Report on Economic and Social Conditions in Southern Africa 2013

Nineteenth Meeting of the Intergovernmental Committee of Experts for Southern Africa

United Nations
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The subregion's growth rate of about 4 per cent in 2012, though higher than the global growth rate of 3.3 per cent, was lower than the 5.6 per cent and 5 per cent recorded in 2010 and 2011, respectively. The major risk to the global economy is the weaker eurozone economy and lower than anticipated growth among emerging economies. Primary commodity prices however remained buoyant; hence commodity exporters in the subregion performed better than during the 2009 crisis, resulting in significant windfall gains for exporting countries. The management of the windfall revenues will have significant effects on future real GDP growth of these economies. However, the subregion remains highly vulnerable to price fluctuations. The projected bleak economic outlook for global recovery and growth requires the subregion to turn to new growth sources, including diversifying and transforming their economies. On the social front, unemployment remains, especially among the youth, a critical challenge for many countries, and has the potential to be a source of instability if not addressed. Most countries remain off track in as far as the attainment of the Millennium Development Goals (MDGs) by 2015 is concerned. In going forward, member States must deliberately link economic and social development goals to poverty alleviation and job creation, and also ensure inclusive and sustainable growth and development.

Chapter 1:

Developments in the world economy and implications for Southern Africa

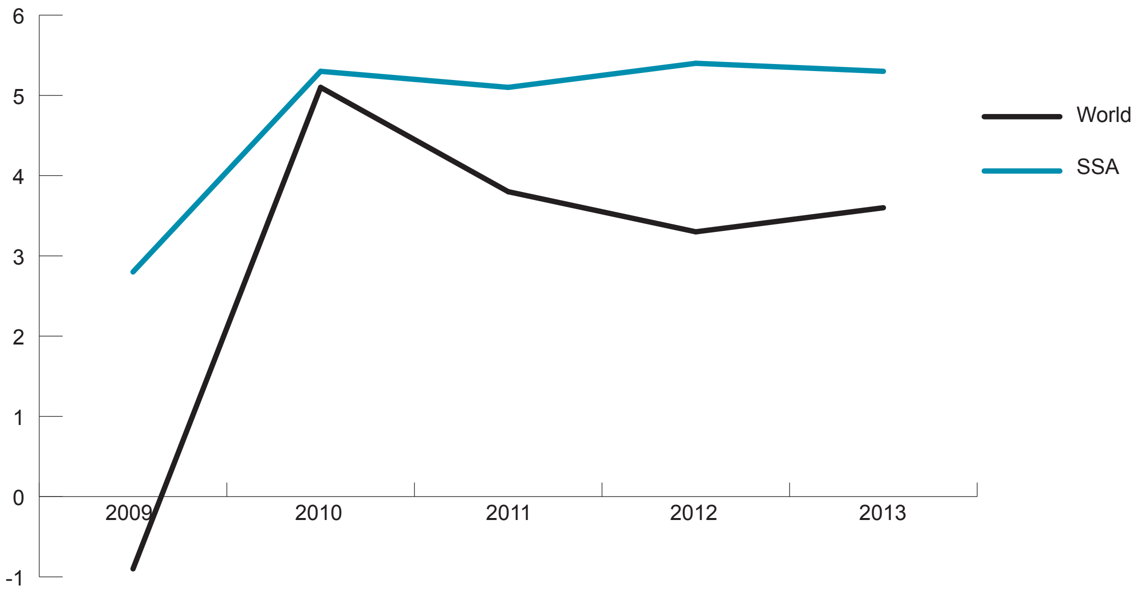
1.1 Africa registers strong economic growth

Africa continues to benefit from relatively high growth in emerging economies such as China and India, which have become important for the continent's trade and investment. While this is helping Africa to become more resilient, these countries cannot fully compensate for the adverse effects ofa slowdown in advanced countries (AfDB, 2012).

Africa's economy has recovered after setbacks from uprisings in Northern Africa and the lingering effects of the 2009 global recession that slowed economic growth to 3.8 per cent in 2011. Although a new global slowdown is constraining the continent's growth, the gradual recovery of North African economies and consistent performance in other subregions led to a rebound in its average growth to 4.5 per cent in 2012. Africa is expected to post 4.8 per cent growth in 2013 due to new mineral and oil production and the growth of export markets outside Europe. Natural resource-rich economies are expected to do better than more mature emerging economies (IMF, 2012).

Recent policy interventions in high-income countries will likely contribute to stabilizing and bolstering global demand in 2013. Domestic demand in the region remained relatively strong compared to external demand for Africa's exports to Europe and other developed regions. As a result growth in sub-Saharan Africa is expected to see an uptick to 5.2 per cent in 2013. Excluding South Africa, growth is expected to reach 6.2 per cent in 2013, making Africa one

Figure 1: Economic growth trends in Sub-Saharan Africa and the world: 2009-2012



Source: IMF, World Economic Outlook Database.

of the fastest growing developing regions (World Bank, 2012). The regional growth rate will remain above the world average (figure 1).

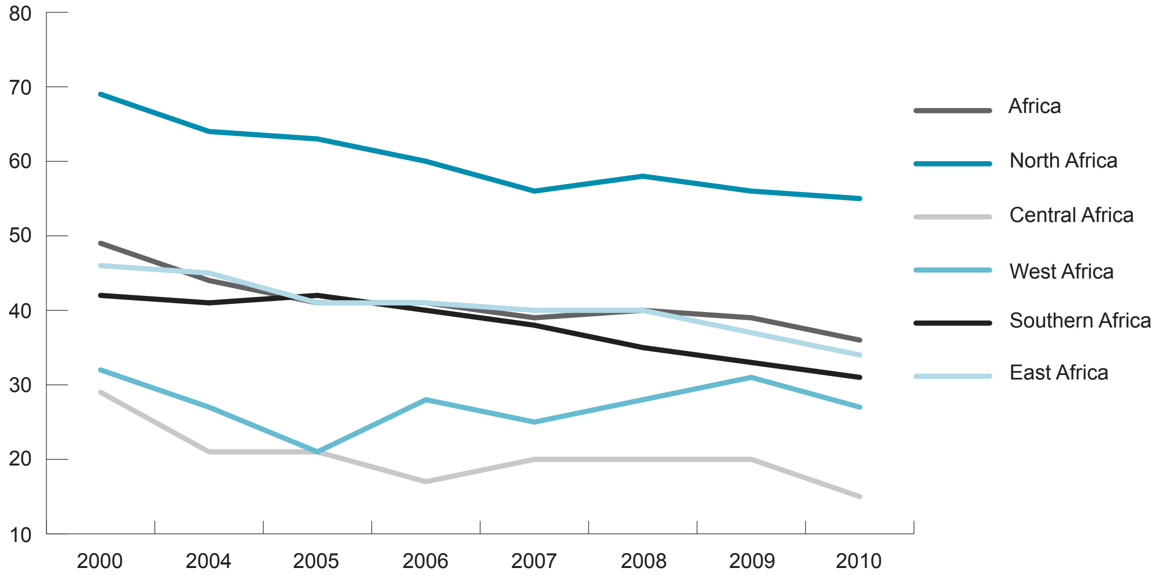
A third of African countries grew at or above 6 per cent in 2012, buoyed by new mineral exports, a return of peace, or robust growth in the non-minerals sector (World Bank, 2012). Angola, the Democratic Republic of the Congo, Mozambique and Zambia are among the ten fastest growing sub-Saharan African economies in 2012. Southern Africa registered the lowest, but positive, economic growth rate of 3.8 per cent in 2011 compared to 5.8 per cent for East Africa, 5.6 per cent for West Africa and 4.2 per cent for Central Africa. North Africa registered negative economic growth for the same period as a consequence of the Arab Spring (Africa Progress Panel, 2012).

1.2 The global outlook and implications for Southern Africa

The risk of a new global recession could increase if the fiscal crisis in Europe deepens. Europe's growth weakened in 2011 and 2012 but it is expected to recover in 2013. Eurozone countries agreed to implement coordinated fiscal policies to bring back fiscal sustainability in several countries, particularly Greece. This resulted in slowing foreign demand anda loss of confidence as financial markets adjusted. Attempts to contain the contagion from the Greek debt crisis to other eurozone countries, notably Italy, Portugal and Spain were not fully successful as evidenced by rising risk premiums on government bonds (AfDB, 2012).

Given the weakened economic activity, unemployment reached 10.5 percent in the European Union (EU) and 11.3 per cent in the eurozone in 2012. It is expected to peak at 10.9 per cent in the EU and 11.8 per cent in the eurozone in 2013 before falling slightly in 2014. The main

Figure 2: Exports to Europe (Share of subregion's total exports):2000-20



Source*: UNCTAD Stat.*

potential transmission channels to developing countries include trade exposure through falling demand for exports to Europe, sovereign risks (including reductions in Official Development Assistance), and liquidity risks that could affect other financial inflows such as foreign direct investments (FDI) and remittances (UNECA-AU, 2012). The crisis would also affect developing countries through knock-on effects of fiscal consolidation in Europe to meet austerity targets and through a drop in the value of currencies pegged to the euro.

