TRADE & INDUSTRIAL POLICY STRATEGIES

REGIONAL INDUSTRIALISATION TRACKER: DATA UPDATE

Liako Mofo and Danae Govender

January 2025

TIPS supports policy development through research and dialogue. Its two areas of focus are trade and inclusive industrial policy; and sustainable growth.

info@tips.org.za
+27 12 433 9340
www.tips.org.za

Author
Liako Mofo
TIPS Senior Economist: Inclusive Industrialisation and Trade Promotion

Danae Govender
TIPS Economist: Inclusive Industrialisation and Trade Promotion

CONTENTS

GRAPHS AND TABLES

INTRODUCTION

This paper assesses the economic performance of continental SADC,[1] with specific attention to the status quo of industrialisation in the region and the aim of stimulating development of regional value chains. Southern Africa is among the poorest regions in the world, largely due to colonialism and dependence on commodities. Several decades after the end of colonial rule, regional manufacturing remains small, relative to peers, with South Africa disproportionately represented. This paper builds on previous work which sought to uncover the potential for greater regional integration through economic diversification and industrialisation (Makgetla and Levin, 2020; Levin and Makgetla, 2021).

The paper, the first output of the Regional Industrial Tracker, is an assessment of the continental SADC economy, which has remained unequal and dependent on extractive industries, relative to global South peers. The second output will track South Africa's trade and investment with the Southern African region and also evaluates the importance of logistics infrastructure.

COMMODITY DEPENDENCE, GROWTH, AND INEQUALITY IN SOUTHERN AFRICA

The size, levels of inequality, and distance from global markets which characterise the economies of Southern Africa emphasises the importance of developing regional value chains. The development of such value chains would contribute to growing existing industries, facilitate new sectors, provide access to resources and increase market size.

This section assesses the size and growth of the region, the structure of its exports, and the degree of inequality relative to peer developing economies. It finds that regional growth has not kept up with peers, and that commodity dependence and inequality have persisted over the last 20 years. Using their natural resources, particularly in cases of abundance, is a simple option for countries to accumulate national wealth, but the failure to diversify away from extraction towards manufacturing proves problematic for long-term economic development. Unfortunately, this has been the case in continental SADC. Table 1 (in the Appendix) itemises the main industries of the region and the different commodities per country. This table shows the extent to which countries in the region remain commodity-based (CIA, 2024). This dependency leaves countries vulnerable to international price fluctuations, and the lack of diversification and broad-based economic growth strategies perpetuates inequality and dampens domestic consumer demand.

Despite notable growth in the SADC population from 2000 to 2022, the region remains relatively small. In 2022, continental SADC had a total population of almost 360 million people, and an average population of under 30 million (World Bank, 2024). Within the region, four countries – Botswana, eSwatini, Lesotho, and Namibia – were populated by fewer than three million people, while only DRC, South Africa and Tanzania had a population greater than 50 million. In comparison, other developing countries, across the low-income, lower middle-income and upper-middle income groups (excluding China), have an average population over 40 million people (World Bank, 2024).[2]

Economic growth in continental SADC, particularly the low-income segment, was respectable between 1995 and 2022. However, individual economies, and, hence, the economy of the group, remains small relative to other developing countries. In 2022, continental SADC had an average GDP of US$65 billion – less than half the size of other developing countries (excluding China) covered in the analysis.

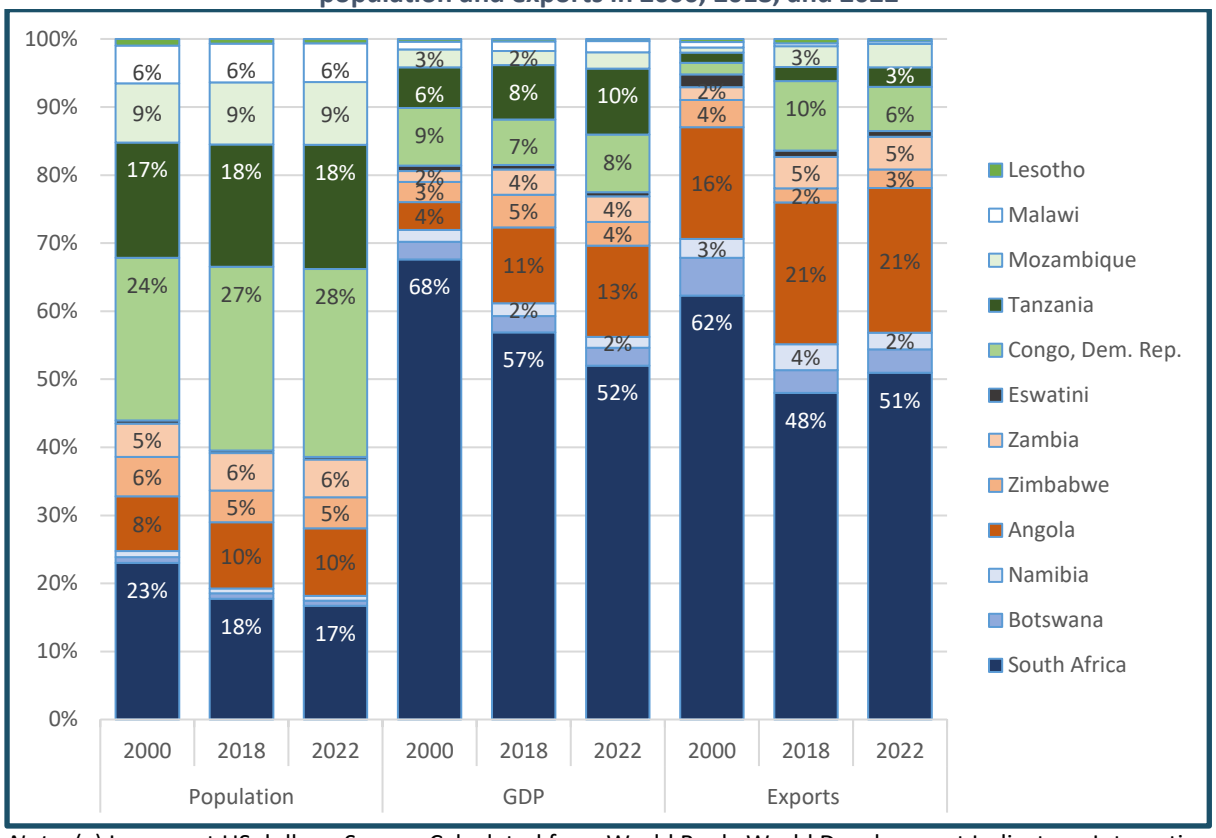
[1] The analysis considers only continental countries of the Southern African Development Community (SADC). These are Angola, Botswana, the Democratic Republic of Congo (DRC), eSwatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. It excludes members that are islands – Comoros, Madagascar, Mauritius, and Seychelles.

