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Manufacturing in SADC: Moving Up the Value Chain

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Executive Summary

The Southern African Development Community (SADC), has been in existence since 1980 as the Southern African Development Coordination Conference (SADCC) - an alliance of nine States in Southern Africa, namely Angola, Botswana, Lesotho, Malawi, Mozambique, Eswatini (Swaziland), United Republic of Tanzania (Tanzania), Zambia and Zimbabwe. SADCC was transformed into a development community on August 17, 1992, in Windhoek, Namibia, with the signing of the SADC Treaty and Declaration by the Heads of State and Government. SADC mainly focused on economic integration following the independence of the Southern African countries. SADC currently has 16 member states namely Angola, Botswana, Comoros, the Democratic Republic of the Congo (DR Congo), Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe. Comoros, the latest member, was admitted to SADC at the 37th SADC Summit of Heads of State and Government in August 2017. It then became a full member at the 38th SADC Summit of Heads of State and Government in August 2018.

The SADC countries are integral part of the African region comprising 35.4 percent of Africa's total land area, 31 percent of Africa's GDP, and 28.4 percent of Africa's total population (does not include Comoros). Among the major regional trading blocs in Africa, SADC is the largest contributor (in terms of nominal GDP) to the African region in 2018, followed by COMESA and ECOWAS. SADC's combined GDP stood at an estimated US$ 716.8 billion in 2018. South Africa is the largest economy in the region, accounting for 51.3 percent of the region's GDP in 2018, followed by Angola (15 percent), and Tanzania (8.1 percent). The region is one of the world's most mineral-rich regions. It is endowed with numerous non-renewable resources such as coal, crude oil, natural gas and minerals.

Service sector represented more than half of SADC's GDP in 2018, and is the main driver of the region's growth. However, in countries such as Comoros, Madagascar, Malawi, and Tanzania, agriculture accounts for a significant share in the GDP, while mining and utilities account for a major share of economic value

added in countries like Angola, Botswana, DR Congo and Zambia. Eswatini and DR Congo have a strong manufacturing sector.

The average economic growth of SADC has remained relatively sluggish in the last few years, with growth estimated at 1.3 percent in 2018. While there were declines in prices of agricultural raw materials, mineral and fuels post-2011, overall SADC real GDP growth showed sign of resilience. Yet, it had moderated across the years, indicating dependence of the region on commodity exports. However, although prices have started recovering from 2016, the economic growth of the region has remained modest over the last few years as some of the major economies continue to remain in recession or debt distress due to loss of revenues. In spite of market diversification to emerging and developing economies like China and India, from saturated markets like OECD countries, the composition of export basket continues to remain the same with more than 80 percent of commodities exported, whereas industrial products and manufactured goods are largely imported.

The SADC member countries have taken several initiatives to further integrate and develop the SADC region, which among others include, the SADC Industrialisation Strategy and Roadmap 2015-2063. This Strategy aims at technological and economic transformation of the SADC region through industrialization, modernization, skills development, science and technology, financial strengthening and deeper regional integration. The 39th Ordinary Summit of the Heads of State and Government of SADC, held during August 08-18, 2019 in Dar-es-Salaam, the United Republic of Tanzania, endorsed the theme of 'A Conducive Environment of Inclusive and Sustainable Industrial Development, Increased Intra-Regional Trade and Job Creation', taking forward the SADC industrialization agenda.

International Trade of SADC Countries

Observing SADC's foreign trade pattern reveals the dependence of the region on commodity exports. After peaking in 2013 at US$ 423.4 billion, SADC's total trade declined until 2016 and recovered since 2017. The commodity price downturn had a significant impact on the region's trade; declining to a seven-year low in 2016. Slowdown in major economies like South Africa and Angola also affected SADC's regional trade. SADC's total trade increased by 12.3 percent from US$ 331.2 billion 2017 to US$ 371.8 billion in 2018, mainly on the back of strong exports. SADC's exports grew at 12.7 percent from US$ 171.8 billion in

2017 to US$ 193.7 billion in 2018, due to increased export of petroleum products, pearls, precious stones and metals and copper and articles. Imports of the region stood at US$ 178.2 billion in 2018, an increase of 11.8 percent from US$ 159.4 billion recorded in the previous year, due to increased imports by South Africa and Angola. SADC's share in global trade has remained fairly constant in last ten years at around 1 percent.