The eurozone is an important export market for many SADC economies and their major trade partners, consuming more than 34 per cent of Russia's merchandise exports, around 14 per cent of China's, almost 18 per cent of Brazil's, close to 17 per cent of South Africa's and just over 13 per cent of the United States' merchandise exports. Should the detrimental effect on trading patterns intensify, Russia, South Africa and China are likely to be most affected.

While the share of exports to Europe has declined from nearly 50 per cent of total exports for Africa in 2000 to 36 per cent in 2010, Europe accounts for at least 31 per cent of exports from Southern Africa, highlighting the relative vulnerability of the subregion to the decline in export demand by Europe (figure 2). Madagascar, Malawi, Mauritius and Namibia are listed among the fifteen sub-Saharan African countries with the highest share of exports destined to Greece, Ireland, Italy, Portugal and Spain and could be affected by continuation of the eurozone crisis.

Mozambique is among the most vulnerable countries, owing to its high dependence on the eurozone for trade, with 62.4 per cent of its exports going to the eurozone in 2010. The country might find its banking sector hit by problems in Portugal, as its two largest banks, which account for 60 per cent of the banking sector's assets, are owned by the three major Portuguese financial institutions that experienced funding pressures through their exposure to European sovereign risks.

South Africa's trade deficit widened substantially in the first half of 2012, mainly due to contracting import demand from Europe and weaker growth in exports destined for other advanced economies, including China. The cumulative trade deficit stood at R51.1 billion from January to June 2012, compared to the R2.5 billion recorded over the corresponding period in 2011(Massa and others, 2012). South African export growth was down by around 32 per cent in the three months leading to June 2012. As a result, South Africa grew by a modest 2.7 per cent in 2012 (IMF, 2012). The country has seen soaring unemployment, stock market volatility and currency depreciation.

The economic and financial crisis engulfing the EU should serve as a warning to SADC and other subregions pursuing common monetary systems. Regional integration should not be founded on common monetary arrangements alone but should have trade, transport, telecommunications, energy and labour mobility at its core. Southern Africa should strengthen its financial sector supervision and regulation focusing more strongly on macroprudential supervision. There is also a need to reduce where possible, the high proportion of short-term debt and private capital flows in external liabilities of countries, since these might pose problems in the common monetary area even if overall indebtedness of the subregion is modest (UNECA-AU, 2012).

Chapter 2:

Macroeconomic developments in Southern Africa

2.1 Overview

Southern Africa will have a projected market of over 290 million people by the end of 2013, of which an estimated 60 per cent will be between the ages of 15 and 24, representing a huge potential from a youthful growing labour force. Although GDP growth in SADC was moderate, it was well above the world average of 3.8 per cent in 2011. The subregion grew by 3.3 per cent in 2012 and was projected to grow by 2.4 per cent in 2013. However, countries should be wary of the global economy as projections for 2013 continue to shrink from the 4.1 per cent announced by the IMF in January 2012, to the recent estimate of less than 3 per cent. The global outlook is bleak, as most regions of the world are experiencing decelerating growth, due to the combined effect of the persisting crisis in the eurozone and uncertainty in the United States of America. New growth sources must constantly be sought even when economic growth figures are positive.

2.2 Macroeconomic indicators and regional integration in Southern Africa

Progress towards macroeconomic convergence (MEC) in the SADC is at various stages of implementation. Since the launch of the SADC Free Trade Area at the 28th SADC Summit in 2008, countries commenced negotiations to agree to a customs union by 2010, a common market by 2015, a SADC monetary union with a SADC central bank by 2018 and a common currency by 2018. All these targets have met different implementation challenges including postponements and reformulations. The primary targets of MEC by 2012 include annual average inflation of less than 5 per cent, fiscal deficit of less than 3 per cent of gross domestic product (GDP) and public debt of less than 60 per cent of GDP. Secondary targets include real GDP growth of at least 7 per cent, external reserves of at least six months of import cover and current account deficits of less than 9 per cent of GDP.

2.2.1 GDP growth performance

The combined GDP for the SADC region in 2011 was $654.7 billion with projection of $679.6 billion and $707 billion for 2012 and 2013, respectively, reflecting subregional GDP growth of 15 per cent from 2010 to 2011 (table 1). This is remarkable, considering that major economies in the subregion contracted in 2009. SADC grew by 4 per cent in 2012 and is projected to grow by a similar margin in 2013.

Table1: GDP current ($ million)

	2009	2010	2011	2012e	2013p
Angola	75,492	82,471	100,990	107,857	113,789
Botswana	11,537	14,905	17,627	18,297	19,047
DRC	11,204	13,110	15,642	16,753	18,127
Lesotho	1,711	2,179	2,426	2,531	2,649
Madagascar	8,488	8,721	9,947	10,136	10,400
Malawi	4,728	5,054	5,700	5,946	6,284
Mauritius	8,825	9,714	11,313	11,698	12,131
Mozambique	9,674	9,209	12,798	13,758	14,913
Namibia	8,931	11,133	12,301	12,793	13,317
Seychelles	841	963	1,007	1,037	1,074
South Africa	283,012	363,523	408,237	418,851	431,416
Swaziland	2,950	3,698	3,978	3,862	3,824
Tanzania	21,368	22,915	23,705	25,246	26,963
Zambia	12,805	16,193	19,206	20,454	22,132
Zimbabwe	5,836	7,476	9,900	10,395	11,019
ECA Southern Africa	425,502	525,556	604,476	626,442	650,523
SADC	467,403	571,264	654,778	679,614	707,085

Source*: IMF Data; Note: e- Estimates; p- projections.*

In line with Africa's growth, the SADC subregion's growth showed signs of slowing down from the 5.6 per cent recorded in 2010 to 5 per cent in 2011 and is estimated to have lowered further to 4.3 per cent in 2012. Angola, the Democratic Republic of the Congo, Mozambique, Tanzania and Zambia were the fastest growing countries in 2012, with growth rates ranging from 6.5 to 7.5 per cent (table 2). Madagascar, South Africa and Seychelles were among countries that registered slowing growth rates. However, the performance of most of the countries was well above the global growth rate of 3.3 per cent in 2012. Depending on performance by the large economies, particularly Angola, the Democratic Republic of the Congo and South Africa, growth is expected to be steady but moderate at 4.9 per cent in 2013. Although the pressures from the eurozone are bearing down on mineral and oil exports from the SADC, other sources of growth are expected to provide a cushion.

Angola, the Democratic Republic of the Congo, Mozambique, Tanzania and Zambia showed strong growth on the back of natural resource extraction activities (table 2). These resources include oil in Angola, the Democratic Republic of the Congo and Tanzania, coal and natural gas in Mozambique and uranium in Tanzania. Expansion of existing mining and other extractive operations in all these countries account for most of the growth.

Zimbabwe has been registering positive GDP growth since 2008. The move to suspend the Zimbabwe Dollar, the government of unity and an industrial revival could possibly be responsible for the reversal of fortunes. Growth has been robust, peaking at 9.6 per cent in 2010 before slowing down with the rest of the subregion to 5 per cent in 2012. Zimbabwe's output is expected to expand by 6 per cent in 2013. However, adverse weather, which reduced cereal harvest by 33 per cent in 2012, could lead to downward revision of the 2013 projection depending on the 2013 harvest. An emergency appeal for $131 million food aid is in place until September 2013 (IFRC, 2012).

For members of the Southern Africa Customs Union (SACU), the slowdown is being exacerbated by the sharp drop in SACU revenues and wider deficits in public finances. Lesotho and Swaziland in particular will have to find new revenue streams or adjust public spending by downsizing the civil service as advised by the International Monetary Fund (IMF). The prospects of finding new revenue streams seem bleak as it involves innovation, and while downsizing is not attractive, as it means retrenching, which could trigger further deceleration in the subregional market.