[2] The analysis focuses on these income classifications as they are applicable to continental SADC.

Moreover, since 1995, economic growth in the region has been lower than the rest of the developing world. From 1995 to 2022, the regional economy grew by less than 130%, while other developing countries (excluding China) grew by over 170%.[3]

Over the last two decades, South Africa has maintained its position among the largest economies in continental SADC. In 2022, it accounted for 17% of the region's population, 52% of its GDP, and 51% of exports. However, South Africa's share in each of these measures has fallen since 2000. Exports did edge up between 2018 and 2022, but the 2022 share remains notably lower than it was at the start of the millennium (see Graph 1).

Graph 1: Share of continental SADC members in regional GDP (a), population and exports in 2000, 2018, and 2022



Note: (a) In current US dollars. *Source:* Calculated from World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in September 2024.

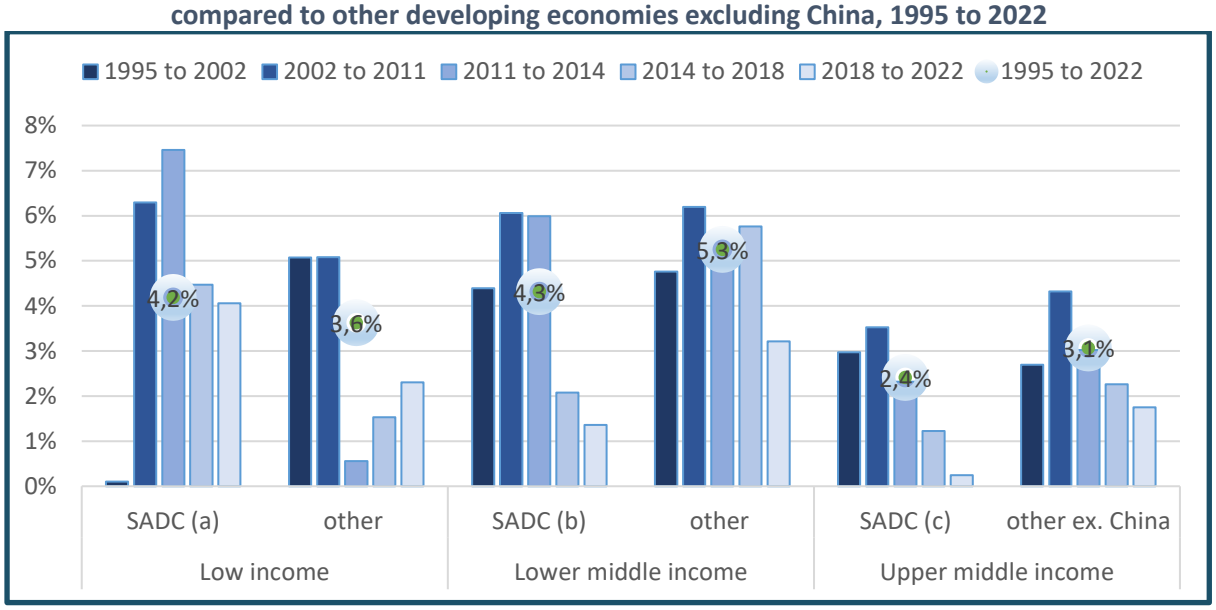
As shown in Graph 2, low-income SADC countries grew at a faster rate over for much of the 1995-2022 period when compared to their peers.[4] In contrast, growth in lower-middle and upper-middle income SADC lagged behind their peers. As a whole, the average growth rate of SADC countries fell behind other developing countries. Graph 2 also illustrates the importance of commodities in the region, as some of the highest growth rates were registered during the commodity boom (2002-2011). Although a period of sustained economic growth for continental SADC followed the boom (2011-2014), growth has, largely, tapered off (2014-2018), and has not reached comparable levels in almost a decade. The tapering off highlights the impact of commodity dependence on economic growth in the region. Elevated incomes from the boom would have resulted in increased government, corporate and consumer spending, boosting economies. Failure to maintain this growth could point to a failure to

[3] The Chinese economy expanded by 800% over the same period.

