# CHAPTER 5

# OVERVIEW OF THE ECONOMIES OF SADC MEMBERS

## SADC's economic performance

5.1 Economic performance for all countries in the Sub-Saharan region has declined over the past three decades. Despite some improvements achieved in the late 1980s and early 1990s, by 1994, per capita GDP was about 15 per cent below its level a decade earlier and per capita income down by over one-fifth.[1] SADC countries have generally faired slightly better in their economic performances than the sub-Saharan region as a whole. However, SADC comprises some of the poorer countries in the region. Table 5.1 illustrates the income classification of the countries of SADC according to the World Bank.[2]

### Table 5.1 Income Classification of Individual Countries of SADC

| Income Group | | SADC Country |
|---|---|---|
| **Low** | | Lesotho<br>Malawi<br>Mozambique<br>Tanzania<br>Zambia<br>Zimbabwe |
| **Middle** | Lower | Angola<br>Botswana[3]<br>Namibia<br>Swaziland |
| | Upper | Mauritius<br>South Africa |

Source: The World Bank. 'Classification of economies by income and region, 1995', *World Tables 1995*, Baltimore: Johns Hopkins University Press, p. 763.

1 Sparks, D.L. 'Economic Trends in Africa South of the Sahara, 1994', *Africa South of the Sahara 1995*, 24th edition, London: Europa, 1995, p. 10.

2 *Income Groups*: Low-income, US$695 or less; Lower-middle-income, US$696-$2785; upper-middle-income, US$2786-8625; and high-income, US$8626 or more. No SADC country lies in the high income range.

3 The allocation of countries to these income groups is based on 1993 GNP figures. If more recent figures are used, Botswana would be reassigned to the 'upper middle income' grouping, and this may occur in later editions of *World Tables*.

5.2 The World Bank suggests that economic reforms have, in general, improved economic performance in the region. Table 5.2 outlines the Gross Domestic Product (GDP) and Gross National Income per capita for SADC countries compared with those for the whole Sub-Saharan region.

**Table 5.2 Economic Indicators of SADC Compared with Sub-Saharan Region**

| Country | Gross Domestic Product Average Annual Growth (%) | | | Gross National Income Per Capita in 1987 US$ | | |
|---|---|---|---|---|---|---|
| | 1973 | 1983 | 1993 | 1973 | 1983 | 1993 |
| Angola | n/a | n/a | n/a | n/a | n/a | n/a |
| Botswana | 21.9 | 15.8 | -0.2 | n/a | n/a | n/a |
| Lesotho | 29.9 | -8.7 | 6.2 | 320 | 510 | 460 |
| Malawi | 2.4 | 3.8 | 9.3 | 170 | 240 | 130 |
| Mauritius | 13.3 | 0.3 | 5.6 | 920 | 1190 | 2190 |
| Mozambique | n/a | -15.9 | 19.1 | n/a | 90 | 110 |
| Namibia | n/a | -3.8 | -0.8 | n/a | 1200 | 1460 |
| South Africa | 4.0 | -2.4 | 1.4 | 1970 | 2020 | 1890 |
| Swaziland | 11.3 | 2.1 | 2.8 | 720 | 670 | n/a |
| Tanzania | 6.2 | -0.4 | 2.6 | n/a | n/a | n/a |
| Zambia | -0.4 | -2.0 | 5.1 | 600 | 230 | 200 |
| Zimbabwe | 2.6 | 1.6 | 4.6 | n/a | 620 | 560 |
| Sub-Saharan | 3.2 | -1.4 | 0.3 | 490 | 530 | 440 |

{n/a = not available}

Source: The World Bank. 'Table 6. Gross domestic product' and 'Table 2. Gross national income per capita', *World Tables 1995*. Baltimore: The Johns Hopkins University Press, pp. 6-7 & pp. 22-23.