Table2: GDP annual growth rates

	2009	2010	2011	2012e	2013*
Angola	2.4	3.4	3.9	6.8	5.5
Botswana	-4.8	7.0	5.7	3.8	4.1
DRC	2.8	7.2	6.9	7.1	8.2
Lesotho	2.9	5.6	5.8	4.3	4.7
Madagascar	-4.6	1.6	1.0	1.9	2.6
Malawi	9.0	6.5	4.3	4.3	5.7
Mauritius	3.0	4.1	4.1	3.4	3.7
Mozambique	6.3	6.8	7.1	7.5	8.4
Namibia	-0.4	6.6	3.8	4.0	4.1
Seychelles	0.5	6.7	5.0	3.0	3.5
South Africa	-1.5	2.9	3.1	2.6	3.0
Swaziland	1.2	2.0	1.3	-2.9	-1.0
Tanzania	6.0	7.0	6.4	6.5	6.8
Zambia	6.4	7.6	6.5	6.5	8.2
Zimbabwe	6.0	9.6	9.4	5.0	6.0
ECA Southern Africa (Average)	2.8	5.7	5.0	4.1	4.8
SADC (Average)	2.4	5.6	5.0	4.3	4.9

*Source: IMF Data; Note: Meets SADC MEC target. e- Estimates; *- Projections.*

Reforms are already underway in Swaziland, including the introduction of the value added tax from April 2012 and voluntary early retirement as part of civil service restructuring. There is a general slowdown in transactional activities, even in the private sector, as Government dominates business transactions. Banking sector profits have been contracting, as the liquidity crisis worsened. Swaziland is projected to remain the worst performer in the subregion in 2013. Recovery could be strong in the medium to long term, depending on the level of commitment to fiscal reforms at all tiers of Government.

The general slowdown in the subregion is symptomatic of failure to capture the dividends from a large informal sector and an under utilized private sector. The performance of the services, industry and manufacturing sectors in the subregion is comparable to those of the leading industrialized countries of the world (table 3). Except for Botswana, Mauritius and South Africa, the agriculture sector contributes four times more to the GDP of the countries in the subregion than the global average. Hence, there is a need to diversify agriculture through value addition and industrialization of the sector. Lack of a coordinated subregional strategy on how to industrialize the agricultural sector reflects a similar low prioritization at national level to make agriculture more relevant for the industrialization needs of the subregion.

Table3: Value added by sector (per cent of GDP, 2010-2012)

Country Name	Agriculture	Industry	Manufacturing	Services
Angola	10.0	60.1	6.3	30.0
Botswana	2.5	45.9	4.1	51.6
Lesotho	8.2	32.8	12.3	59.0
Mauritius	3.6	26.8	18.0	69.6
Mozambique	31.9	23.8	12.8	44.3
Namibia	7.4	19.6	7.6	73.0
South Africa	2.4	30.7	14.0	66.8
Swaziland	7.9	46.2	41.4	45.9
Tanzania	27.6	26.0	9.6	46.4
Zambia	14.9	37.5	9.2	47.6
Zimbabwe	14.4	24.9	12.4	60.8
Other Countries				
Brazil	5.4	27.8	15.4	66.8
China	10.1	46.6	29.6	43.3
Germany	0.9	28.2	20.9	71.0
India	17.5	26.8	14.2	55.8
Korea, Rep.	2.6	39.3	30.6	58.2
Malaysia	10.6	44.4	26.1	45.0
United States	1.2	20.0	13.2	78.8

Source: World Bank Development Indicators.

Angola, which had stellar performance from 2005 to 2007 (18.3 per cent, 20.7 per cent, 22.6 per cent, respectively) has drastically decelerated since 2009 (2.4 per cent), although growth slightly improved to 3.9 per cent in 2011. This is a natural resource-rich economy, whose performance is lower than the potential growth of its export sectors. Lack of services to drive the commodities to market or macroeconomic imbalances occasioned by uncoordinated fiscal and monetary policies may be responsible for loss in potential output. Incidentally, while industry as a whole has been shrinking, Angola's manufacturing has been growing at more than 10 per cent per annum since 2010 (table 4). Reviewing sources of growth is paramount for most countries, as appropriate sectoral measures can be taken early.

Table4: Value added annual growth rates (averages: 2010-2012)

Country Name	Agriculture	Industry	(of which Manufacturing)	Services
Angola	8.6	-0.6	12.8	10.9
Botswana	5.9	5.8	9.4	5.7
Lesotho	2.5	6.9	5.7	4.2
Malawi	4.1	12.4	6.5	
Mauritius	-0.3	2.9	2.9	5.0
Mozambique	8.1	9.6	3.5	5.5
Namibia	-20.0	-27.3	-31.2	23.8
South Africa	2.9	3.3	4.3	2.7
Swaziland	2.4	2.9	2.7	1.4
Tanzania	3.8	7.6	7.5	7.8
Zambia	12.5	3.1	2.3	8.5
Zimbabwe	13.7	15.3	2.3	3.8

Source: World Bank Data.

2.2.2 External balances

2.2.2.1 Foreign direct investments

There is no change in terms of major recipients of FDI in Southern Africa. Angola, the Democratic Republic of the Congo, Mozambique, South Africa and Zambia remain key recipients with a combined average of $1,196.6 million in 2011. Inflows recovered from $7,800 million in 2010 to $10,000 million in 2011. The reversal was precipitated primarily by a rebound of flows to South Africa of over $5,800 million in 2011 compared to $1,200 million recorded in 2010, while Mozambique registered over $2,000 million in 2011 compared to $990 million recorded in 2010. In 2011, South Africa accounted for 55.4 per cent of the total subregional FDI inflows, while Mozambique was second place at 20 per cent, due to the discovery of natural gas. The rest of the countries shared the remaining 24.5 per cent. The Democratic Republic of the Congo and Zambia are expected to register favourable FDI inflows in the medium to long term, due to increased output growth driven by new mines becoming operational.

Angola saw a sharp decline in FDI inflows, mainly on account of uncertainties surrounding elections in 2012. The country recorded outflows of $5,600 million in 2011 with a further projected outflow of $3,100 million in 2012. However, Angola is projected to reverse the negative trends by attracting an estimated $600 million and $800 million in 2013 and 2014 through the expected strong performance in the extractive industry, particularly oil.

Foreign investments in the subregion are mainly targeted at mining, quarrying and the oil sector. The eurozone sovereign debt crisis is likely to shift both the volumes and sources of FDI from the traditional sources in Europe to other regions in the short to medium term. This highlights the unpredictability of foreign investments in the face of external shocks and thus the need for countries to create a favourable business environment for domestic investors. If the eurozone crisis persists, countries should explore FDI from emerging economies such as China, which accounted for 7.5 per cent of the total FDI receipts by Africa in 2008.

2.2.2.2 Current account balances

The recovery in the global demand for primary commodities (oil, diamond, copper and base metals) propelled by strong manufacturing performance in emerging economies and China helped to bolster the external balances of Angola, Botswana and Zambia. Angola registered 9.6 per cent of GDP as current account balance in 2011 before tumbling to 7.3 per cent and 4.4 per cent in 2012 and 2013 respectively due to oil production problems which affected exports. Botswana, mainly driven by diamond exports, had a current account balance of 1.6 per cent in 2011, with sound projections of 3.0 per cent and 2.7 per cent for 2012 and 2013, respectively. Zambia, which is Africa's largest copper producer, recorded a current account balance of 1.2 per cent of GDP in 2011and 2012 and has projected 2.6 per cent for 2013.

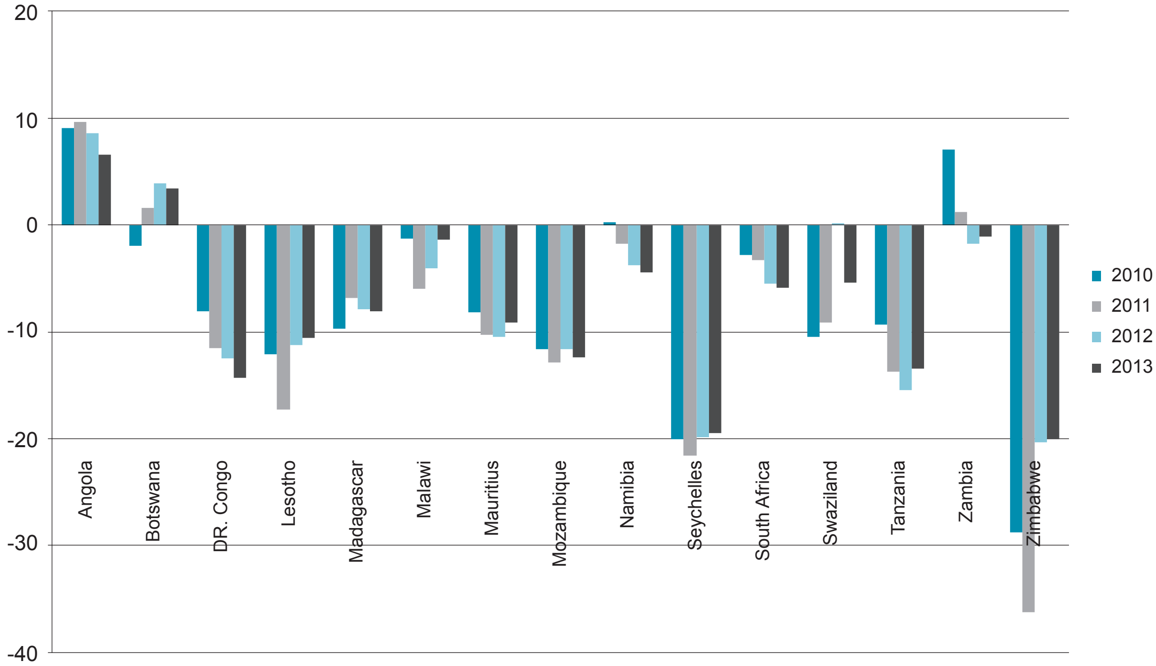
Rising oil prices at the beginning of 2012 had a debilitating effect on the current account balances of many oil importing countries in the subregion. The external environment remains uncertain in the face of instability in financial markets, particularly in the eurozone. South Africa faces widening current account deficits ranging from -3.3 per cent in 2011 to -2.8 per cent in 2010 while estimates for 2012 and 2013 were -4.8 per cent and -5.2 per cent respectively. The poor external balance for South Africa has a direct bearing on Swaziland and Lesotho in terms of private remittances and exports for their products because South Africa remains their largest trading partner.