[4] The high growth rate of low-income countries is typical, considering that these countries grow from a lower base relative to those of a higher income status.

invest the rents earned from extraction towards industrialisation efforts and more inclusive growth (Wurthmann, 2006).

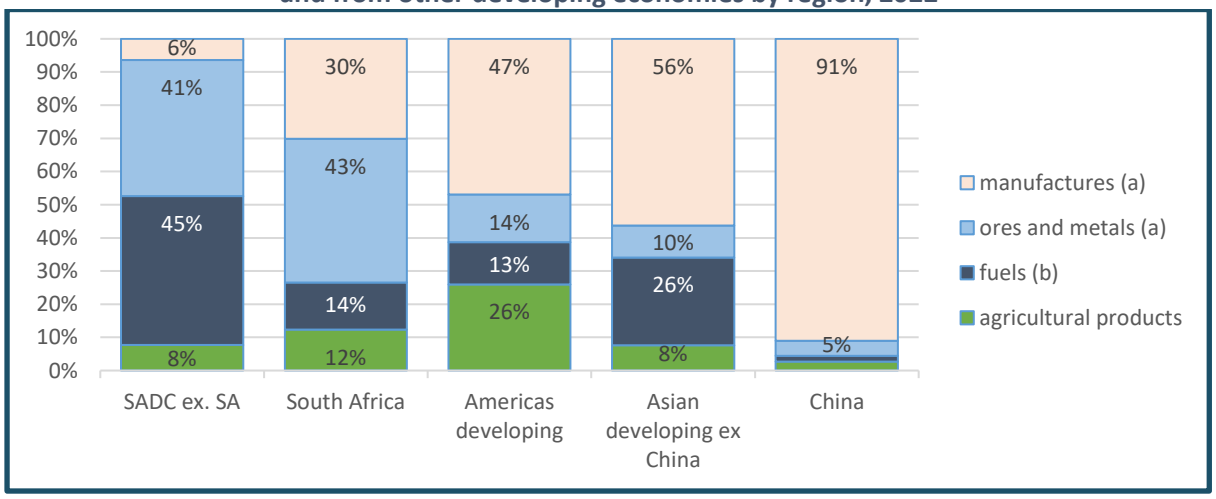
Graph 2: Compound annual growth rates by income group in continental SADC compared to other developing economies excluding China, 1995 to 2022



Note: (a) DRC, Mozambique and Malawi. (b) Tanzania, eSwatini, Angola, Zambia, Zimbabwe and Lesotho. (c) South Africa, Namibia and Botswana. *Source:* Calculated from World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in September 2024.

Further evidence of commodity dependence and a lack of industrialisation in continental SADC is demonstrated in Graph 3, which shows that Southern Africa was much more dependent on extractive exports than other developing regions. Even for the region's most industrialised economy, South Africa, exports from the mining value chain and agricultural products constituted 70% of total exports. For the rest of SADC, commodity exports are over 90%, with extractive industries contributing over 85%. This is in contrast to other developing regions, where manufactures dominate.

Graph 3: Exports from continental SADC compared to exports from China and from other developing economies by region, 2022

