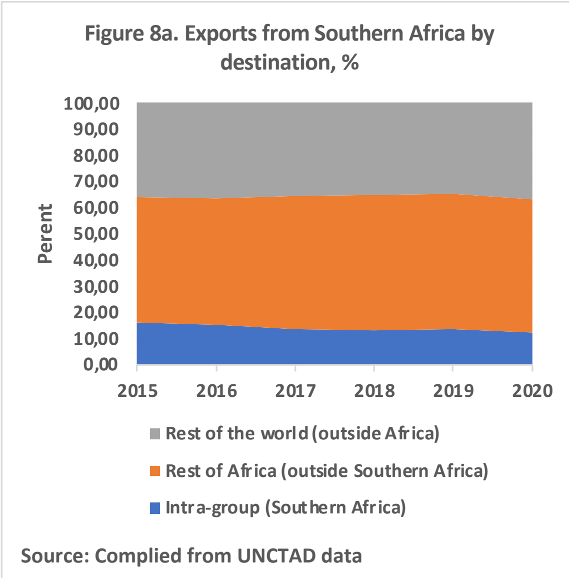
SECTION 4: INTRAREGIONAL TRADE

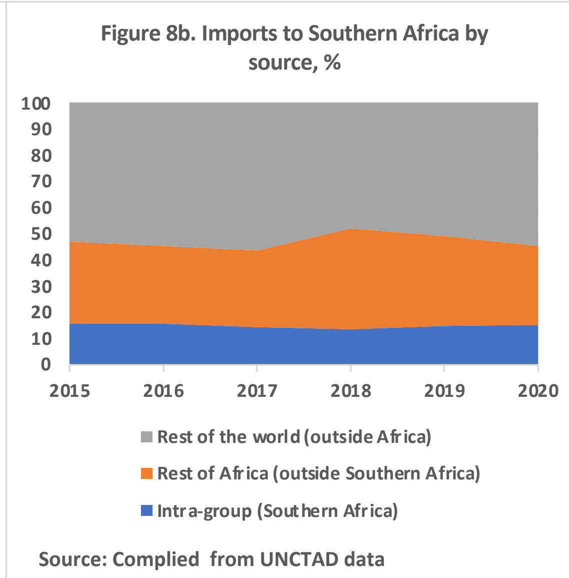
4.1 Intra-African and Intra-SADC trade

29. Trade flows within and outside the Southern African region constitute a very small fraction of about 1 per cent of the overall global trade exchange.[23] Exports from Southern Africa are largely directed towards other African countries, constituting around

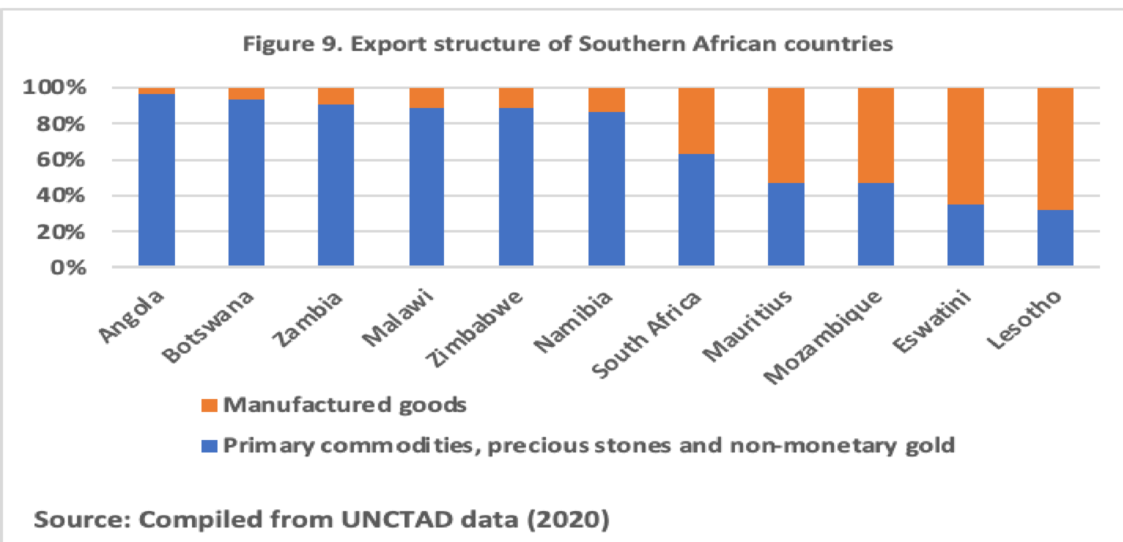
[19] Namibia, 2021. Ministry of Industrialization and Trade Annual Report 2021/2022 Available at https://mit.gov.na. Accessed on 12th September 2022.
[20] SADC, 2009. Industrial Development Policy Framework (IDPF). Gaborone.
[21] SADC, 2020. Regional Indicative Strategic Development Plan (RISDP) 2020–2030, Gaborone
[22] UNECA, 2017. Accelerating Industrialization in Southern Africa through Beneficiation and Value Addition, Addis Ababa
[23] UNCTAD, 2021. Transforming Southern Africa: Harnessing Regional Value Chains and Industrial Policy for Development. Geneva.