Malawi had a current account balance of -5.9 per cent in 2011 and was projected to register -4.3 per cent and -1.7 per cent in 2012 and 2013 respectively, mainly reflecting declining import bills and challenges in the tobacco sector. The rest of the countries continued posting negative current accounts balances, suggesting challenges in their external sector (figure 3). Notably, Zimbabwe, Seychelles, Lesotho and Madagascar posted the highest current account deficits in absolute terms between 2008 and 2012 and were also projected to continue registering deficits in 2013 and beyond, on account of rising trade deficits. Mauritius and Seychelles present a unique case, where their negative balances are partially because of dwindling tourist arrivals from Europe. Madagascar's tourism has also been impacted negatively by the eurozone crisis while political instability in the last few years has adversely affected its investment climate.

If current account deficits persist in the medium to long term, austerity measures may have to be implemented, while those operating a fixed exchange rate regime may be forced to devalue their currencies to make exports competitive at global markets. Member States are urged to aggressively mobilize domestic savings, exploit non-traditional export potential, while harnessing private remittances from the diaspora to increase inflows. Private capital flows to the subregion have been driven by market growth, economic stability, quality institutions and open financial markets coupled with abundant natural resources (SADC, 2011).

A selected number of countries showed mixed variations in the levels of capital flows. Data from IMF show that Angola's capital and financial accounts were in deficit from -1.6 per cent of GDP in 2011 to -4.1 per cent in 2012 before falling to -1.7 per cent in 2013, reflecting imbalances in its direct and portfolio investments. South Africa recorded positive capital flows of 19.4 per cent of its GDP in 2011, 18.9 per cent in 2012 and has projected 21.3 per cent for 2013. Lesotho had stable capital account balances of 11.1 per cent of GDP in 2011, 11.2 per cent in 2012 and 10 per cent in 2013, while Seychelles coming from a background of high negative current account balances had positive capital account balances of 4.6 per cent in 2011, 3.0 per cent in 2012 and 1.8 per cent in 2013.

Figure 3: Current account balances



Source: IMF data

2.3 Inflation and commodity price trends

Countries are struggling to meet SADC MEC inflation targets for 2008 and 2012 (Table 7). Angola and Zimbabwe's inflation fell drastically, considering that less than a decade ago, they were in hyperinflation. Domestic demand gaps are slowly being filled by local industrial output and the manufacturing and services sectors could do better in both countries. Malawi's inflation is rising as the country struggles with fiscal and monetary imbalances. Increased demand for oil for power generation, combined with soaring food and world energy prices, is driving inflation in the subregion.

Table 5: Inflation, consumer prices (annual per cent)

Country Name	2010	2011	2012e	2013p
Angola	14.5	13.5	10.8	8.6
Botswana	6.9	8.9	7.5	6.2
Lesotho	3.6	5.0	5.3	4.9
Madagascar	9.2	9.5	6.5	7.0
Malawi	7.4	7.6	17.7	16.2
Mauritius	2.9	6.5	4.5	5.2
Mozambique	12.7	10.4	3.0	8.6
Namibia	4.5	5.0	6.7	5.9
Seychelles	-2.4	2.6	7.5	4.5
South Africa	4.3	5.0		
Swaziland	4.5	6.1	7.8	6.9
Tanzania	6.2	12.7	15.6	9.8
Zambia	8.5	6.4	6.4	6.2
Zimbabwe	3.7	3.5	3.7	5.7

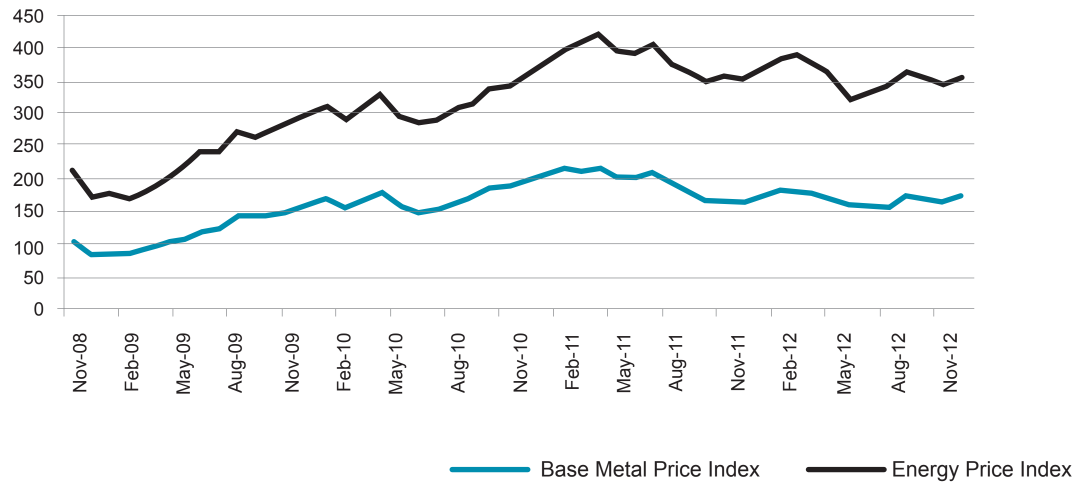
Source: IMF, World Economic Outlook Database. Note: Inflation above 2008 threshold of 10 per cent; Meets target for 2012 (<=5%). e- Estimates; p- Projections.

Commodity prices are expected to remain above the average levels of the five years before the global 2009 crisis and thus growth will be boosted in most countries by new mineral projects and oil fields coming on stream (World Bank, 2012; AfDB, 2012). However, the eurozone crisis causing lower global growth could affect Southern Africa. Retreating platinum, copper and nickel prices during the second half of 2011 and into 2012, on the back of the impact of the sovereign debt crisis in Europe, will impact negatively on the SADC economies (Reserve Bank of Zimbabwe, 2012).

2.3.1 Metals and mineral prices

Although prices of most mineral commodities remained subdued in 2012 and some declined slightly due to various commodity-specific factors, in addition to continuing economic uncertainty in many consuming nations, base metal and energy prices are still above 2008 levels (figure 4). The price of Brent Crude declined marginally from $118 per barrel in January 2012 to end the year at $115 per barrel. Despite price peaks during the year, the crude oil price remains below the 2008 price of $150 per barrel.

Figure 4: Trends in base metals and energy price indices: 2008-2012*



Source: World Bank Commodities Review 2012 and www.infomine.com.

** Energy price index is weighted average of coal, crude oil and natural gas prices. Base metal price index is weighted average of aluminium, copper, iron ore, lead, nickel, tin, and zinc prices. All based on current US dollars, 2000=100.*

Generally, prices of most precious metals remained high during 2012, with peaks in February 2012. Gold rose marginally from $1600 per ounce in January 2012 to $1680 per ounce by December, after a significant price peak in October. Overall, the gold price has been on an upward trend for the past five years and doubling from $800 per ounce[1] in 2008 to the current levels of $1690 per ounce in January 2013. Similar trends are evident in the price of silver, which rose from $28 per ounce in January 2012 to $32 per ounce by December. Platinum prices also firmed in 2012 from $1400 per ounce in January to $1580 per ounce by December, having peaked at $1750 per ounce during the year.