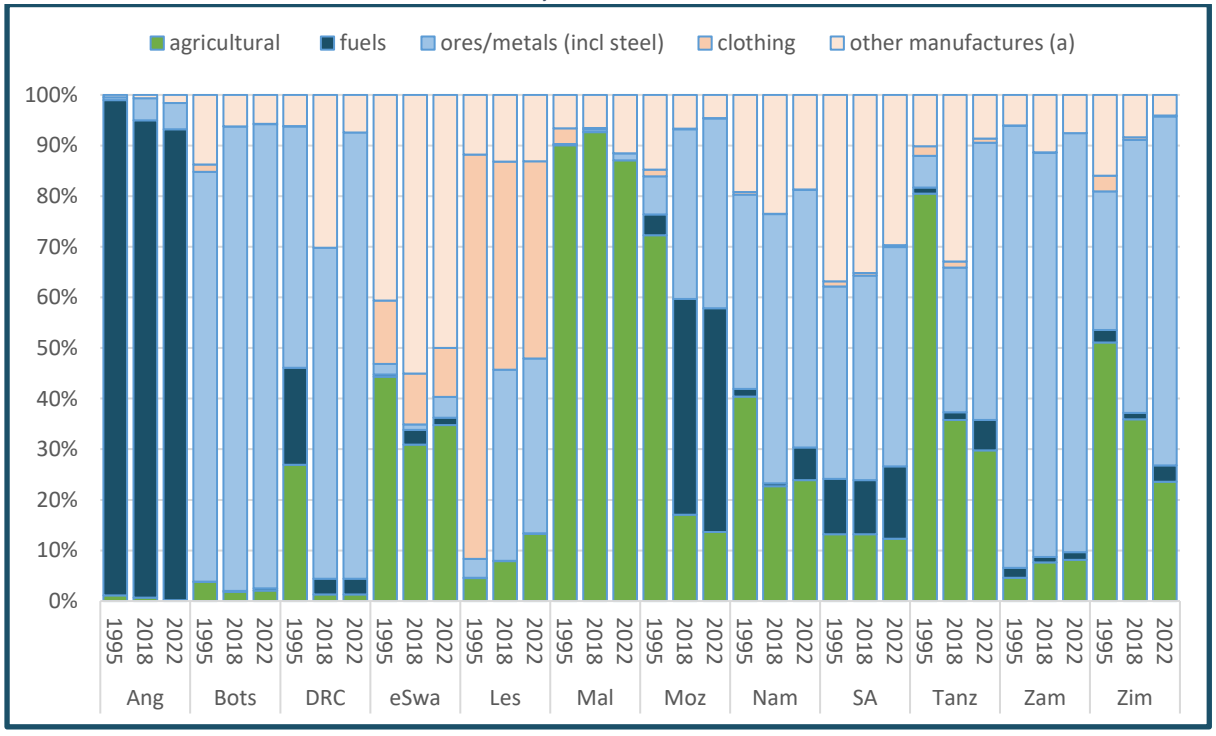


Note: (a) Manufacturing excludes basic foodstuffs, which are included under agriculture, and iron and steel products, which are included in ores and metals. (b) Mostly oil and gas outside of South Africa, and coal for South Africa. Some percentages may not add up to 100% due to rounding. *Source:* Calculated from UNCTAD. UNCTADstat. Interactive database. Downloaded from https://unctad.org/ in September 2024.

Commodity dependence has remained a feature of Southern African economies for almost three decades. While manufactured exports rose modestly in some countries in the late 2010s, in the early 2020s the share of manufactured exports fell in favour of those from the extractives value chain. Most prominently, the DRC's manufactured exports fell by 23 percentage points (from 30% of total exports in 2018 to 7% in 2022), while for Tanzania a 24 percentage point decrease was reported (from 33% of total exports in 2018 to 9% in 2022) (see Graph 4). In each instance, manufactured exports were traded off for exports of ores and metals. South Africa also reflected this trend, albeit less so, with a reduction of five percentage points – from 35% of total exports to 30% (UNCTAD, 2024). However, over the same period, Malawi's share of manufactured exports increased, at the expense of agricultural exports, by five percentage points, from approximately 7% to 12% of total exports.

The drop in the share of manufactured exports could be attributed to the lasting effects of the COVID-19 pandemic, which resulted in weakened demand and disrupted supply lines, as well as the increase in metals prices in 2021 and 2022, as shown in Graph 9 in the Appendix, [5] and the conflict between Russia and Ukraine. Malawi's reduction in agricultural exports, and increase in manufactured exports, could be the result of efforts aimed at industrialisation. It could also be due to the high cost of fertiliser in 2022, also shown in Graph 9 in the Appendix (IMF, 2024). All these factors highlight Southern Africa's vulnerability to international shocks, which could be mitigated by greater regional integration, economic diversification and industrialisation.

Graph 4: Structure of exports by continental southern African economies, 1995, 2018 and 2022



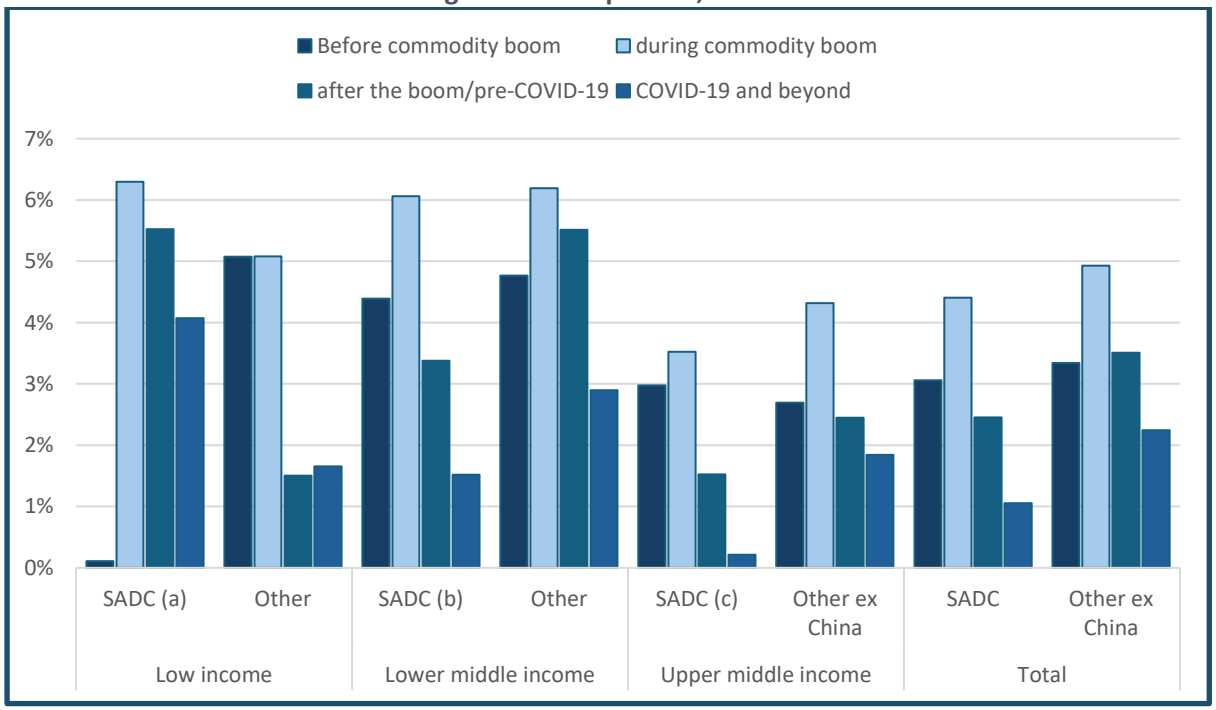
Note: (a) Foodstuffs are included under agricultural exports, and steel under ores and metals. *Source:* Calculated from UNCTAD. UNCTADstat. Interactive database. Downloaded from https://unctad.org/ in September 2024.