Reflecting the significant rise in export of crude petroleum from SADC, mineral fuels were the largest export item, accounting for 27 percent of SADC's total exports in 2018. Other major export items were pearls and precious stones, ores and slag and copper and articles. These cumulatively accounted for 60 percent of SADC's exports in 2018. SADC accounted for 2.1 percent of the world exports of mineral fuels in 2018 (majorly crude petroleum), of which Angola alone accounted for 1.5 percent.

While developed countries such as the USA and Germany, among others, continue to be the traditional destinations for SADC's exports, developing countries such as China and India have emerged as major export destinations in recent years. In 2018, China and India were the largest export destinations for the region accounting for 21.6 percent and 6.3 percent of SADC's global exports. India's share in SADC's exports has increased from 2.3 percent in 2008 to 6.3 percent in 2018, thus becoming the second largest export destination for the region, which is a significant improvement from 11th rank in 2008.

In contrast to SADC's export basket, which is largely dominated by crude oil, SADC's imports are relatively diversified. Mineral fuels and machinery are the two largest import items, followed by electronic and electrical equipment, vehicles other than railway or tramway, plastics and its articles and pharmaceutical products. SADC's import of mineral fuels, oils and its products, was mainly dominated by petroleum oils not crude (HS 2710). China has emerged as the leading supplier to SADC, accounting for as much as 15.8 percent of SADC's total imports in 2018, followed by South Africa and Germany. India is the fourth-largest source for SADC's imports, accounting for 4.9 percent in 2018 increasing from 3.5 percent in 2008.

Commodity Dependence of SADC Countries

According to the UNCTAD, a country is considered "commodity-dependent" if the commodities exported by the country account for more than sixty percent of its total merchandise exports in value terms. Based on this calculation, Sub-Saharan

Africa is the most commodity dependent region in the world with 89 percent of the countries being dependent on commodity exports. This was followed by Middle East & North Africa with 65 percent of its countries, East Asia and Pacific, Latin America and the Caribbean, South Asia, and Europe and Central Asia. North American countries were found to be commodity independent.

During 2013-17, mineral fuels and oils (majorly crude) accounted for 96 percent of its total merchandise exports in Angola. Similarly, countries like Seychelles, being an island economy, is highly dependent on fishery products. Zambia on the other hand is heavily dependent on copper exports. Countries like Eswatini, Lesotho, Mauritius and South Africa are commodity independent.

Commodity price volatility generates uncertainty within and about an economy when the economy is heavily dependent on exports. These price fluctuations not only slow down the growth, but also affect the domestic demand in the economy due to reduced income thereby leading the country to debt distress and poverty, typically more observed in case of LDCs. The correlation between annual growth in commodity price indices (all groups including agricultural commodities, minerals, metals and ores and fuels) and real GDP growth rate of SADC for the period 1996 to 2018 using UNCTADStat data averaged at 0.56. However, a much higher correlation is observed when we consider SADC annual export growth and growth in commodity prices (all groups). The correlation goes up to 0.9 therefore revealing the high price sensitivity of the region's exports to commodities.

When individual categories of commodity price indices are considered over the same period of time, while the agricultural commodity price indices' correlation with SADC's GDP growth stood at 0.5, its correlation with export growth of SADC is much higher at 0.86. Similarly, minerals, ores and metal price indices' correlation with export growth is much higher at 0.82 compared to its correlation with SADC's GDP growth, which stood at 0.47. When it comes to fuel price indices, its correlation with SADC's GDP growth was 0.61 whereas with exports growth, it shows a higher correlation of 0.86. The movement in primary commodity prices can be associated with similar movement in export revenue causing instability in foreign exchange earnings of the SADC countries, thereby leading to growth volatility and a slower recovery.

Foreign Direct Investment in SADC

The importance of foreign direct investment (FDI) as part of external resources for its role in transfer of technology and development of regional and global value chain has been emphasized in the SADC Industrialization Strategy and Roadmap 2015 – 2063. SADC countries have encouraged FDIs by developing various pro-investment policies. Agro-processing, downstream processing of mineral resources, and industry- and service-driven value chains were identified as the potential avenues to drive economic growth in the region.