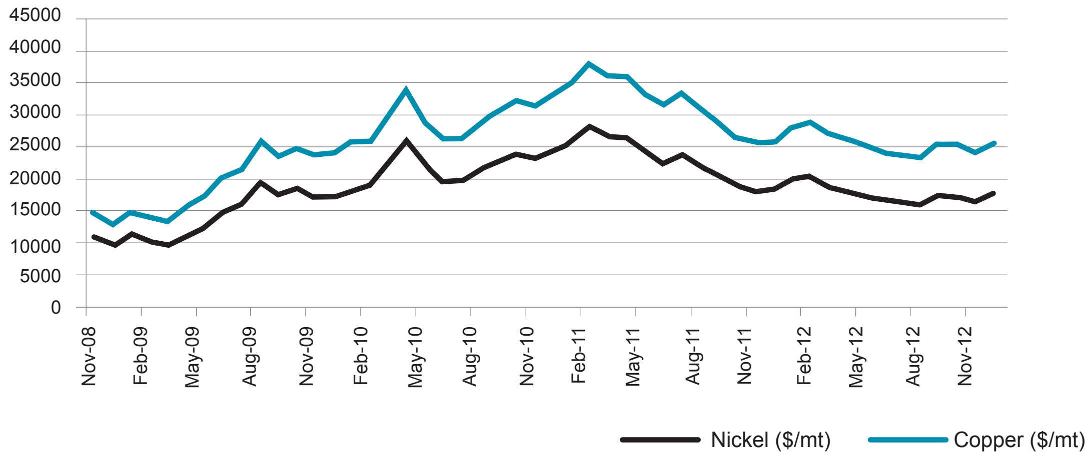
Base metal and industrial mineral prices remained high during 2012 due to relatively strong demand from China, India and Brazil, mainly for infrastructure development. However, slowing growth in China accounted for easing of prices late in 2012. The price of copper registered significant gains, from the low price of $1.50 per pound[2] in December 2008, to the current levels of $3.64 per lb in January 2013. Copper prices have been stable at $3.50 per lb during the last twelve months, peaking at $3.65 per lb in December 2012. The prices of iron ore fines and pellets have followed the general trend since 2008, with peaks in 2011 and marginal declines since then. The price of iron ore fines rose from$100ton[3] in 2009 to peak at $170 per ton in 2011 before declining to $120 per ton in 2012. A similar trend is evident for iron ore pellets, where prices rose from $110 per ton in 2009 to $210 per ton in 2011 before declining to $145 per ton in 2012.

Cobalt prices also depict a similar trend, from a peak of $40 per lb in 2008; the prices averaged $12 per lb in 2012. Nickel prices remained fairly stable during the year, averaging $8.5 per lb. Aluminium prices rose by over 50 per cent from January to December 2012 from $0.60 per lb

[1] Ounce = oz
[2] Pound = lb
[3] Ton = metric ton

to $0.95 US/lb. Tin prices also improved during the same period, from $0.90 per lb to $1.10per lb. The trend in the price of copper and nickel is shown in figure 5.

Figure 5: Evolution of Copper and Nickel Prices*



Source: World Bank Commodity Review, 2012.

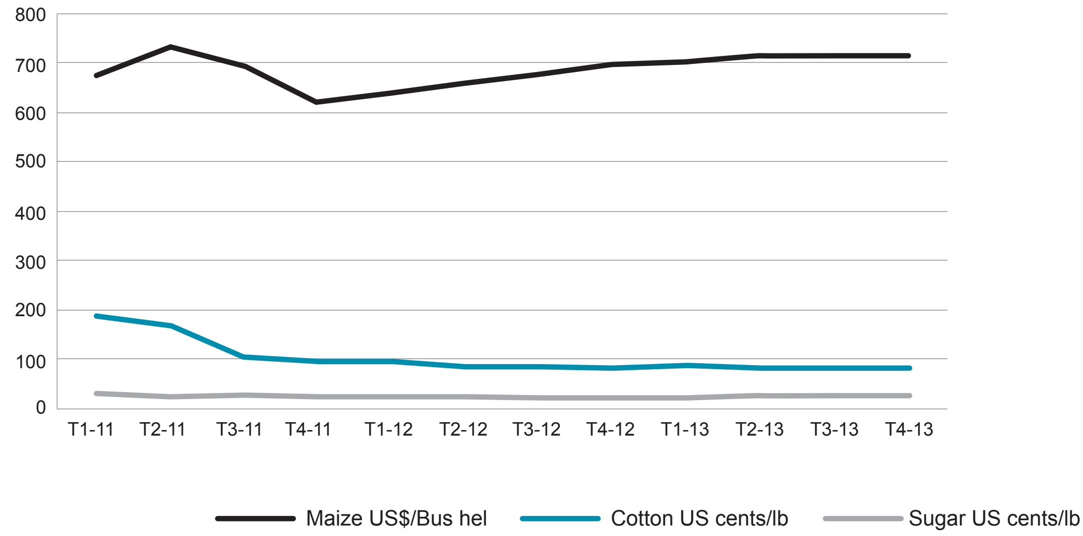
** London Metal Exchange settlement price.*

Despite the marginally lower prices in 2012 compared to 2011, the World Bank predicts a stabilization of mineral and metal prices in 2013, given the continuing uncertain economic conditions in Europe.

2.3.2 Agricultural commodities

The price of most agricultural commodities, other than beverages, remained high in 2012. Figure 6 shows the trend in the prices of maize, cotton and sugar. Corn and wheat prices both gained over 20 per cent due to an unprecedented hot and dry summer in the US, Russia and Eastern Europe, which led to reduced yields and thus pushed up prices in 2012. As a result, the World Bank Food Price Index soared by 10 per cent in July 2012 compared to a month earlier. It is expected that the basket of food prices tracked by the United Nations could climb 15 per cent from current levels by June 2013.

Figure 6: Price trends of selected agricultural commodities



Source: AIECE Group Report, April 2012.

Lesotho, Malawi, Zimbabwe and Mozambique are particularly vulnerable to spikes in agricultural prices given their low reserves (World Bank, 2012). While Zambia and South Africa held sufficient stocks of maize at the close of 2011/2012, there is a need to further strengthen the intra-regional food market and invest more in agriculture. The low stocks of maize globally will continue to push prices up at the detriment of net-importing countries in the subregion (Ngwawi, 2012).

A slow supply response in the first six months is expected to push prices higher before production recovers in the third quarter of 2013. Overall, agricultural prices will decline by 3.2 per cent in 2013, due mainly to the improved planting situation for maize, cotton and sugarcane and favourable weather in producing countries (World Bank, 2012).

Oil and agricultural commodity prices contribute significantly to inflation in the subregion. Despite predictions of slowdown in growth world wide, including in China, commodity prices will remain high in 2013. The fluctuating commodity prices will impact on revenue flows in the subregion. Further, despite the higher than average mineral prices, Southern Africa has not benefited fully due to low value addition in most mineral exports.

2.4 Real GDP effects of commodity price shocks

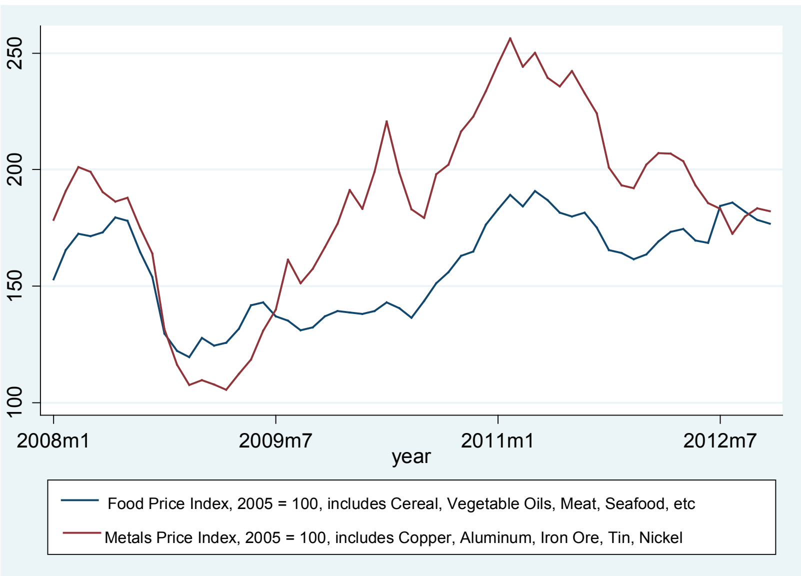
The preoccupation with the ongoing eurozone crisis is about the risk associated with slowing economic growth due to lower commodity exports. Mineral and oil exporters in the subregion were the main casualties in 2009, when low or negative growth resulted from a combination of factors, but mainly as prices of export commodities slumped and demand faltered from traditional exports partners in Europe and emerging economies.

There are concerns that some gains in commodity prices, following the 2009 crisis, may have been misinterpreted. For exporters, commodity price variations are procyclical in nature, with macroeconomic variations due to commodity price swings more pronounced under fixed exchange rate regimes and greater capital account openness. Deterioration of economic growth during commodity price downswings was generally prominent for energy and metal exporters than for exporters of food and raw materials (IMF, 2012). The link between economic growth and commodity price shocks has been studied extensively with some studies suggesting that erroneous expectations of a permanent shift in prices could lead countries to increase expenditures more than proportionately (Deaton and Miller, 1993; Bella and others, 2009).

