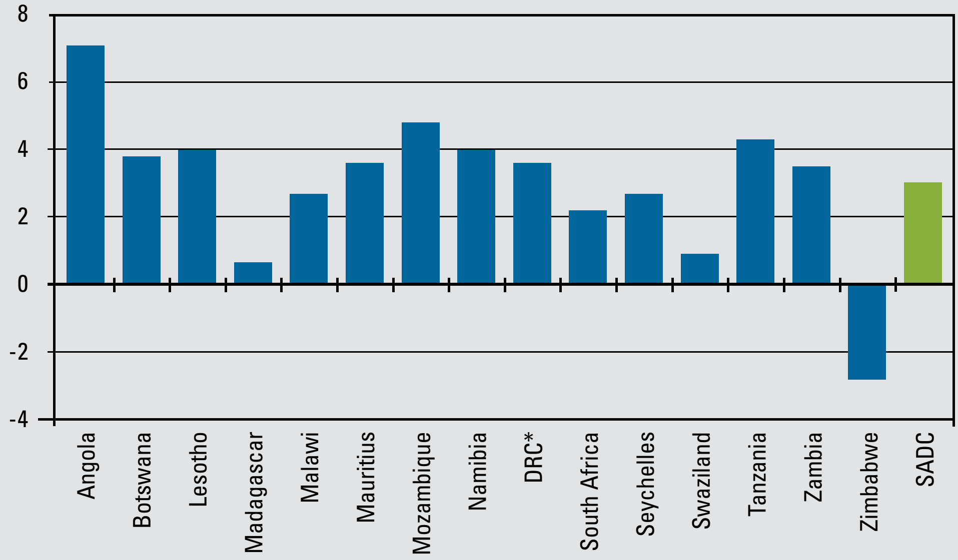
Current Status of Key Economic Indicators – Regional Economic Trends

The Southern African Development Community (SADC) is a region comprising 15 countries. It has great economic potential, based on both the potential for domestic production and regional and international trade.

The economies of these countries are at very different stages of development. They also differ significantly in terms of their size. The range is comprised of countries such as Malawi, which figures among the poorest states of the world, to countries such as Mauritius, a stable and prospering middle-income country.

Figure 1: GDP per capita growth (annual %) 2003–2013



* Democratic Republic of the Congo

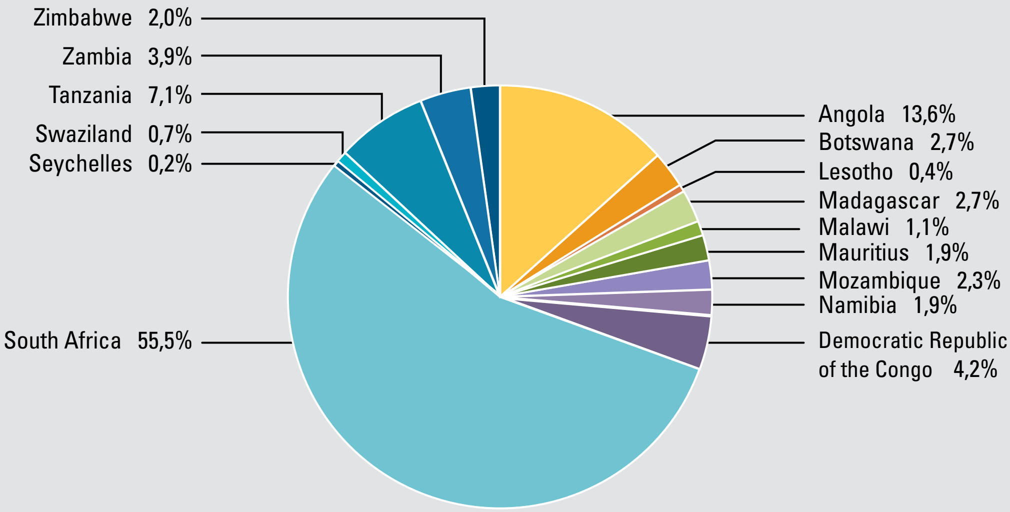
Source: World Bank, *World Development Indicators*, http://data.worldbank.org/data-catalog/worlddevelopment-indicators, accessed 22 October 2014

Economic growth in SADC thus differs greatly from country to country. On average, gross domestic product (GDP) per capita increased by 3% per year in SADC over the last decade. When looking at individual countries, however, the differences are huge. While a country such as Angola enjoyed more than 7% GDP growth per capita annually over the last decade, the per capita income of a country such as Zimbabwe decreased by 2.8% annually over the same period.