50 per cent of the overall exports. In terms of imports, the reliance on the rest of the world is very clear – Southern Africa imports more than half of its goods from outside the continent, and in the recent years this trend has been reinforced (figures 8a and 8b).





30. In terms of export structure, the region's countries show enormous variations. As seen in figure 9, five countries reveal a clear reliance on key export products – Angola (oil), Botswana (diamonds), Malawi (tobacco), Zambia (copper) and Zimbabwe (gold, platinum, chrome). Among countries where manufacturing is more prominent, Lesotho specializes in the textile sector; and Eswatini exports chemicals and food products. South Africa reveals a more diversified export structure, covering food products, ores and metals, as well as machinery and transport equipment.



31. The overview of the balance of payments' dynamics across the Southern African region is presented in Table 3 in the Annexure. The overall balance of payments figure for the region was positive in 2020, largely attributed to good performance in South Africa (with further improvements in 2021) and Angola. Both countries are likely to

experience further gains, notably due to the disrupted supply of natural resources from Russia.

Table 3. Balance of payment figures between 2015-2021 for Southern African countries

Country Name	2015	2016	2017	2018	2019	2020	2021
Angola	-3531,5	2642,7	7341,5	15501,5	12880,8	5858,8	14828,7
Botswana	-909,0	1308,0	623,2	169,9	-1483,5	-2662,7	
Eswatini	53,3	44,9	-32,8	-167,6	143,4	112,4	
Lesotho	-1074,6	-1060,1	-1219,2	-1171,1	-1136,9	-1078,0	-1140,5
Malawi	-1242,6	-1225,1	-1727,5	-1840,0	-1939,4	-1931,2	
Mauritius	-1170,5	-1258,1	-1777,9	-1941,1	-2106,4	-2136,4	
Mozambique	-6469,7	-4105,8	-2829,6	-4487,5	-3971,1	-3994,0	
Namibia	-2943,1	-2565,4	-1686,3	-1386,2	-1220,5	-1048,4	-2102,1
South Africa	-4456,3	1533,9	4349,1	1830,4	2039,8	15103,2	26028,4
Zambia	-645,1	-511,9	350,9	-210,4	222,2	2722,2	3954,4
Zimbabwe	-3250,6	-2129,6	-1581,1	-2464,0	-131,4	-226,0	