The management of windfall gains and quality of public investments in boom years and subsequent slump years have a bearing on GDP growth, public debt, inflation and economic welfare in general. Fiscal positions are also sensitive to commodity price shocks, with government expenditures reacting significantly more than revenues (Leandro, 2010). Under these conditions, the subregion as a whole experienced inflationary pressures leading to less than anticipated real income growth for low-income commodity importers. Commodity price inflation generally has a higher pass-through from international commodity prices, particularly food and energy, leading to larger effects on headline inflation.

When agriculture production is good in low-income countries in the subregion, the pass-through effect is dampened as domestic food production substitutes for imports. Thus bumper crop harvests, subsidies and targeted public expenditure were important in shielding low-income countries from the commodity price shocks in 2008/2009. However, it is worrying that commodity price inflation towards the end of 2012 mirrored pre-crisis levels in 2008 although other commodity prices have been falling since the beginning of 2011. Food prices continued to rise from 2009, again mirroring the onset of the last crisis (figure 7).

Figure 7: Monthly food and commodity price trend (2008-2012)



Source: Data from IMF.

2.4.1 Policy responses to commodity price shocks

Most countries have gained considerable windfall revenues as prices rebounded after the crisis. The first urge for most governments would be to initially save windfalls, while weighing investment options. Angola, Botswana and Zambia have raked in domestic surpluses and increased foreign reserves in recent years. Hence, managing revenue windfalls should be a priority for commodity exporting countries. The creation of sovereign wealth funds is a strategy which other mineral economies have successfully employed. These funds, preferably maintained offshore and thus insulated from domestic economic instability and currency risks, provide a source of funds to address macroeconomic shocks.

Angola launched a $5 billion sovereign wealth fund, "Fundo Soverano de Angola" in October 2012 with the aim of ring-fencing the country's oil revenues to serve both current and future generations through a mixture of domestic and international investment portfolios. Of the investments earmarked by the fund, infrastructure and hospitality industry developments have been singled out as priority sectors. In contrast, Zambia floated a $750-million 10-year Eurobond to finance upgrades in infrastructure, particularly in the health, road and energy sectors.

As the gains in commodity prices appear to be stabilizing, there is a need for commodity exporters to remain prudent, particularly when undertaking new investments based on windfall gains and projections of future commodity revenues. It would be counterproductive to invest in excess of windfall and projected future revenues or to issue new debt based on erroneous expectations about commodity markets. The fiscal implications of these windfall gains should be factored into medium-term development plans.

Policymakers should be asking three fundamental questions: (a) Are windfalls being distributed to households through lower income taxes or subsidies or used to address infrastructure gaps?; (b) Is borrowing against the windfall gains prudent in the current global economic environment, i.e., what would be the implications of substituting fiscal surplus/government debt for additional commodity revenues due to higher prices?; and (c) With the austerity measure in Europe and the uncertain fiscal stance in the US, would it be countercyclical to tighten fiscal policy as government saves the revenue, while stimulating local/subregional financial markets? These questions are relevant as a new commodity price slump may destabilize the economies of commodity exporters.

Chapter 3:
Developments in international and subregional trade

3.1 Trade performance[4]

The value of SADC exports to the world grew by 51 per cent over the period 2009-2011. Following the sharp dip (-25 per cent) in annual average growth experienced in 2009, average annual export growth rates rebounded in 2010 and 2011 to 28 per cent and 23 per cent, respectively.

Table 6: SADC trade values ($ thousand)

	2009	2010	2011
Imports	139,597,483	161,013,538	205,745,439
Exports	134,872,505	172,777,941	203,377,708

Source: UNCTADstats.

The value of SADC imports from the world grew at a slower pace than its exports; at 47 per cent from 2009 to 2011. Average annual import growth rates were -14 per cent, 16 per cent and 28 per cent for 2009, 2010 and 2011, respectively. The value of SADC total imports exceeded the value of its total exports by a small margin over the period 2009-2011, except in 2010. The top exporters during the period were South Africa, Angola, the Democratic Republic of the Congo, Zambia and Botswana. The Democratic Republic of the Congo recorded a 59-per cent growth in export values over the period 2009-2011, followed by Zambia (50 per cent) and Zimbabwe (44 per cent).

The group of top importers mirrored that of the top exporters with the only exception being that of Tanzania, which took the place of Zambia in the top five. The Democratic Republic of the Congo (50 per cent) recorded the highest growth in terms of import values, followed by Mauritius (46 per cent) and Zambia (47 per cent).

Over the period 2009-2011, the share of SADC imports and exports remained stable at 1 per cent in world trade. Similarly, the share of SADC imports was unchanged throughout the period at 34 per cent. The share of SADC exports in regional trade registered an improvement from 34 per cent to 36 per cent in 2011 (table 7).

Table7: SADC Trade as a Share of World Trade/ SADC Trade as a Share of African Trade (%)

	2009	2010	2011		2009	2010	2011
Imports	1.09	1.04	1.11		34	34	34
Exports	1.08	1.13	1.17		34	34	36

Source: UNCTADstats.

[4] The principal source of data used for this section is UNCTADstats. In case of missing data or break in series, UNCTAD applies estimates. For instance, data for SADC countries in 2011 are mostly based on estimates and data for Angola in 2010 and 2011 are, for the most part, not available. A degree of caution is advisable in interpreting the data.

The importance of China and India as export destinations and import origins rose steadily throughout the period 2009-2011(annex table 1).[5] China's share of SADC exports rose from 19 per cent in 2009 to 25 per cent in 2011, overtaking the EU (whose share dropped from 27 per cent in 2009 to 22 per cent in 2011). Similarly, the United Kingdom's share of SADC export trade declined steadily from 7 per cent in 2009 to 5 per cent in 2011, as did that of the USA, which dropped from 13 per cent to 12 per cent. With regard to import sources, a similar, albeit less consistent trend in the decline of the importance of traditional trading partners is also evident. Of particular note is the slide of South Africa in importance as a source of SADC imports in favour of China. China's share of total SADC imports rose from 11 per cent in 2009 to 13 per cent in 2011 as did India's share from 4 per cent to 5 per cent.

Although high-income developed country traditional trading partners maintain their place among the top trading partners of SADC, both in terms of export destination and import origin, their importance has continued to diminish in favour of emerging economies, particularly China. If confirmed[6], the apparent decline (down from 3.8 per cent in 2009 to 2.5 per cent in 2011 in export destination [7]share and down from 3 per cent in 2009 to 2 per cent in 2011) in importance of the rest of Africa as a trading partner for SADC warrants some concern, particularly in the light of the planned Continental Free Trade Area and it remains to be seen whether this will be a sustained trend or a short-term blemish on the continental trade landscape.

There was no change in the established structure of trade between SADC and its main trading partners or with the rest of the region. Exports were dominated by primary commodities ranging from a low of 74 per cent of exports destined for the EU to a high of 96 per cent of exports to India in 2011. Similarly, imports from developed and emerging economies continued to be dominated by manufactured goods; ranging from a low of 53 per cent share of imports from India to a high of 95 per cent of imports from China in 2011 (96 per cent in 2009). In direct contrast, the structure of export trade with the rest of Africa was dominated by manufactured goods and import trade was dominated by primary commodities.

Table 8: Intra-SADC trade ($ million)

	2009	2010	2011
Value exports	162,66	19,392	20,120
% share of total SADC export trade	12	11	10
Value imports	20,261	23,600	27,490
% share of total SADC import trade	15	15	13

Source: UNCTADstats.

The average growth of intra-SADC export trade over the period 2009-2011 was 19 per cent, although the share of intra-SADC export trade in total SADC export trade declined steadily over the same period (table 8). The average growth of intra-SADC import trade was 26 per cent for the period, with the share of intra-SADC import trade in total SADC import trade dipping in 2011 to 13 per cent. South Africa continued to be a major source of imports within SADC (SADC buys 22 per cent of South Africa's locally manufactured goods, hence South African

[5] The aggregated data masks the considerable variation in export markets among SADC members. For example, up to 60 per cent of Botswana's exports go to the European Union, whereas shares are much lower for Swaziland, Tanzania and Zambia.
[6] See footnote 7.
[7] www.tralac.org/2012/10/31/negotiating-free-trade-agreements-when-exports-are-down

exports in 2012 were partly buoyed by the SADC market) but is steadily losing ground to China, which has prompted that country to adopt the recent policy stance to back higher tariffs for industries identified as strategic by the South African Department of Trade and Industry.[8] Going forward, as part of the move towards the Tripartite Free Trade Area's regional industrial policy, all the industrial policy stances of SADC countries will need to be harmonized, as will other policies related to the establishment of special economic zones (SEZs).[9] Other SADC members may favour improvement in structure of trade between themselves and South Africa (annex table 2).