During the last decade, FDI inflows to SADC region peaked in 2015, mainly due to large investments inflows into Angola. With the fall in investments in Angola, FDI declined in the subsequent year till 2017. In 2018, FDI into SADC region recovered three-fold from US$ 1.4 billion in 2017 to US$ 7.7 billion, largely driven by higher investments in South Africa. As a result, SADC's share in Africa's FDI inflows, which declined from a peak of 40.9 percent in 2015 to 5.8 percent in 2017, increased to 16.7 percent in 2018.

Manufacturing Export Profiles of SADC

According to the World Trade Organisation (WTO), Africa contributed to 1.9 percent in world's manufacturing value added, and nearly half of Africa's contribution originated from the SADC region. In fact, SADC ranks first among African RTAs in value terms, representing 37.3 percent of total African exports in 2017. SADC also shows the highest share of manufacturing exports to the continent vis-à-vis its exports to the world, which mainly includes fuels and mining products. SADC's manufacturing exports to Africa mainly comprised machinery and transport equipment from South Africa.

According to a report by African Export-Import Bank (Afreximbank), in the Southern Africa region, fuel and manufactured goods enter the continent through South Africa's ports and are re-exported by road to, among others, Botswana, DR Congo, Lesotho, Eswatini, Zambia and Zimbabwe. Cobalt, copper and gold, on the other hand, go in the other direction.

Machinery and transport equipment account for the largest share of manufacturing exports in both cases (35 percent to the world and 36 percent to Africa, respectively). SADC's export of machinery and transport equipment

comprised automotive products (51 percent of machinery and transport equipment in 2017), followed by semi-manufactures (26 percent) and chemicals (15 percent). Pharmaceutical products account for a meagre share of 6.3 percent within the chemicals category. Textiles and clothing combined accounted for roughly 6 percent of total manufacturing exports.

SADC's export to Africa also follow a similar pattern with machinery and transport equipment accounting for the bulk of manufacturing exports (36 percent). Within this sub-category, automotive products accounted for 26 percent share in export of machinery and transport equipment in 2017. Pharmaceutical products accounted for 7.5 percent in total export of chemicals.

SADC observed a trade deficit for two consecutive years in 2015 and 2016, mainly due to declining export of mineral fuel, oils and its distillation products in these two years. In addition, the region is also facing structural challenges including poor infrastructure and inadequate access to technology, financial services and skill development. Primary products continue to account for maximum share of exports, accounting for 51.3 percent in 2018. Resource based manufacturing and low technology intensive manufacturing have witnessed a decline whereas medium and high technology intensive manufacturing have remained stagnant, thus leaving negligible scope for creating backward or forward linkages within the economy. However, on the contrary to SADC's exports to the world, SADC's exports to Africa are more technology intensive. Three areas of focus for boosting Africa's industry-led growth are – new policies to promote industrial exports which would help African companies compete in the global market, capacity building of the domestic firms, and promotion of industrial clusters.

To understand the domestic situation of a country and its competitiveness in terms of manufacturing, an analysis of the manufacturing value added per capita (constant 2010 US$) allows for comparing a country independent of its size thereby revealing its stage of development and is expected to be higher with higher structural change. Also the more technology intensive the goods the lesser the vulnerability towards international commodity price shocks. The world average of manufacturing value added (MVA) per capita stood at US$ 2,027.5 in 2017. Africa has the lowest MVA per capita of US$ 276.5, as compared with that of other regions in the world. MVA per capita of SADC members averages to US$ 440.4 in the same period.

An analysis of the Competitive Industrial Performance (CIP) Index 2019 by UNIDO for SADC member countries reveals that of the 150 countries ranked, SADC member rankings range from 81 to 138, with South Africa being an exception ranking 45th. Eswatini that was ranked 81st was the second best performer among the SADC countries, whereas Malawi ranked 138th.

SADC's Potential for Moving up the Value Chain

According to the Southern Africa Economic Outlook 2019, the sectoral composition of the region, suggests a greater need for structural transformation through value addition and manufacturing and job creation. Africa's working-age population is projected to increase from 705 million in 2018 to almost 1 billion by 2030.