[5] Especially as the share of exports are based on the dollar value of exports, rather than physical volume.

The effect of commodity dependence is displayed in Graph 5. During the commodity boom, low-income SADC countries grew at a faster rate compared to all other income classifications considered – registering a growth rate of 6.3%. In addition, all developing countries, as shown in the graph, had higher rates of growth during the boom, and have not had such growth since.[6]

Low-income SADC also registered the most notable economic performance in the COVID-19 era, having grown at a faster rate than other developing countries, again, whether or not from the region. Upper-middle income SADC, on the other hand, has evidently struggled since the advent of the pandemic, registering a marginal growth rate. As a whole, SADC lagged behind other developing countries during the commodity boom and is currently lagging in the post COVID-19 era.

Graph 5: Compound annual growth rates of SADC and other developing countries during select time periods, 1995-2022



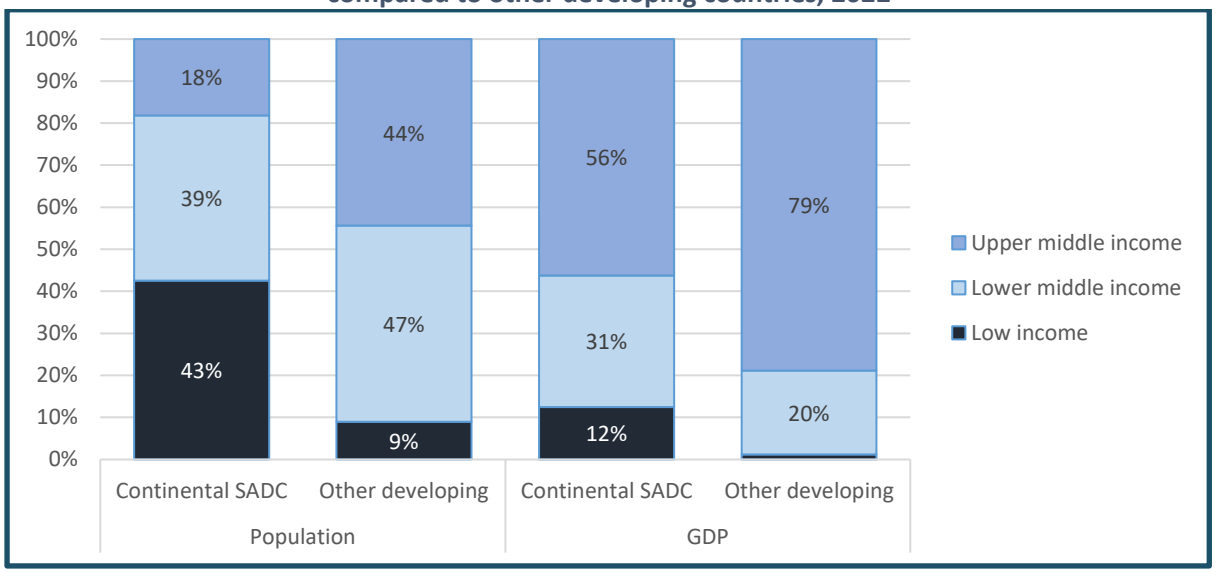
Note: The time periods referred to in the above graph are as follows: Before the commodity boom (1995-2002); during the commodity boom (2002-2011); after the boom/pre-COVID-19 (2011-2019); COVID-19 and beyond (2019-2022).[7] *Source:* Calculated from World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in September 2024.

Commodity dependence, in conjunction with colonial histories, has entrenched unusually deep inequality between and within Southern African countries. These disparities have led to social conflicts, and the low incomes of the majority of people in the region has a damping effect on both regional and domestic demand. Further, disparities between countries in the region is evidenced by the fact that 43% of the region's population control only 12% of the region's income, illustrated by Graph 6.

[6] Within the context of the time clusters used.

[7] The "COVID-19 and beyond" time period includes 2019 as this was the last recorded yearly GDP figure before the onset of the pandemic and the associated economic crisis. As the pandemic started at the beginning of 2020, the analysis aims to understand the degree of economic growth during the pandemic.