5.3 There are indications that:

> after two decades of increasing poverty, southern Africans can begin to expect a rise in living standards with an average GDP growth for the period 1995 to 2004 predicted at 3.8 per cent. This would translate to a one per cent increase in per capita incomes.[4]

5.4 A number of factors, both external and domestic, have affected the economic performance of these states. While it is not possible to estimate the degree of influence of each factor separately with any great accuracy, it is apparent that the reasons for poor economic performance in many of these countries can be attributed to poor policy decisions, compounded by exogenous factors. These are discussed briefly in the remainder of this chapter.

4 DFAT, Transcript, 25 August 1995, p. 5.

## External factors

### Exports

5.5 Africa's reliance on external assistance from Western industrialised countries has left it vulnerable to the global economic situation. Foreign trade, aid and investment have slowly declined over the past 15 years. Declining traditional exports and increasing imports are weakening the trading capacity of African countries. The Sub-Sahara region's total world exports declined to 1.4 per cent (compared with 4 per cent of the whole of Africa) by 1994.[5]

### Tariffs

5.6 Tariff and non-tariff barriers to trade by the Western industrialised countries have discouraged 'value-added' or semi-processed agricultural imports from African states.[6] Trade among African states remains low. For example, in Southern Africa, only 4 per cent of the export trade of SADC is transacted between its members.

5.7 As the dominant economy in the Southern African region, South Africa's approach to tariffs and quotas will be vitally important for its neighbours. The South African economy is entering a period of major restructuring, as it moves to implement its obligations under the GATT, to rationalise its existing tariffs.[7] South Africa is also under pressure to open up its economy to outside competition. The Minister for Trade and Industry has been reported as indicating that:

> the Government was now in the process of trying to open up the South African economy to the realities of the marketplace and that he was going to concentrate on reducing protection in textiles and clothing, motor vehicles, electronics and chemicals and plastics.[8]

5.8 South Africa's gross national product is almost four times the combined output of the 11 other members of SADC. The trade imbalance between South Africa and its neighbours is worsening. Although protectionist tariffs have been reduced, they still remain high. South Africa plans to cut tariffs to an average of 8 per cent by the year 2000, but the pace of reform is considered too slow by many of its neighbours.[9] As noted in Chapter 3, SADC leaders at the August 1996 meeting signed four protocols, including one on trade. The protocol does not contain details of time frames for further tariff reductions, or rates and products to covered. A SADC technical group is conducting a six month sector by sector analysis to work out such details.[10]

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5 Sparks, D. op. cit., pp. 10-11.
6 ibid., p. 11.
7 DFAT, Submission, p. S363.
8 DFAT, Submission, p. S364.
9 Meares, R, 'South Africa's neighbours feel cheated on trade', Reuters, 30 June 1996.
10 DFAT, Submission, p. S1165.

### Foreign debt and investment

5.9 Escalating foreign debt and a failure to attract foreign investment contribute to the region's ongoing economic difficulties. ACFOA reports that the total debt for the sub-Saharan region approximates US$183 billion, which is more than four times the level in 1980.[11] Each year, capital and interest payments totalling more than $30 billion fall due, but only one-third of this amount is actually paid. The remainder is simply added to what is owed.[12]

5.10 Africa's ability to service its foreign debt has been hampered by falls in foreign exchange earnings. The level of private-sector foreign direct investments and commercial bank lending have been declining since the mid-1980s. This, with the annual decrease in foreign aid from traditional western and multilateral donors, is adding to the region's inability to fulfil its debt obligations.[13] The issue of debt is covered in more detail in Chapter 8.