Source: Author calculation based on World Bank data

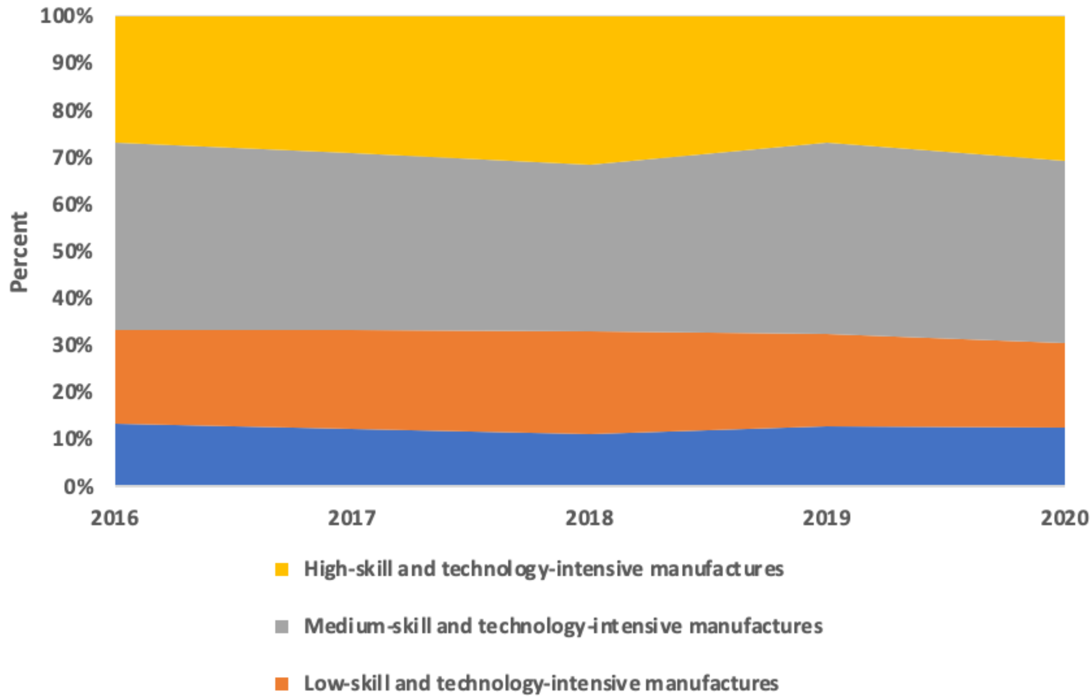
32. Trade within the regional economic communities still corresponds to a small fraction of the overall merchandise trade, largely due to exports of commodities outside of Africa, and imports of advanced manufactured goods from outside partners such as China and EU. Intra-REC trade within the region is most significant in SADC, where it corresponds to around 20 per cent of both imports and exports (figure 10).

Figure 10. Shares of intra-REC trade as % of overall merchandise trade

Source: Compiled from UNCTAD data (2020)

33. The Southern Africa region mainly exports intermediate goods, notably commodities, and low value-added products such as textiles, food and beverages and chemicals. UNCTAD data for SADC countries indicate that the share of commodities among exported merchandise has grown from 71 per cent in 2016 to 74 per cent in 2020. Figure 11 below shows that in terms of manufactured goods, low and medium skill and technology intensive manufactures dominate the region's exports.

Figure 11. Shares of High-, medium- and low-skilled and labour-intensive manufactures in exports from SADC region



Source: Compiled from UNCTAD data

34. The trade data cited above depict the challenge ahead for Southern Africa – the market is still fragmented; countries rely on imports from outside Africa, notably for advanced goods, and mainly export commodities rather than manufactured goods. Such situation leads not only to adverse trade imbalances and vulnerability to external shocks, but also contributes to lock-in of regional economies in low-end activities. The present situation has been exacerbated by the COVID-19 crisis which has shaken global supply chains and resulted in shortages of some critical goods. Only by moving towards stronger value-addition and development of the capacity to manufacture and sell more advanced goods could the region transition into higher levels of prosperity.

4.2 Intra-regional trade

35. The region's national trade strategies emphasize the importance of export and trade for the overall economic performance of the countries, notably recognizing the transformative impact of industrialization and value chain participation for the economy. Seven out of nine export strategy documents available within the region feature "competitiveness" as an element of the vision and mission, recognizing the interplay between productive capacity and export performance.

36. The AfCFTA has revived hopes for intra-African trade to boost regional capacities and provide a level playing field for regional integration. According to ECA, AfCFTA implementation is expected to improve the trend by leveraging economies of scale, driving industrialization and diversifying exports through the harmonization of standards and the removal of tariffs, non-tariff barriers and regulatory differences.