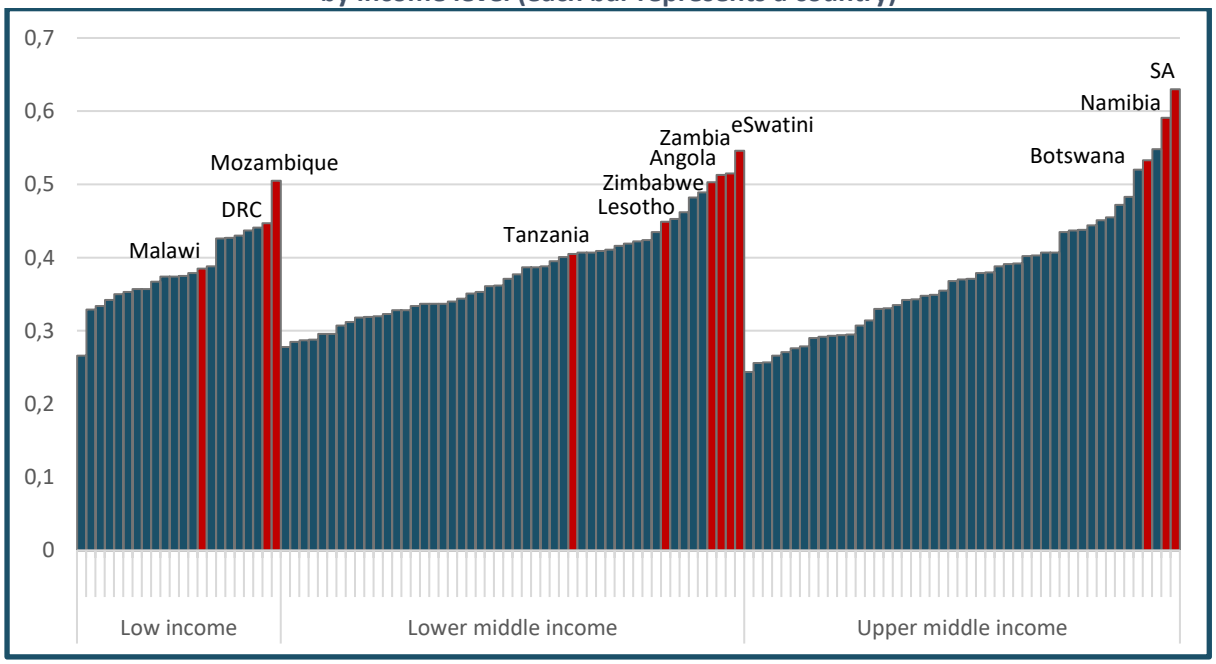
Graph 6: Share of population and GDP by income level in SADC compared to other developing countries, 2022



Source: Calculated from World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in September 2024.

The deep inequality within countries is evident in the average Gini coefficient (weighted by population). For continental SADC, it was 0.49, compared to 0.36 for other developing countries across the three development status classifications. The countries of continental SADC rank among the most unequal societies in their respective categories, as shown in Graph 7. Of the 119 countries presented in Graph 7, only 10 countries reported a Gini coefficient greater than 0.50, with eight of them being from Southern Africa.

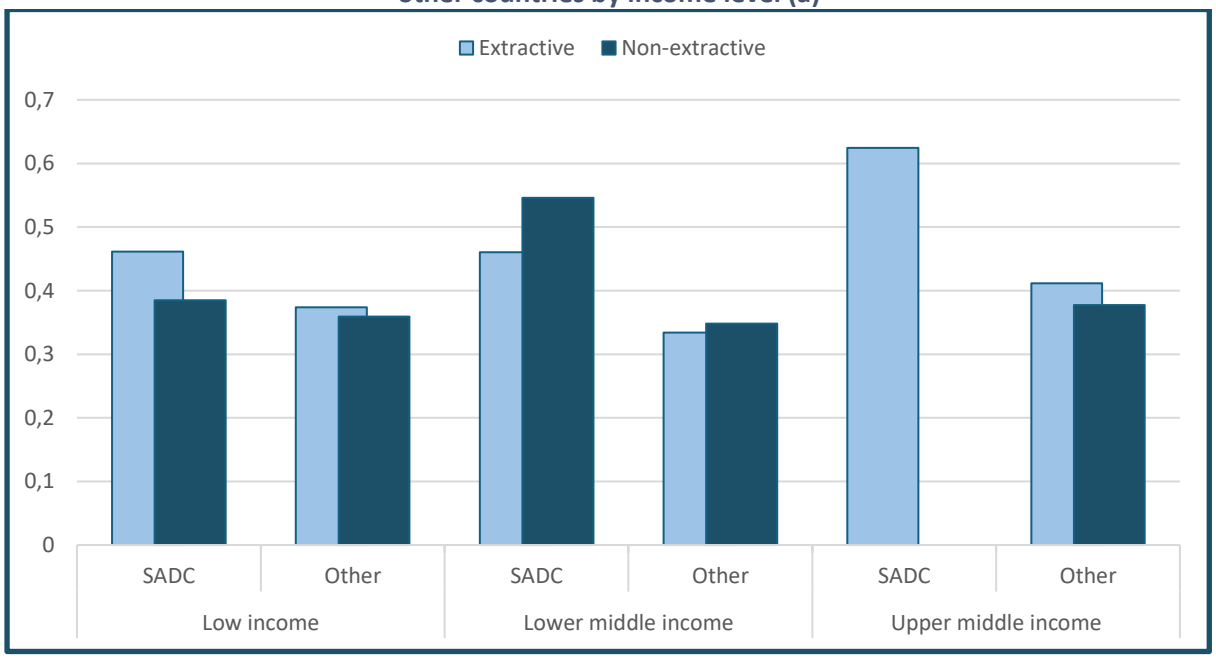
Graph 7: Gini coefficients in continental SADC compared to other countries by income level (each bar represents a country)



Note: For each country, the bar represents the latest available Gini coefficient reported between 2005 and 2022. *Source:* World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in September 2024.

With the exception of lower-middle income countries, extractive-dependent countries have a greater degree of inequality when compared to those nations that are not dependent on extractives. As shown in Graph 8, the population-weighted Gini coefficient, for the most part, was higher for economies reliant on exports of fuels, metals, and ores, precious stones, and non-monetary gold than for other countries. This is especially true for extractive-dependent continental SADC countries, whose population-weighted Gini coefficients were higher than other extractive-dependent economies of the same income status, globally.