The economic composition of the SADC region is dominated by the services sector. However, in service sector the output per person is just twice that of agriculture whereas manufacturing output per worker is six times that of agriculture. Presently, only one out of five workers in Africa gets employed in the formal sector. Thus, for this rising population, there is a major need for employment generation for which a strong value-added manufacturing base would be required.

The economic growth of a country, in this case, is measured by how diverse and complex a product it manufactures, which necessarily require logistics, finance and involve high technology. Most African economies produce goods that require low level of complexity. This is also reflected in the export structure of these economies. Average per capita income generated by African industrial sector stands at US$ 700, much lower compared to US$ 2,500 for Latin America and US$ 3,400 in the case of East Asia.

The importance of private sector in fostering industrialisation and employment is undeniable. It is projected that Africa is going to witness a threefold increase in business to business spending in manufacturing from US$ 201.3 billion in 2015 to US$ 666.3 billion in 2030. According to AfDB statistics, private sector accounts for an average 70 percent of the GDP in the Southern African region. A healthy private sector would help in job creation, employment generation, provides wider variety of goods and services along with infrastructure development which would indirectly unblock the public sector funds for other uses.

GVC Participation

An analysis of the Global Value Chain (GVC) participation rate for SADC countries, highlights the high rate of Domestic Value Added (DVA – downstream component) embedded in other countries' exports. Foreign value added (FVA) – upstream component) in exports is much lower in the SADC region, where natural resources and commodities exports have little foreign inputs. The GVC participation rate indicates the portion of a country's exports that is part of a multi-stage trade process, capturing both upstream and downstream integration. This is computed as the sum of its FVA (upstream component) and the part of its DVA embedded in other countries' exports (downstream component), usually expressed as shares of the country's gross exports (GVC participation rate). The key challenge of policy makers is to identify the entry points to a particular value chain and then integrate within the regional level.

Following are the typical characteristics of the SADC region –

Participation of the SADC countries in regional value chain is modest. and is mainly characterized by downstream participation through export of primary commodities, minerals, agricultural goods with limited value addition. The only exceptions in this case are the apparel and automobile value chain which has developed across South Africa.

The SADC value chain is essentially of Hub and Spoke model, with South Africa remaining as the centre point with lead firms and corporates. This limits the participation of the other countries within the region. Weak logistics, inadequate physical infrastructure and skill deficiencies act as constraints to the integration of the SADC economies to regional as well as global value chains.

Another factor is the scale of economy. Countries like Botswana, Lesotho, Namibia and Eswatini, Mauritius and Seychelles are smaller economies with limited scope of industrialization which inhibits cluster development. On the other hand, South Africa, which is relatively more industrialized and accounts for almost 50 percent of the regional GDP, creates an imbalance due to its larger scale.

The share of MVA is positively correlated to the value chain participation of a country. However, MVA as a percentage of GDP for SADC has declined in the last 20 years. FDI inflows, on the other hand, have remained consistent because of the region's resource richness.

Opportunities and Key Sectors

Areas for cooperation in the agro-processing industry: Agribusiness is one of the potential sectors where India can look to invest in SADC. The agricultural sector of both India and SADC are largely characterized by labour intensive farming, small landholdings and diverse nature of agricultural production. India's stance on the agricultural sector of Africa has been more towards providing technology expertise to Africa. The African agribusiness sector needs support in terms of finance, market information, logistics and adequate infrastructure in the form of cold storage facilities, warehouses, etc. Investment in such areas will facilitate agricultural processing in potential countries by India and it could be a win-win situation for both India and African countries.

Investment opportunities have been identified in the following segments:

a) Processing factories for soya, oil seeds, rice, pulses and other products.

b) Fruits, vegetables and spices**:** cold storage and relevant transportation infrastructure; processing factories for processed food products like purée, spices, pastes and juices; cleaning and grading facilities; market development; and contract farming.

c) Large scale commercial farming may be explored for fruits, vegetables, spices and tea.

d) Sugar: Large scale production of sugarcane in the areas under the Green Belt Initiative (GBI) could be utilised for processing sugarcane thereby setting up sugar factories and ethanol factories.

International markets including South Africa, Kenya, Asia and Europe may be explored for exporting the processed products.