5.11 The Southern African region's energy and mining opportunities are the main attractions for foreign investors. They are attracted by the vast raw material deposits and low-wage economies. However, investor confidence remains low because of internal political and social volatility as well as the uncertainty of obtaining the 'enforcement of contracts'.[14]

## Internal factors

### Political and social factors

5.12 Regional peace is a relatively new phenomenon for many SADC countries. Countries that have been caught up in civil conflict are now faced with residual problems relating to deteriorating or undeveloped infrastructure, poverty, unemployment, increasing criminal violence and disease. These factors act to deter investment in their countries and exacerbate the uncertainty and unrest among the civilian populations. Most SADC countries have made the transition to multi-party democracies but political violence and arms trading remain problematic.

5.13 Social and demographic trends indicate that the high population growth rate across the region will continue into the next century, although the impact of HIV/AIDS on population growth rates may reduce the overall increase. World Health Organisation researchers have recently estimated that by the year 2010, AIDS will have lowered the average life expectancy in Zambia from 66 years to 33 years, with similar trends in Zimbabwe and Kenya.[15] Both high population growth rates and the potentially devastating affects of AIDS add significant pressure to under-resourced governments for health, housing, education and employment. In addition, rapid urbanisation in some SADC countries has added to the poverty and poor standards of living.

### Infrastructure

11 ACFOA Submission, p. S741.
12 ibid.
13 Sparks, D., op cit, p. 12.
14 ibid.
15 Kizito, E. 'AIDS forum opens with grim warning', *The Canberra Times*, 12 December 1995, p. 6.

5.14 The structure of many of the economies of the SADC countries has not changed remarkably since 1960, particularly with agriculture. In 1975, 39 per cent of the GDP of the Sub-Saharan region was agricultural with industry representing 19 per cent. In 1980, agriculture had declined to 27 per cent, while industry rose to 34 per cent. By 1990, manufacturing accounted for only 11 per cent of the region's economic productivity (compared with 9 per cent in 1965), while industry accounted for 17 per cent; farming for 33 per cent and services 40 per cent.[16]

5.15 Poorly developed or deteriorating infrastructure has, to some extent, contributed to the lack of change in the structure of many SADC countries' economies. Essential services such as roads, railways, ports and communications have been neglected or damaged by civil war, particularly in rural areas. Although there has been some increase in industry, manufacturing has not increased because of low capacity utilisation, limited trained human resources, small domestic markets and poor technology and plant design.[17]

## State involvement

5.16 Direct state involvement characterises many African economies and therefore is an important influence on economic policy. Historically, government or quasi-government organisations operated in monopoly areas such as large scale infrastructure projects (highways, railways and dams) and social services such as schools, hospitals and clinics. While the data is not comprehensive, public enterprises are said to account for as much as 70 per cent of GDP in Malawi and 58 per cent in Tanzania. During the 1980s, Mozambique and Tanzania each operated more than 300 such bodies. In giving evidence, Dr Dorward also confirmed that, until recently, most business was conducted through Southern African governments and their associated organisations.

5.17 Concentration of business in the hands of such organisations has left many of the SADC countries with weakened and ineffectual private sectors. They are therefore not well placed to influence or impact in an entrepreneurial way on large scale business ventures that could boost their country's economy and consequent employment rate and living standard.

## Natural environment

5.18 Successive periods of severe drought have seriously undermined the fragile agricultural industry over the past five years. During the 1991-92 period, drought cut cultivated crop areas and subsequent food harvests in parts of the region.[18] Subsequent periods of drought in later years have compounded the problem and made recovery very difficult. With much of Southern Africa again in drought, in 1995, SADC's Regional Early Warning Unit (REWU) estimated that the region's overall maize output would drop by 41 per cent to about 12 million tonnes. This is 3.5 million tonnes short of regional food requirements.[19]

5.19 All SADC countries have felt the effects of drought. Zimbabwe has been particularly hard-hit. As one of the region's two major cereal exporters, Zimbabwe

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16 Sparks, D.L. op. cit., pp. 12-13.
17 ibid.
18 Collins, C.J.L. 'Drought again threatens Southern Africa', in *Africa Recovery,* United Nations, vol. 9, no. 1, June 1995, p. 3.
19 ibid.

suspended all maize exports last year and declared a national state of disaster due to severe drought conditions in July 1995. Botswana, with limited arable land, declared a drought emergency and many countries are receiving food aid. South Africa, the region's largest grain producer, needed to import maize last year to offset the effects of the early dry season. An end to the drought has now led to a more positive outlook for many of the SADC countries.