Moreover, AfCFTA intends to leverage the achievements of RECs and further deepen their regional integration effort.

4.3 Regional value chains for increased intraregional trade and participation in global value chains

37. Regional value chains, especially in areas such as agriculture, agro-processing and mining have been endorsed by national governments and RECs alike as a key element of the region's economic transformation. The COMESA leather value chain is an example of coordinated effort driven by a REC to facilitate exchange of experience and standard-setting to enhance the competitiveness of a value chain. Within the minerals' sector, in April 2022, Zambia and the Democratic Republic of the Congo (DRC) signed a Cooperation Agreement to produce electric batteries in order to capitalize on their access to 80 per cent of minerals required for production of electric car batteries.

38. An important ambition behind the AfCFTA is to strengthen regional value chains development. Recent ITC and UNCTAD[24] analysis identified 94 promising regional value chains across 24 sectors, highlighting some examples where African regional value chains could be strengthened. These include food preparations for infants, pharmaceuticals, cotton apparels and motor cars. Some of the key changes needed for these value chains to kick off is consistent quality and standards, emergence of integrating actors to fill the "missing middle" of enterprises, and enhancement of key infrastructure.

SECTION 5: SOCIAL DEVELOPMENT

5.1 Poverty, vulnerability and global shocks

39. Social development is a third key pillar of sustainable development with important synergistic relationships with economic and environmental conditions. Three important indicators of social development conditions relate to measures on poverty, inequality and human development. The recent ECA report[25] highlighted that poverty in Africa is highly dynamic; that poor people move into and out of poverty because of consumption volatility arising from exposure to risks caused by shocks like the COVID-19 pandemic and that their inability to manage uninsured risks only increases their vulnerability. Southern Africa is home to many people who subsist in informal employment and who fall into poverty when shocks hit. Informality, lack of social safety nets, inadequate access to basic social services and inequalities related to gender and location are major sources of vulnerability and poverty in all Africa's regions.

40. Poverty and vulnerability are strongly inter-connected. Anti-poverty strategies should not be limited to reducing immediate poverty ex-post but should also reduce vulnerability to poverty ex-ante and strengthen resilience against future shocks.[26] Measures for consideration include expanding social assistance, encouraging families to build household assets, generating productive jobs, establishing or expanding contributory social protection programmes and investing in social infrastructure to

[24] UNCTAD, 2021, ibid.
[25] UNECA, 2021. Economic Report on Africa: Addressing poverty and vulnerability duirng the Covid-19 pandemic. UNECA. Addis Ababa.
[26] UNECA, 2021, ibid.

promote growth.[27] The acceleration of industrialization through trade can provide opportunities for decent job creation in the formal sector and contribute to lessening insecure employment and poverty.

5.2 Poverty and Inequality in Southern Africa

41. Human development contributes towards social development and is closely related to poverty. The Human Development Index (HDI), calculated by the United Nations Development Programme (UNDP) is a measure that captures longevity, education and income per capita of countries. Based on UNDP's latest Human Development Report (HDR),[28] the HDI in Southern Africa (table 4) has a simple average of 0.603, which is higher than that of Sub-Saharan Africa at 0.547. However this higher than average score is driven by countries such as Mauritius, South Africa, Botswana, and Namibia. Mauritius is an outlier in the region and in the continent in terms of achievements on the HDI, being the only African country in the "very high human development" category. Lesotho, Malawi and Mozambique are placed in the "low human development" category. Multi-dimensional poverty in the region is lower than Sub-Saharan Africa's in all countries except Mozambique.