For SADC as a whole, from 2003-2013, economies grew by an average of 4.7% annually, prompted by different reasons in different countries. In some instances, economic growth is propelled by a booming resource industry, e.g. in Angola and Mozambique. In others, particularly small SADC countries, it is the services sector – mainly a quickly expanding tourist sector – which greatly contributed to GDP growth. While 4.7% annual growth over the last decade seems impressive when compared to the European Union's average of about 2% per year, it lags behind other developing regions such as ASEAN which grew at 7.4% per year over the same period. This clearly shows the potential for increased growth in SADC.

When loking at individual countries, South Africa is the unchallenged economic heavy weight of he region. Its share of the region's total GDP stands at 55.5%, albeit down from 63% in 2010. Angola comes in second with a share of 13.6%. On the other end of the spectrum, Lesotho and Seychelles, have shares of regional GDP adding to 0.4% and 0.2% respectively.

Figure 2: Regional GDP country share in SADC, 2013



Source: World Bank, *World Development Indicators*, http://data.worldbank.org/data-catalog/worlddevelopment-indicators, accessed 22 October 2014

The reasons for these differences vary. They include diverse factor endowments, different geographical land sizes, connections to international trading routes (some are landlocked, others not) and population sizes vary greatly. The differences in the (enabling) business environment and the corresponding government policies similarly play a significant role. Government policies shape the business environment and greatly influence the likelihood of companies to invest, trade and/or whether to hire more employees. In the following paragraphs, the most important of these aspects are described.

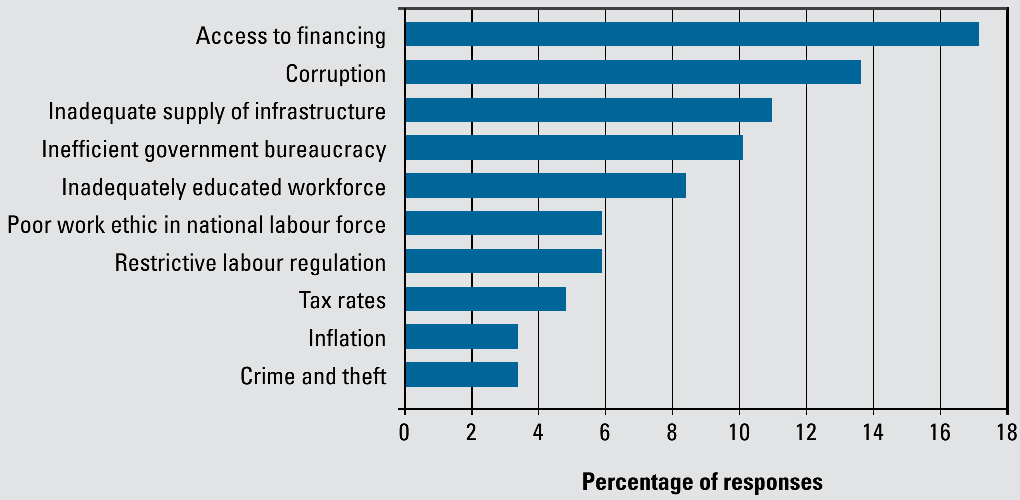
Regional business environment and competitiveness

The *Global Competitiveness Report 2014–2015*[1] of the World Economic Forum (WEF) shows that access to finance, the prevalence of corruption and red tape, insufficient human capital and a lack of physical infrastructure remain being the top inhibiting factors to doing business in SADC.

There is a vast difference among the countries with regards to the significance of these barriers to doing business. For example, in Mauritius, the category 'inefficient government bureaucracy' comes top, while 'crime and theft' is hardly mentioned. On the other hand, corruption was mentioned as the biggest obstacle to a flourishing business climate in Lesotho and the category 'restrictive labour regulation' came first in South Africa. While 'access to

1 World Economic Forum, *The Global Competitiveness Report 2014–2015*, Geneva, Switzerland, 2014, http://www.weforum.org/reports/global-competitiveness-report-2014-2015.

Figure 3: Ten most inhibiting factors to doing business



Source: World Economic Forum, *Global Competitiveness Report 2014–2015*, http://www.weforum.org/reports/global-competitiveness-report-2014-2015

finance' is perceived to be a relatively minor problem in South Africa, it is mentioned as a major impediment to doing business in all other SADC countries.