## International economic action in Southern Africa

### Economic Commission for Africa (ECA)

5.20 The United Nations Economic Commission for Africa was founded in 1958 to initiate and take part in measures for facilitating Africa's economic development. All SADC countries are now members of the ECA. The Commission's activities are designed to encourage sustainable socio-economic development in Africa and to increase economic co-operation among African countries and between Africa and other parts of the world. In terms of international trade and finance, the ECA encourages African countries to participate effectively in current international negotiations. Assistance has been provided to member states in negotiations under UNCTAD and GATT; in the annual conferences of the IMF and the World Bank; in negotiations with the European Community (EC); and in meetings related to economic co-operation among other developing countries.[20]

### World Bank and IMF

5.21 The World Bank comprises the International Bank for Reconstruction and Development (IBRD) formed in 1945, and the International Development Association (IDA). The aim of the bank is to assist the economic development of member nations by making loans at reasonable rates, where private capital is not available, to finance productive investments. Only members of the International Monetary Fund (IMF) may be considered for membership with the Bank. Subscriptions to capital stock of the bank are based on each member's quota in the IMF and are designed to reflect the country's relative economic strength.[21]

5.22 The World Bank has traditionally financed capital infrastructure projects such as in communications and energy. Its primary objectives in the early 1990s were concerned with economic adjustment and achievement of sustainable economic growth, reduction of poverty and the protection of the environment. In July 1985, the bank established a Special Facility for sub-Saharan African for a three-year period to finance structural adjustment, sectoral reform programs and rehabilitation. A Special Program of Assistance (SPA) was made available from 1988 to assist increased concessional lending to heavily indebted and impoverished African countries.[22]

5.23 From submissions and evidence, most NGOs were critical of the World Bank for its lack of flexibility and appropriate response to the individual needs of its poorer members. Of the SADC countries, increasing foreign debt is particularly problematic for Mozambique,

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20 'The United Nations in Africa: Economic Commission for Africa-ECA', *Africa South of the Sahara 1995*, 24th edition, London: Europa Publications Ltd., pp. 72-75.

21 'International Bank for Reconstruction and Development - IBRD - and International Development Association - IDA (World Bank)', ibid., p. 82.

22 ibid.

Zimbabwe and Lesotho whose difficulties have been compounded by a prolonged drought and very little capital investment. Countries were sometimes required to pay higher amounts of interest than what they received each year in ODA.

## Structural Adjustment Programs

5.24 During the course of this inquiry the Committee heard many critical comments about Structural Adjustment Programs (SAPs) being undertaken in a number of Southern African countries in order to obtain World Bank/IMF funding. The SAPs are intended to liberalise economies and stimulate growth:

> Because of the need to repay old debts incurred by previous non-democratic governments, many African nations have entered into Structural Adjustment programs with the International Monetary Fund and the World Bank as a way of securing loans. The austerity of these programs often includes dearer (non-subsidised) food and having to pay for health and educational services, which the poorest cannot do. Public unrest has begun the rumour that democracy means an empty stomach...[23]

5.25 The most appropriate course of action to maximise economic growth is the subject of vigorous debate among economists, development groups and academics. The 'top down' model that the World Bank has used in bringing about economic change in several African countries is considered to be flawed by some academics and NGOs. That is, it is seen as inappropriate to attempt to fit a model of development that has its basis in Western industrialised capitalism to agrarian societies, not at least without the necessary infrastructure and consent of its people. In evidence, Professor Gertzel stated that:

> ...there is no doubt in my mind that at the heart of our problems at present is this question of structural adjustment and the so-called reforms that governments have been required to implement under conditionality, and I have to say that I think there are some members of quite a number of bureaucracies around Africa who are very happy to go this way. They are not all opposed to it. But certainly the consequences of the reforms, the reduction of expenditure and the redundancies in the civil services are very much part of the whole problem.[24]

5.26 Professor Gertzel claimed that structural adjustment has widened the gap between the rich and the poor and has increased the dependency of recipient countries on their donor providers. There was strong support among submissions that more 'bottom up' or community involvement was needed so that developmental proposals could be made to work.