The prospects for SADC trade performance in 2013 have been enhanced by improved economic data out of China and the United States at the start of the year, as the fortunes of most SADC economies are closely intertwined with these economies. However, world economic conditions remain fragile and a number of SADC economies also face acute internal risks to export production linked to labour market and socio-economic challenges (e.g. South Africa) or exposure to eurozone risks. Primary commodity export dependent countries such as Botswana, the Democratic Republic of the Congo, Namibia and Zambia are also at particular risk. These risks could offset any positive impact from the observed uplift in global confidence.

Lowering the costs of trade will be an important determinant of future prospects for SADC trade performance. SADC costs of trade remain high and pose a threat to competitiveness and export diversification and consequently constrain the share of SADC trade in world trade and the growth of intra-SADC trade. Trade costs are elevated by a variety of factors, including the lack of or poor infrastructure, the prevalence of non-tariff barriers to trade (NTBs/NTMs)[10] and insufficient policy harmonisation and/or coordination.

The subregion's infrastructure deficit in critical sectors is estimated at around $100 billion. SADC Heads of State approved the subregional infrastructure master plan in August 2012. The Plan[11] is to be implemented over 15 years, beginning 2013 and there is much optimism around the infrastructure investment conference planned for early 2013.

In the case of NTBs, much progress has been achieved since the establishment in 2009 of the subregional online NTB reporting system. However, only 50 per cent (average annual resolution rate of 35 per cent) of reported NTBs were resolved for the period 2009-2011.[12] The seriousness of the NTB/NTM problem in SADC is illustrated by the fact that each agricultural product traded is affected by an estimated 10 NTMs, with fruits being the most affected produce. It was also found that joint use of tariffs and NTMs for protectionist ends is not uncommon.[13]

While challenges in policy harmonization and coordination still hamper trade facilitation and SADC regional integration, the recent successful live demonstration of an end-to-end customs connectivity solution between Namibia and Botswana in December 2012 offered

[8] http://www.bdlive.co.za/business/trade/2013/01/14/state-backs-higher-tariffs-to-protect-south-african-industries

[9] Zimbabwe is expected to establish SEZs in 2013; becoming the latest of several SADC countries to do so.

[10] NTMs are defined as policy measures that have the effect of limiting trade whereas NTBs are distinguished as instruments that are in violation of WTO law. In reality there are many instances where NTMs are NTBs.

[11] The RIDMP is intended to guide future regional infrastructure cooperation and planning among SADC members when setting up efficient and cost-effective trans-boundary infrastructure connecting all SADC member States in areas of energy, water, information and communication technologiesand transport.

[12] SADC Sub-Committee on Trade Facilitation, 2012. Record of 10th Meeting, 14-15 June 2012, Gaborone.

[13] Mmatlou, K and J. Kirsten, 2012. Estimating the Quantity Effects of Non-Tariff Measures on SADC Meat and Milk Trade.

a beacon of hope in the fight to reduce customs processing times and improve access to reliable, real-time trade data. The two countries were able to share information seamlessly and instantly across borders. The solution enabled clearing agents/traders to manage the flow of their information via a secure online user portal.[14] It remains to be seen how rapidly the solution can be replicated across SADC.

3.2 SADC commodity exports

Annex table 2 illustrates the high dependence of SADC countries on agricultural and mineral commodities for export earnings. In 2010, petroleum products accounted for 97 per cent of Angola's export earnings; unwrought aluminium accounted for 48 per cent of Mozambique's export earnings; copper constituted 48 per cent of Zambia's export earnings; tobacco was 53 per cent of Malawi's export earnings; and diamonds were 39 per cent of Lesotho's exports. Such a high dependence amongst all countries has implications for earning stability in the face of highly fluctuating commodity prices, particular since SADC countries are price takers.

The subregion's narrow natural resource-based exports dominated by semi-finished products, especially for minerals, poses major macroeconomic challenges in optimizing revenue flows. Value addition for both minerals and metals and agricultural products would raise the earnings from exports and also generate additional benefits at home through forward and backward linkages and employment. Increased value addition would help strengthen the SADC industrial base by creating a vibrant manufacturing sector and hence overcome the current enclave nature of the minerals sector where its linkages with the local economy are very limited.

[14] Southern Africa Trade Hub 2013. Hub Happenings. January 2013.

Chapter 4:
Social conditions in Southern Africa

With almost three years before the 2015 Millennium Development Goals (MDGs) deadline, Africa is making some progress on most of the goals and targets. The 2012 MDG Report[15] asserts that Africa's progress on the MDGs is gaining momentum, with great inroads in primary school enrolment, gender parity in primary school enrolment and the proportion of seats held by women in national parliament. HIV/AIDS prevalence rates are declining and the share of women in non-agricultural wage employment is accelerating. However, challenges remain in the many other MDG goals and targets.

Notwithstanding these achievements, experiences vary, with several countries registering significant progress in some areas while facing serious challenges in others. Specifically, a number of countries have challenges in reducing maternal and child mortality rates while urban poverty remains high across several member States. Also, climate change and climate variability threaten to reverse some of gains the subregion has made in recent years in social and human development. In particular, climate change has continued to impact adversely on food security, putting millions of people that directly depend on agriculture for their livelihoods into vulnerability.

Unemployment remains high in Southern Africa (table 9). With employment levels still below pre-crisis peak, widespread labour unrest, especially in South Africa, is exacerbating structural imbalances, threatening to stop the weak recovery in private sector employment and worsen the country's already sluggish growth.[16] This situation is not unique to South Africa, as Zambia and Mozambique have had their fair share of labour market challenges, triggered by a host of economic and social factors. It is against this background that this section has devoted the rest of the discussion on employment creation strategies and their potential effect on poverty alleviation.

Table 9: Average Unemployment Rates (%) for selected countries in the SADC (2005-2012)

Country	Unemployment Rate
Angola	35.0
DRC	50.0
Lesotho	50.0
Mauritius	14.5
Namibia	51.0
Seychelles	6.0
South Africa	43.0

[15] Assessing Progress in Africa toward the Millennium Development Goals-MDG Report 2012. Report prepared by ECA,AU,AfDB and UNDP.
[16] http://www.cover.co.za/investment/sa-economic-prospects-dimmer (18 January 2013).

Country	Unemployment Rate
Swaziland	40.0
Zambia	14.0

Source: SADC 2011.

The positive growth being experienced by most countries in Southern Africa (table 2) has not translated into significant formal employment opportunities, particularly for the youth who constitute over 60 per cent of the subregion's population. Most of the jobs in the subregion are in the informal sector which is associated with low incomes, low productivity and poor working conditions (ECA and others, 2012).

Collectively, Southern Africa's unemployment rate stands at 21 per cent with a huge disparity between growth in formal sector wage employment and growth in the labour force (SADC, 2011). The latter far outstrips the former, a reflection of the formal sector's inability to absorb the large labour force. The high unemployment rates mean that a significant number of people, especially the youth and women, are trapped in poverty and other forms of deprivation, which if not addressed, could lead to political and social unrest. The high rates of unemployment and poverty levels in Southern Africa are mutually reinforcing and threatening social development. In particular, their potential to aggravate high maternal and child mortality rates and constrain efforts aimed at combating HIV and AIDS, reducing illiteracy rates and promoting access to safe drinking water and sanitation, is a matter of grave concern (ILO, 2012).

If the subregion is to make a significant dent on unemployment and poverty levels, economic policies should be geared towards promoting broad-based pro-poor growth (ECA and AU, 2012). This calls for diversification of subregional economies by expanding value chains to broaden economic growth; and also diversifying the export base by exploring new sectors. Several countries are already responding to the unemployment challenge through a number of interventions. For example, Mauritius has a robust national youth employment programme, targeting 16 to 25 year olds, especially women. Angola is in the process of developing legislation to support micro, small and medium enterprises (MSME) and in the long term, aims at developing a national employment agenda.

MSMEs were also acknowledged at the Sixteenth Summit of the COMESA Authority of Heads of State and Government, held in Kampalaon 24 November 2012, as important vehicles for growing regional economies and creating jobs and wealth especially for youth and women. Botswana has a National Youth Policy of 1996 which, among other issues, aims at developing youth employment programmes and promoting the involvement of youth in agro-based enterprises.[17] The country is also using economic growth and structural measures, focusing on changing public employment and wage policies and aligning the curricula for university and tertiary education and vocational training to meet the demand for skilled labour in the broader economy. Zambia has pledged to create one million jobs over the next five years by carrying out labour market reforms, youth empowerment programmes and attracting foreign direct investment in various sectors of the economy.