Graph 8: Population-weighted average Gini coefficients for continental SADC and other developing economies, comparing extractive dependent and other countries by income level (a)



Notes: (a) Extractive dependent economies defined as over 25% of exports from fuels, ores, metals, precious stones, and non-monetary gold. The sample used includes all countries where data are available for exports and for Gini. Gini coefficients are the latest available from 2005 to 2022. *Source:* Calculated from World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in September 2024; and UNCTAD. UNCTADstat. Interactive database. Downloaded from https://unctad.org/ in September 2024.

Among the reasons driving higher levels of inequality in extractive-based economies are that the rents earned from extractive activities are not invested in industrialisation, implying that income remains concentrated among those that control mining rights, while others remain locked into low-skilled, low-paying work.

The deep inequality that characterises continental SADC continues to hinder economic development and social cohesion in the region. It has led to social conflict, particularly on the issue of land ownership and mining rights (Mnwana and Bowman, 2022). In addition, it causes large-scale (sometimes, illegal) immigration to higher income countries, such as South Africa, which, in turn, results in conflict over employment opportunities, business ownership, and human settlements. This conflict impedes countries' developmental capacity by diminishing investor confidence (Niyitunga, 2024).

REFERENCES

CIA. 2024. *World Factbook*. Central Intelligence Agency. Available at: https://www.cia.gov/the-world-factbook/countries/.

IMF. 2024. *Primary Commodity Price Systems*. International Monetary Fund. Data Portal. Available at: https://data.imf.org/?sk=471dddf8-d8a7-499a-81ba-5b332c01f8b9 (Accessed: 5 October 2024).

Levin, S. and Makgetla, N. 2021. "Regional value chains and industrialisation: The Southern African experience". In *Transforming Southern Africa: Harnessing Regional Value Chains and Industrial Policy for Development*. New York: United Nations, pp. 2–30. Available at: https://unctad.org/system/files/official-document/gdsecidc2021d1_en.pdf.

Makgetla, N. and Levin, S. 2020. *Regional Value Chains and Industrialisation: The Southern African Experience*. Working Paper April 2020. Trade & Industrial Policy Strategies. Available at: https://www.tips.org.za/research-archive/trade-and-industry/item/3782-regional-value-chains-and-industrialisation-the-southern-african-experience.

Mnwana, S. and Bowman, A. 2022. "Land, conflict and radical distributive claims in South Africa's rural mining frontier". In *The Extractive Industries and Society*, 11 (September 2022). Available at: https://www.sciencedirect.com/science/article/abs/pii/S2214790X21001374 (Accessed 6 October 2024).

Niyitunga, E.B. 2024. "Xenophobia: a hindrance factor to South Africa's ambition of becoming a developmental state". In *Frontiers in Human Dynamics*, 3(2024). Available at: https://www.frontiersin.org/journals/human-dynamics/articles/10.3389/fhumd.2024.1337423/full (Accessed: 6 October 2024).

UNCTAD. 2024. *Merchandise Trade Matrix*. UNCTADstat. UN Trade and Development. Available at: https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeMatrix.

World Bank. 2024. *World Development Indicators.* Available at: https://databank.worldbank.org/source/world-development-indicators# (Accessed: 10 September 2024).

Wurthmann, G. 2006. *Ways of Using the African Oil Boom for Sustainable Development*. Economic Research Working Paper No 84. African Development Bank. Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/00806226-EN-ERWP-84.PDF.

APPENDIX

Table 1: Natural resources, percentage of urban population, GDP spent on education, and main industries for continental SADC countries

COUNTRY	NATURAL RESOURCES	URBAN POPULATION (%)	YEAR REPORTED	GDP SPENT ON EDUCATION	LIST OF MAIN INDUSTRIES
Angola	Petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, bauxite, uranium	68.7	2023	2.4% of GDP (2020 estimate)/ 2.3% (2022-World Bank)	Petroleum; diamonds, iron ore, phosphates, feldspar, bauxite, uranium, and gold; cement; basic metal products; fish processing; food processing, brewing, tobacco products, sugar; textiles; ship repair
Botswana	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver	72.9	2023	8.7% of GDP (2020 est.)/ 8.1% (2020-World Bank)	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver; beef processing; textiles
DRC	Cobalt, copper, niobium, tantalum, petroleum, industrial and gem diamonds, gold, silver, zinc, manganese, tin, uranium, coal, hydropower, timber	47.4	2023	2.7% of GDP (2021 estimate)/ 3% (2022-World Bank)	Mining (copper, cobalt, gold, diamonds, coltan, zinc, tin, tungsten), mineral processing, consumer products (textiles, plastics, footwear, cigarettes), metal products, processed foods and beverages, timber, cement, commercial ship repair