5.27 While the need for economic reform in developing countries was acknowledged, some positive aspects of SAPs were noted. World Vision Australia commented:

> ...Structural adjustment is necessary. It is hard to blame the present governments in some of these countries for some of the problems of

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23 World Vision Australia, Submission, p. S651.
24 Gertzel, Transcript, 4 October 1995, p. 295.

> the last 20 years, but the reality is they have to deal with them and structural adjustment is necessary. What we would like to see is a lot more softening in terms of the bank's attitude...so that some of the user pays type-mentality is softened off and the poor are not impacted anywhere near as greatly.
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> ...There are so many good things in the structural adjustment program. One, for example, is streamlining the bureaucracy, and government expenditure...It also helps governments to allow private initiatives to be forceful in the economies concerned...[25]

5.28 Despite there being some positive aspects of the programs, Dr Makonen Getu from World Vision Australia, went on to say that many of the reforms had been at the expense of the poorest sections of a community:

> What the structural adjustment program has done is that these subsidies have been withdrawn and it has brought unbearable consequences to the poor...What the SAP implementing governments and the World Bank have failed to do is to evolve mechanisms that will guarantee effective implementation of the programs and also effectively democratise the institutions.[26]

5.29 According to Dr Getu, an added criticism of the structural adjustment program is its pressure on governments to devalue their currencies. In his view, the devaluation has not helped African economies to be competitive in the international market because the economies are primarily agricultural. The devaluation, which is meant to make goods cheaper, has not stimulated an increase in production of their agricultural and mining products. On the contrary, it has increased the cost of imported goods as well as their own locally produced products.[27]

5.30 The political ramifications of a government following a SAP were also acknowledged:

> Structural adjustment may appeal to analysts within the World Bank who don't have to face an electorate. To the ordinary citizens in Africa, they are exactions imposed by and in the interest of outsiders.[28]

5.31 In giving evidence, the Australian Council for Overseas Aid (ACFOA) also criticised the effectiveness of Structural Adjustment Programs. The Council suggested that:

> What has happened with the structural adjustment programs, by and large, is that they have tended to pressure countries to export more of their agricultural produce. This has led countries to extend commercial cropping to, often, monocultural cropping. It has also pushed agriculture into very marginal areas. It has often meant that

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25 World Vision Australia, Transcript, 29 September 1995, p. 202.
26 ibid.
27 ibid.
28 Dorward and Geddes, Submission p. S45.

> subsistence farmers, often women, have been forced into even more marginal land and that has stressed the land. It has led to farming to get an immediate return in order to help repay debts and to satisfy the requirements of the structural adjustment program in terms of export income, but it has not been done in a way that is in any way environmentally sustainable.[29]

5.32 In recent months, changes to the internal structure and management of the World Bank have indicated that the Bank was prepared to review its method of assistance to countries under Structural Adjustment Programs. Soon after his appointment as head of the World Bank, Mr James Wolfensohn indicated he wished to re-examine structural assistance programs and their impact on the various countries of Africa.[30]

5.33 The Committee would support any action by the IMF and the World Bank to take a more community-based and individual needs approach to SAPs when dealing not only with the SADC countries, but all developing economies.

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29 ACFOA, Transcript, 29 September 1995, pp. 235-236.
30 Curtis, Transcript, 29 September 1995, p. 195.