[17] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Bostwana%20Full%20PDF%20Country%20Note.pdf

Zimbabwe adopted the Zimbabwe National Employment Policy Framework in 2010, whose overall objective is to promote and secure sustainable, full and productive and freely chosen decent employment for all, under conditions of freedom, equity, security and human dignity.[18] Swaziland developed its National Youth Policy in 2009, with a view to creating and ensuring an enabling environment for developing the youth to their full potential, by providing training and empowerment, while Lesotho adopted the Youth Employment Promotion Project in 2006. As an exception, youth unemployment in Seychelles is relatively low, as there are generally sufficient jobs on offer.[19] The Government provides a number of training programmes to enhance skills and job-search information is readily available.

At the policy level, a number of development partners are supporting member States to realize employment generation with a special focus on the youth and women. For instance, the African Development Bank (AfDB) is working closely with member States to promote policy effectiveness by focusing on investment in higher education, science, and technical and vocational training to enhance skills development and entrepreneurship as an anchor for productive employment (AfDB, 2012). The Bank has also placed a high premium on public-private partnerships to realize shared objectives of privatesector-led youth employment creation.

Others such as ECA are supporting member States through technical and policy-oriented studies aimed at industrial transformation, as one viable option for creating productive employment at different strata of society. More specifically, ECA strongly supports youth empowerment with the implementation of the "Ouagadougou Plan of Action on Employment and Poverty Alleviation in Africa" as well as the outcomes of the Fifth African Development Forum on "Youth and Leadership in the 21st Century" and "The African Youth Decade 2009-2018 Plan of Action". The Commission also advocates for mainstreaming employment into economic and social policies and the deliberate linking of growth strategies to employment creation and poverty reduction.

Since large proportions of the population in the subregion depend on agriculture for their livelihoods, there is a need to ensure that the sector is revolutionized towards value addition. One way to achieve this is to industrialize by placing a high premium on manufacturing and value addition. Further, there should be deliberate efforts to link industrialization strategies with curriculum development for appropriate skills. Both farm and non-farm activities should be aligned to provide complementary support to high-tech industries in the sector. Ultimately, all member States, in close collaboration with cooperating partners, are called to address structural unemployment through a gamut of interventions, including reforming labour markets and devising robust programmes and policies for employment creation, with special focus on the youth and women.

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[18]http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Zimbabwe%20Full%20PDF%20Country%20Note.pdf

[19]This situation may not be sustainable particularly for jobs in the tourism sector that are threatened by the effects of the eurozone crisis.

Chapter 5:
Key messages and prospects for 2013

The subregion's economic and social conditions remained fragile in 2012 with an average growth rate of 4 per cent. The equally fragile global economic situation in the eurozone, the US and emerging economies did little to boost the subregion's economic performance. The subregion's continued dependence on a limited range of mineral resource commodities on the back of declining export demand by Europe, the US and the emerging economies, combined with sovereign risks and liquidity risks, make the subregion more vulnerable to both latent shocks and austerity measures from these countries. Social conditions have also not kept pace with economic performance; several of the MDGs will not be achieved by 2015 and as everywhere else, unemployment is on the rise in the subregion.

Against this backdrop, and lessons drawn from the report, member States will have to individually and collectively develop responsive policy actions to address the challenges isolated in this report. The key messages from economic and social developments in Southern Africa are:

1) Policymakers should design and implement measures to: (a) efficiently and optimally manage windfall revenues; (b) consolidate public expenditure and rationalize borrowing in the context of the global economic environment; and (c) tighten fiscal policies while stimulating domestic and subregional financial markets in response to austerity measures in Europe and the uncertain fiscal stance in the US.
2) Diversify the subregion's narrow natural resource-based exports, dominated by semi-finished products, especially for minerals, which poses major macroeconomic challenges in optimizing revenue flows. Promote value addition to commodities (mineral and non-mineral) before export to optimize revenue flows and strengthen forward and backward linkages.
3) Mobilize domestic savings and exploit non-traditional export sources, while harnessing private remittances from the diaspora to increase inflows as sources of development finance.
4) Mobilize development partners such as AfDB, which are supporting member States to realize employment generation, with special focus on the youth and women, to promote policy effectiveness by focusing on investment in higher education, science and technical and vocational training to enhance skills development and entrepreneurship, as an anchor for productive employment (AfDB, 2012).
5) Lower the costs of trade such as infrastructure and tariff and non-tariff barriers and harmonize policy frameworks so as to enhance SADC trade performance.
6) Invest in the modernization of the agricultural sector to enhance productivity and strengthen value addition and linkages with other sectors in the economy.
7) Strengthen South-South cooperation to minimize the adverse effects of the eurozone challenges.

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Annex

Tab1e 1: SADC total exports and imports by destination, origin and product group 2009-2011

	Product Group	Total Exports%	Africa	EU	China	RSA	USA	UK	India	RoW
Exports 2009										
	Total	100	3.8	26	19	3	13	7	6	22
	Primary	75	32	74	92	73	77	83	95	
	Manufactured	24	68	23	6	27	22	16	5	
	Food	10	20	16	1	11	2	17	4	
	Fuels	36	5	27	59	41	60	7	58	
2010										
	Total	100	3.4	22	23	3	13	6	6	24
	Primary	75	28	71	91	77	76	85	95	
	Manufactured	23	72	27	4	24	23	15	5	
	Food	8	15	15	1	10	2	14	3	
	Fuels	34	7	17	57	41	55	2	53	
2011										
	Total	100	2.5	21	25	3	12	5	6	26
	Primary	77	30	74	85	79	77	85	96	
	Manufactured	20	69	25	3	22	23	14	4	
	Food	7	15	14	1	8	2	12	3	
	Fuels	37	4	21	52	40	59	5	56	
	Product Group	**Total Imports%**	**Africa**	**EU**	**China**	**RSA**	**USA**	**UK**	**India**	**RoW**
Imports 2009										
	Total	100	3	27	11	11	6	3	4	35
	Primary	28	67	15	4	33	13	17	46	
	Manufactured	60	33	78	96	66	83	79	53	
	Food	10	11	9	2	18	6	6	6	
	Fuels	14	51	3	1	13	5	5	38	
2010										
	Total	100	3	25	12	10	5	3	4	38
	Primary	29	69	17	5	35	15	20	47	
	Manufactured	57	31	75	95	65	82	77	52	
	Food	9	11	9	2	16	7	7	6	
	Fuels	15	53	4	1	14	5	7	39	
2011										
	Total	100	2	24	13	9	6	3	5	38
	Primary	30	80	20	4	35	19	26	46	
	Manufactured	56	20	73	95	64	75	71	53	
	Food	9	8	10	2	16	9	7	6	
	Fuels	15	69	5	0	17	7	10	38	

Compiled with data from UNCTADstats

Table 2: Exports basket and share of commodities in the SADC region

Country	Products (1)	Year		Products (2)	Year		No of products making 75% more of exports	
		2009	2010		2009	2010	2009	2010
Angola	Petroleum oil	63.1	97.3				3	1
Botswana	Rough diamond	56.0		Nickel	21.2		2	
DRC	Rough diamond	24.6		Petroleum oil	14.9		6	6
	Cathodes and sections of cathodes		24.7	Cobalt ores and concentrates		17.8		
Lesotho	Diamonds	28.9	37.0	Pullovers and cardigans	18.5	15.0	6	6
Madagascar	Jerseys, pullovers, cardigans of wool and fine animal hair	12.4		Shrimps and prawns	10.1		24	32
	Shrimps and prawns		9.5	Vanilla		6.6		
Mauritius	Cotton &kitted clothing	17.5		Raw sugar	15.9		24	43
	Tunas, skipjack and bonito		11.3	T-shirts, singlets and other vests of cotton knitted		11		
Malawi	Tobacco (unmanufactured)	49.5	53	Raw sugarcane	8.8		6	5
				Black tea and other fermented tea		6.9		
Mozambique	Aluminium (unwrought)	51.3	48	Petroleum oils bituminous	9.9		5	8
				Electrical energy		7.5		
Namibia	Diamonds	20.2		Unwrought zincs	18.7		7	6
	Natural uranium and its compounds		26.8	Diamonds non-industrial		16.1		
Seychelles	Tunas, skipjack and bonito	47.8	49.6	Yellowfin tunas	11		5	5
				Bigeye tuna		8.3		
South Africa	Platinum	7.6	7.6	Diamonds	6.1		102	92
				Gold included plated with platinum		6.9		
Swaziland	Raw sugar	12.7	16.5	Soft drinks and food substances	10.2	15.2	25	20
Tanzania	Tobacco	8.5		Coffee	7.5		36	24
	Other precious metal ores and concentrates other than silver		14.5	Tobacco, partly or wholly stemmed/stripped		9.9		
Zambia	Copper cathodes	62.1	48	Copper ore concentrates	6.3	26.7	4	3
Zimbabwe	Nickel	22.7		Tobacco	11.1		13	17
	Tobacco partly or wholly stemmed/ stripped		20.5	Ferro-chromium containing by weight more than 4% of carbon		15.3		

Source: African Economic outlook, 2010 and 2012.