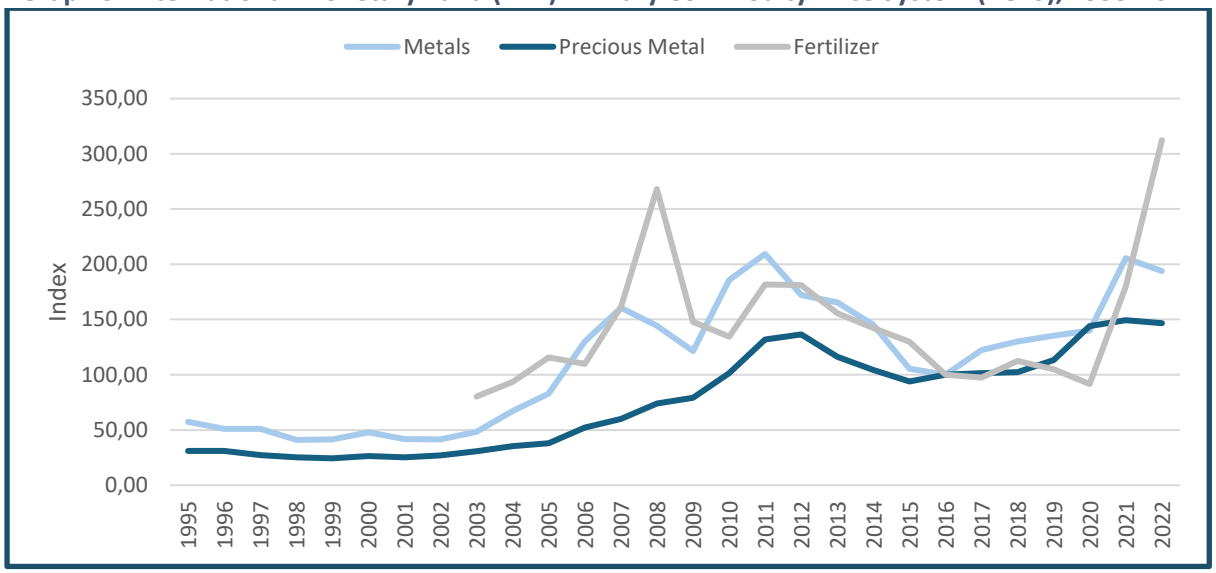
COUNTRY	NATURAL RESOURCES	URBAN POPULATION (%)	YEAR REPORTED	GDP SPENT ON EDUCATION	LIST OF MAIN INDUSTRIES
eSwatini	Asbestos, coal, clay, cassiterite, hydropower, forests, small gold and diamond deposits, quarry stone, and talc	24.8	2023	5% of GDP (2021 estimate)/ 6.3% (2023-World Bank)	Soft drink concentrates, coal, forestry, sugar processing, textiles, and apparel
Lesotho	Water, agricultural and grazing land, diamonds, sand, clay, building stone	30.4	2023	8.7% of GDP (2021 estimate)/ 6.7% (2023-World Bank)	Food, beverages, textiles, apparel assembly, handicrafts, construction, tourism
Malawi	Limestone, arable land, hydropower, unexploited deposits of uranium, coal, and bauxite	18.3	2023	2.9% of GDP (2020 estimate)/ 3.3% (2018-World Bank)	Tobacco, tea, sugar, sawmill products, cement, consumer goods
Mozambique	Coal, titanium, natural gas, hydropower, tantalum, graphite	38.8	2023	6.3% of GDP (2020 estimate)/ 7% (2021-World Bank)	Aluminium, petroleum products, chemicals (fertiliser, soap, paints), textiles, cement, glass, asbestos, tobacco, food, beverages
Namibia	Diamonds, copper, uranium, gold, silver, lead, tin, lithium, cadmium, tungsten, zinc, salt, hydropower, fish	54.9	2023	9.6% of GDP (2021 estimate)/ 9% (2023-World Bank)	Mining, tourism, fishing, agriculture

COUNTRY	NATURAL RESOURCES	URBAN POPULATION (%)	YEAR REPORTED	GDP SPENT ON EDUCATION	LIST OF MAIN INDUSTRIES
South Africa	Gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, rare earth elements, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas	68.8	2023	6.6% of GDP (2021 estimate)/ 6.6% (2023-World Bank)	Mining (world's largest producer of platinum and chromium and still a big gold producer), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertiliser, foodstuffs, commercial ship repair
Tanzania	Hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones (including tanzanite, found only in Tanzania), gold, natural gas, nickel	37.4	2023	3.3% of GDP (2021 estimate.)/ 3.3% (2023-World Bank)	Agricultural processing (sugar, beer, cigarettes, sisal twine); mining (diamonds, gold, and iron), salt, soda ash; cement, oil refining, shoes, apparel, wood products, fertiliser
Zambia	Copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium, hydropower	46.3	2023	3.7% of GDP (2020)/3.6% (2022-World Bank)	Copper mining and processing, emerald mining, construction, foodstuffs, beverages, chemicals, textiles, fertiliser, horticulture
Zimbabwe	Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, platinum group metals	32.5	2023	3.9% of GDP (2018 estimate)/2.1 % (2018-World Bank)	Mining (coal, gold, platinum, copper, nickel, tin, diamonds, clay, numerous metallic and non-metallic ores), steel, wood products, cement,

COUNTRY	NATURAL RESOURCES	URBAN POPULATION (%)	YEAR REPORTED	GDP SPENT ON EDUCATION	LIST OF MAIN INDUSTRIES
					chemicals, fertiliser, clothing and footwear, foodstuffs, beverages

Source: CIA, World Factbook. Downloaded from https://www.cia.gov/the-world-factbook/countries/; and World Bank. World Development Indicators. Interactive database. Downloaded from https://www.worldbank.org in August 2024.

Graph 9: International Monetary Fund (IMF) Primary Commodity Price System (PCPS), 1995-2022



Note: 2016=100. *Source*: IMF. IMF Data Portal. Interactive database. Downloaded from https://data.imf.org in October 2024.