Table 4. Human Development, Inequality and Multi-dimensional Poverty in Southern Africa

Country	**HDI and Global Rank**	**Gini coefficient**	**Multidimensional Poverty Index (MPI)**	**Gender Inequality Index**
Angola	0.586 (No.148)	51.3	0.282	0.537 (No.136)
Botswana	0.693 (No.117)	53.3	0.073	0.468 (No.117)
Eswatini	0.597 (No.144)	54.6	0.081	0.540 (No.138)
Lesotho	0.514 (No.168)	44.9	0.084	0.557 (No.144)
Malawi	0.512 (No.169)	38.5	0.252	0.554 (No.142)
Mauritius	0.802 (No.63)	36.8	--	0.347 (No. 82)
Mozambique	0.446 (No.185)	54.0	0.417	0.537 (No. 136)
Namibia	0.615 (No.139)	59.1	0.185	0.445 (No.111)
South Africa	0.713 (No.109)	63.0	0.025	0.405 (No.97)
Zambia	0.565 (No.154)	57.1	0.232	0.540 (No.138)
Zimbabwe	0.593 (No.146)	50.3	0.110	0.532 (No.134)
Sub-Saharan Africa	0.547	-	0.286	0.569
Other regions:				
Arab States	0.708	-	0.071	0.536
East Asia and the Pacific	0.749	-	0.023	0.337
Latin America and the Caribbean	0.754	-	0.030	0.381
South Asia	0.632	-	0.131	0.508
World	0.732	-	-	0.465

Source: UNDP Human Development Report 2022. Data are based on surveys that were conducted in different years across countries.

[27] UNECA, 2021, ibid.
[28] UNDP, 2022. Human Development Report 2021/2022: Uncertain times, unsettled lives: Shaping our future in a transforming world. United Nations Development Programme. New York.

42. Access to education and health propels human development out of poverty. Life expectancy at birth can be used as a proxy for quality access to health services. Southern Africa's life expectancy at birth are 73.6 in Mauritius, 62.9 in Malawi, 62.3 in South Africa, 61.6 in Angola, 61.2 in Zambia, 61.1 in Botswana, 59.3 in Mozambique, Namibia and Zimbabwe, 57.1 in ESwatini, and 53.1 in Lesotho. HIV infection remains a concern in Southern Africa with South Africa remaining the epicenter of the disease. Doctors per number of inhabitants remain low in the region with physicians per thousand people standing at 0.0 in Malawi, 0.1 in Eswatini, Lesotho, Mozambique and Zambia, 0.2 in Angola and Zimbabwe, 0.3 in Botswana, 0.6 in Namibia, 0.8 in South Africa, and 2.5 in Mauritius.[29] Investments in the health sector should be a priority in the region as part of SDG 3 to enable the region to cope with health-related shocks such as COVID-19 and more importantly as part of building a healthy and productive workforce that can particpate effectively in trade and industrialisation processes.

43. Access to high quality education is a continued challenge for the region and the continent as a whole. Mean years of schooling amount to 6.0 in Sub-Saharan Africa compared to 10.6 in Europe and Central Asia, 9.0 in Latin America and the Caribbean, 8.0 in Arab States, 7.8 in East Asia and the Pacific and comparable to South Asia at 6.7. In Southern Africa, mean years of schooling range from a high of 11.4 in South Africa, to 10.4 in Mauritius, 10.3 in Botswana, 8.7 in Zimbabwe, 7.2 in Namibia and Zambia, and figures as low as 6.0 in Lesotho, 5.6 in Eswatini, 5.4 in Angola, 4.5 in Malawi and 3.2 in Mozambique. Lower secondary completion rates remain low in a few Southern African countries, for instance at 20.7 in Angola, 22.8 in Malawi, and 24.2 in Mozambique, compared to 50.0 in Lesotho, 54.8 in Zambia, 68.0 in Zimbabwe, 69.8 in Eswatini, 80.4 in South Africa, 85.2 in Namibia, 92.8 in Botswana, and 102.6 in Mauritius. Policies bent on promoting completion rates, lowering school drop-outs and enhancing training of teachers can enhance the quality of educational service provision. The increased leveraging of digital technologies to enhance education provision both in quality, reach and scope should be given increased attention in the sub-region.