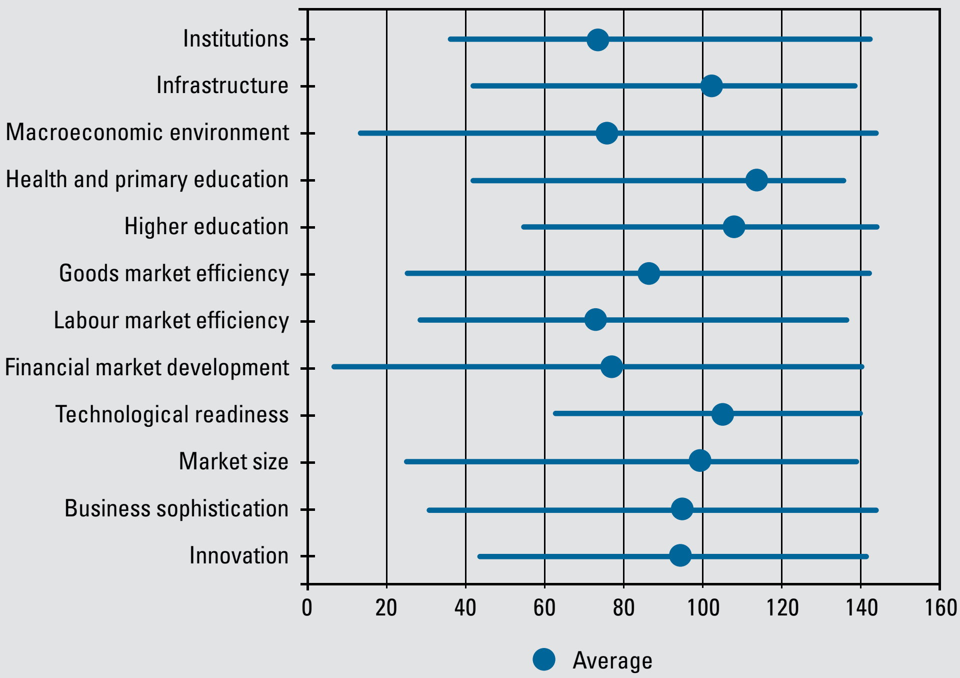
The Competitiveness Report uses 12 pillars to assess the business environment in a country as shown in Figure 4.

Figure 4 shows the total spectrum as well as the average ranking of 13 SADC countries, with data from the DRC and Seychelles missing. From this it is clear that the region's competitiveness is low mainly due to infrastructure, education, and technological readiness. In addition to the vast differences in each category among all SADC states, these findings have also been stated in the Regional indicative Strategic Development Plan (RISDP) as the main areas of focus for the future development.

The *Ease of Doing Business Index 2015*[2] by the World Bank ranks 189 economies, ranging from 1 (best performing economy) to 189 (worst performing economy). A high ranking indicates that the regulatory environment is more conducive to starting operating a company. In the SADC region, the index and its development underline the findings of the Global Competitiveness Report. In categories such as 'getting credit', 'trading across borders' and 'starting a business', SADC countries – on average – continue to perform poorly.

2 World Bank, *Doing Business 2015: Going Beyond Efficiency*. Washington, DC: World Bank, 2014, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf.

Figure 4: Pillars of competitiveness: ranking of SADC states



Source: World Economic Forum, *Global Competitiveness Report 2014–2015*, http://www.weforum.org/reports/global-competitiveness-report-2014-2015

Of the SADC countries, in 2014, Mauritius ranks highest at 28th place, followed by South Africa (43) and Botswana (74). The worst performer within SADC is DRC (184), followed by Angola (181) and Zimbabwe (171). Even though the countries' rankings cannot be compared directly[3], the index indicates whether trends are positive or negative. When assessing the individual country performance, the trends appear to be negative for most SADC countries. Malawi shows the greatest loss of 68 ranks from the 2006 ranking. Namibia fell behind from a position close to that of South Africa, ie, ranking 33 in 2006, to ranking 88 in 2014. The (small) changes in the ranking of Mauritius, South Africa and Tanzania might be explained by the greater spectrum of countries included in the index. Notable *positive* exceptions include Tanzania and the Seychelles.[4]

3 The 2006 ranking contains 155 and the 2015 ranking contains 189 countries, meaning that ranking cannot be compared directly.

4 The interpretation of business rankings needs to be viewed with caution, as all other countries involved in the index will most likely also have implemented reforms or at least have been exposed to some level of bureaucratic change.

Table 1: Doing business 2006, 2010, 2014 and 2015 rankings

Country	2006 (155 countries)	2010 (183 countries)	2014 (188 countries)	2015 (189 countries)	Change in rank 2006 to 2015
Angola	135	171	179	181	-46
Botswana	40	52	56	74	-34
DRC	155	176	183	184	-29
Lesotho	97	142	136	128	-31
Madagascar	131	144	148	163	-32
Malawi	96	141	171	164	-68
Mauritius	23	21	20	28	-5
Mozambique	110	132	139	127	-17
Namibia	33	74	98	88	-55
Seychelles	N/A	109	80	85	N/A
South Africa	28	36	41	43	-15
Swaziland	N/A	123	123	110	N/A
Tanzania	140	125	145	131	+9
Zambia	67	80	83	111	-44
Zimbabwe	126	168	170	171	-45

Source: World Bank, *Doing Business 2015: Going Beyond Efficiency*. Washington, DC: World Bank, 2014, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf

Sectors contributing to regional GDP

In the SADC region, the services sector represents more than half of GDP and remains the main driver of regional growth. Agriculture contributes about 15% of value added to GDP whilst industry makes up the remainder with just over 31%.