44. Southern Africa is marked by high rates of income inequality. The Gini coefficient is a measure that rates inequality along a range from zero to one, with zero depicting perfect equality and 1 maximal inequality. The Gini coefficient ranges from a low of 36.8 in Mauritius to a high of 63.0 in South Africa (table 4). Based on data available from tle latest UNDP's HDR, only 11 countries in the world score above 50 on the Gini coefficient, and 8 of these 11 countries (Angola, Botswana, Eswatini, Mozambique, Namibia, South Africa, Zambia, Zimbabwe) are in Southern Africa, a stark statistic that places the region as among the most unequal in the world. A leading cause of income inequality in the region relates to inequality in opportunity, which in turn is perpetuated by poorly functioning labor markets that are characterized by high unemployment especially among the youth, inherited circumstances, barriers to accessing productive assets such as education, skills, and land that people need to generate income and improve their wellbeing.[30] Circumstances at birth and during childhood, such as gender, race, location, parental education, and family wealth, are strongly associated with inequality of opportunity, even before people interact with factor markets.[31]

[29] World Bank, 2022a. Inequality in Southern Africa: An assessment of the Southern African Customs Union (SACU). World Bank. Washington D.C.
[30] World Bank, 2022a, ibid.
[31] World Bank, 2022a, ibid.

5.3 Gender Inequality

45. Based on the Gender Inequality Index (GII) of the UNDP latest HDR,[32] gender inequality is high in Southern Africa with 7 Southern African countries in the bottom third of the global ranking on this index (table 4). Greater attention should be paid to reforming laws and regulations that discriminate against women in the short to medium term, although significant strides have been made to address the issue in some areas such as sexual harassment and entrepreneuship. For instance Zambia enacted in 2017 a Gender Equity and Equality Act, which extends to women protections from sexual harassment in employment and adopted both civil remedies and criminal penalties. In 2018, Mozambique made access to credit easier for women by prohibiting gender-based discrimination in financial services.[33]

SECTION 6: IMPACT OF EXTERNAL SHOCKS AND CLIMATE CHANGE

6.1 COVID-19 Pandemic

46. The COVID-19 pandemic has caused significant loss of life (table 5), economic and social distress in the region.[34] Economic-wise, the pandemic has led to a decrease in commodity prices and service exports (e.g., tourism services), lowered export earnings and receipts; compromised agricultural production, food systems and supply chains – heightening food insecurity; reduced FDI inflows as investors redirected capital to their home countries; decreased economic growth due to poor performance of critical sectors; and worsened unemployment as a result of the slowdown in economic activity, closure of businesses and lockdowns.

47. In terms of social impacts, the pandemic has exerted additional pressure on the region's health facilities and systems, undermining health service delivery; driven people into severe poverty due to loss of income sources; undermined social life and cultural and religious practices (due to banning of social gatherings), threatening the social fabric that ties society together; and pegged back gains made in gender equality, poverty reduction and women empowerment due to lack of access to social protection by the vulnerable and marginalized groups to help them cushion or absorb the pandemic's shocks.

[32] UNDP, 2022, ibid.
[33] World Bank, 2022b. Women, Business and the Law. Regional Profile: Eastern and Southern Africa. World Bank. Washington D.C.
[34] UNECA, 2020. Harmonization of regional industrialization strategies and policies in Southern Africa. Available at https://repository.uneca.org/handle/10855/43776. Accessed on 08 September 2022.

Table 5: COVID-19 in Southern Africa (as at 25/09/2022)

COUNTRY	COMFIRMED CASES	RECOVERIES	DEATHS
Angola	103,131	101,155	1,917
Botswana	263,950	259,434	2,739
Comoros	8,471	7,933	160
DRC	92,867	83,504	1,357
Eswatini	73,379	71,950	1,422
Lesotho	34,530	26,027	706
Madagascar	66,652	64,996	1410
Malawi	87,991	85,069	2,680
Mauritius	40,314	38,625	1014
Mozambique	230,253	227,947	2,222
Namibia	166,662	165,571	4,077
Seychelles	46,358	45,977	169
South Africa	4,016,081	3,909,265	102,169
Tanzania	39,253	178	841
Zambia	333,454	329,244	4,017
Zimbabwe	257,259	251,192	5,598
TOTALS	**5,860,605**	**5,668,067**	**132,498**

48. However, besides undermining the region, the pandemic has offered some opportunities for the region to strengthen its value chains and take advantage of supply gaps created by disruptions in the global value chains.