The relative importance of different sectors varies quite significantly by country. Madagascar, Mozambique and Malawi record the greatest reliance on agriculture. In these three countries, agriculture contributes to more than a quarter of their respective GDPs. In Seychelles on the other hand, the agriculture sector has a negligible contribution to the country's GDP with only 2.09%. Seychelles derive 82.49% from the service sector, mostly due to its tourist sector. Angola boasts with the greatest share of industry (56.98%) and the smallest share of services (32.18%), likely due to its oil and gas endeavours.

Comparing the 2003 sector contribution to that of 2013, one can observe only a marginal shift. The agricultural sector shrank by two percentage point and the services sector, in turn, increased by two percentage point. The minimal change is a striking difference compared to other developing regions, e.g. in Asia, where the services sector has grown at a much higher rate.

Table 2: Sectors' contribution to GDP (%), 2013

Country	Agriculture	Industry	Services
Angola	10.83	56.98	32.18
Botswana	2.54	36.91	60.55
DRC*	25.16	35.09	39.75
Lesotho*	7.83	36.57	55.60
Madagascar*	29.11	16.00	54.89
Malawi	26.96	18.79	54.25
Mauritius	3.27	23.07	73.66
Mozambique	29.25	23.66	47.09
Namibia	7.07	29.64	63.29
Seychelles*	2.09	15.42	82.49
South Africa	2.39	27.58	70.03
Swaziland*	7.48	47.69	44.83
Tanzania	27.00	25.18	47.82
Zambia	17.68	37.25	45.07
Zimbabwe	12.38	31.29	56.33
SADC (simple average)	**14.07**	**30.74**	**55.19**

* In the following countries, the data available is not from 2013 but from the most recent year: DRC (2009), Lesotho (2012), Madagascar (2009), Seychelles (2012) and Swaziland (2011).

Source: World Bank, *World Development Indicators*, http://data.worldbank.org/data-catalog/worlddevelopment-indicators

International and intra-regional trade

Total trade volume of SADC with the outside world has doubled in absolute terms between 2000 and 2009 (Draft SADC RISDP, 2014). However, it stagnated in relative terms at 15% of total trade. This means that trade between SADC and the rest of the world increased at the same pace as world trade overall. Moreover, endeavours to diversify exports have shown little success. Traditional exports are still mainly comprised of agricultural produce, minerals and fuels. When looking at total imports and exports of SADC member states – both intra-regional and with the rest of the world – South Africa shows its hegemonic position in trade. Around 58.7% of all imports into and 46.2% of all exports out of SADC member states are destined for, or respectively originate in, South Africa.

Notwithstanding the economic recession following 2008, total intra-African exports grew at 3.2% over the period 2007 to 2011. The total share of intra-African trade by SADC was 16.4%. This represents a significant decline compared to 1996–2000, when the total share of intra-African trade by SADC accounted for 34.2%. Although this comparison may not be interpreted as an absolute decline in trade, it shows that SADC continues to be outperformed by other RECs in Africa.

In spite of efforts to increase trade within SADC, intra-regional trade has stagnated at a relatively low level. Data from the International Trade Centre and the World Trade Organisation (UKAID, 2014) for 2010 reveal that intra-SADC trade shares are distributed highly unevenly among its member states, ie, some countries benefit more than others from intra-regional trade in SADC. South Africa dominates intra-SADC exports with the lion's share – approximately 68.1%. Angola follows second, accounting for 8.5% of intra-SADC exports. Lesotho, Madagascar, Malawi, Namibia, Seychelles and Swaziland each contribute less than 1% to intra-SADC exports. When looking at intra-SADC imports, we find a more balanced picture. Zimbabwe (23%) takes the greatest share of intra-SADC imports with Botswana (17.9%), South Africa (14.8%) and Zambia (14%) following. Informal trade is not recorded in these statistics and may actually lead to different trade data.

One major impediment to increased trade and economic growth in the region remains the high cost of transport due to inadequate physical infrastructure and delays at-, or behind-the-border barriers. According to UKAID (2014), the estimated effective speed of road transport within SADC is between 6 km/hour and 12 km/hour, with rail transport scoring even worse with an average speed of 4 km/h. However, according to this report, three-quarters of the time spent in a cross-border journey, is due to customs delays and not the actual speed once in motion.