6.2 Russia-Ukrainian conflict

49. The Russia-Ukraine crisis has exacerbated the impact of COVID-19 in the region. Specifically, the crisis has triggered further shocks in the region, fueling inflation in the region; widened the region’s financing gap, making development plans (e.g., the SADC’s RISDP, various national development plans, and the two interrelated development priorities of inclusive industrialization and intraregional trade) even more challenging to realise; raised debt-to-GDP ratio; disrupted the supply of wheat, fertilizer, gas and oil, undermining their availability to the region as well as raising their respective prices; and reduced growth, prompted financial instability and raised food insecurity, among others.

50. On the contrary, amidst this crisis, some countries within the region (e.g., Angola) have been benefiting from the higher petrol prices. Furthermore, the crisis has also offered some opportunities for the region, notably in filling the gaps emerging from the disruption of imports from Russia and Ukraine and enhancing intracontinental trade, particularly in the context of the AfCFTA.

6.3 Climate Change

51. Climate change adds to Southern Africa's already immense development challenges, the region has experienced increases in temperature of up to 2℃ over the past century. Namibia and Angola experienced less summer rain during the second half of the 20th century, while Botswana, Zimbabwe, and South Africa, have had modest decreases in rainfall. Weather events being more frequent and severe, are leading to loss of lives, displacement and reduced agricultural production. The negative economic impacts of climate change will accelerate as early as 2030 affecting countries with low capacity, poor governance, and weak natural resource management.[35] Despite adaptation to climate change being costly for the region, it is still more cost-effective than frequent disaster relief.[36]

52. The frequency of extreme weather events has increased at a faster pace than in the rest of the world. For instance, the 2018-19 cyclone Idai, severely affected Mozambique and Zimbabwe, Idai flooded an estimated 715,378 hectares of cultivated land. The damage caused by Cyclone Idai in Mozambique was estimated to exceed US$1.4 billion.[37] In April 2022, heavy rains, and flooding hit the KwaZulu-Natal coast in South Africa, at least 123,808 people were affected, 448 people died and over 30,000 were displaced.

SECTION 7: KEY MESSAGES AND RECOMMENDATIONS

53. This report has raised some key issues from which some recommendations are proffered. First, since the commodity boom has stabilized and even strengthend some member States' exchange rates, countries should use the occassion to improve productive capacity for future improved economic competitiveness by importing requisite intermediate inputs. Furthermore, they should repair balance sheets by normalizing foreign debt situations; reducing costly debt will refocus resources to social development spending.

54. Second various economic shocks have underscored the need for self-sufficiency and deepened intraregional trade. Longstanding agenda on economic diversification, and regional value chain promotion, should be implemented forthwith. The AfCFTA is an additional tool to enhance self-sufficiency and protection against global shocks.

55. Third, natural shocks wrought by climate change can be mitigated through green industrialization which, while growing economies and providing decent and formal jobs, will also lower damaging ecological footprints.

56. In the final analysis, economic and social policies should aim to eradicate poverty, inequality in all its forms (gender, age, locational, race, etc.), vulnerability and achieve social justice. These policies are aplenty at national, regional, continental and global levels; their resolute implementation is now key.

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[35] Intergovernmental Panel on Climate Change (IPCC), 2014. "Climate change 2014: Impacts, Adaptation, and Vulnerability. Part B: Regional Aspects." Contribution of Working Group II to the Fifth Assessment Report of the IPCC. Cambridge, UK and New York: Cambridge University Press.

[36] IMF, 2020. Adapting to Climate Change in Sub-Saharan Africa. In Regional Economic Outlook: Sub-Saharan Africa, chapter 2. Washington, DC.

[37] Global Facility Reduction and Recovery (GFDRR), 2019. Mozambique Cyclone Idai Post Disaster Needs Assessment: Full Report. Washington, DC.