Areas for cooperation in the mineral processing industry: In India, in addition to environmental impact assessments and the initiatives under the sectoral legislation, the private sector is sensitized, and companies report their sustainability performance in addition to financial reporting. The Digital Technology in Mining Report, 2017 shows that private sector is making large investments for using robotics and automation in mining operations (pegged at 54 percent of the total ex-

penditure), followed up by investments made in remote operating centres, drones and wearing technologies. There has been an increasing importance of involving artificial intelligence for adopting the Industry 4.0. Smarter technologies, robotics and automation not only make mining safer reducing casualties, but also develop avenues for optimal mining and recycling, minimizing environmental after-effects and driving sustainable practices. Hence, sustainable mining and metal processing could be undertaken by Indian companies in the SADC region wherein value chains may be developed for the following sub-sectors.

Areas for cooperation in pharmaceutical industry: Indian generic companies stand to benefit significantly by investing in SADC. Indian manufacturers can take advantage of the international Intellectual Property Rights (IPR) exemptions for the least developed countries (LDCs) until July 01, 2021, as was agreed by the TRIPS Council. SADC countries like Angola, Comoros, DR Congo, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia could be utilised for this purpose. Secondly, instead of just exporting generic drugs to these countries, Indian pharmaceutical manufacturers could focus more towards production within the partner country, particularly those where they have already established steady supply chains. Prior knowledge and understanding of the market would help the Indian pharmaceutical companies would help in setting up manufacturing units. SADC countries also stand to benefit in the sense that local production would imply more reliable source of pharmaceuticals under public control. Domestic manufacturing would also lead to creation of more jobs in the pharmaceutical sector and other linked sectors.

SADC countries lack trained professionals due to absence of educational programmes covering topics ranging from drug discovery to marketing of drugs. With increasing international pharmaceutical manufacturing companies setting up local subsidiaries, the need for clinical research specialists would increase. In this connection, Indian companies may step in by investing in training relatively qualified local staffs for engaging them in clinical research in order to manufacture medicines locally at a lower cost, rather than importing active pharmaceutical ingredients. Secondly, African markets vary enormously in terms of size and economic conditions. Given such a condition, the Indian companies interested in doing business should first target cities in order to optimize the initial set up costs and gradually expand their operations to mid-sized markets as well as rural markets. Developing local sales and marketing team

helps in gaining market share. The Indian pharmaceutical manufacturers setting up units in Africa could also focus on training to develop the technical and marketing skills of the workers.

Areas for cooperation in leather and footwear: Opportunities exist in countries like Lesotho and Botswana. Investment opportunities in this sector include leather tanning and finishing, footwear and footwear components, leather garments, leather goods including bags, car seat covers, wallets, belts, gloves and other accessories.

Areas for cooperation in textiles: Opportunity exists for establishment of higher value added garments, as well as for establishment of knit mills to support the local garment industry. Access to the USA market through the African Growth and Opportunity Act (AGOA) may further facilitate investments in the region. However, there is a need to overcome the bottlenecks faced by the textile and apparel industry in the SADC region such as power shortage, lack of economies of scale and fragmented regional markets. The competitiveness of small enterprises would increase through formation of production clusters. Advanced technology and management techniques may be supplied by the Indian investors.

Areas of cooperation in automotive sector: There are several avenues for Indian automobile manufacturers to tap the SADC automobile market. Regional value chains (RVCs) may be developed in similar lines with the existing RVC where Lesotho produce car seats, Botswana produces ignition wiring sets, while Madagascar has facilities for assembling. Indian investors like Tata and Mahindra have already invested in South Africa, Zambia and Botswana. Exports channelized through the LDCs stand to benefit from the AGOA and various other preferential trade agreements.

India's Investment Potential in SADC manufacturing

According to data from the Ministry of Finance and the Reserve Bank of India (RBI), India's approved cumulative investments in the SADC region during April 1996 to March 2019 amounted to US$ 60.5 billion. Mauritius, Mozambique and South Africa are the top destinations of India's investments in the region. India's investments in the SADC region accounted for nearly 93.8 percent of Indian investments in Africa during April 1996 to March 2019, mainly dominated

by investments in Mauritius. During 2010-11 to 2018-19 the cumulative Indian investment in the SADC region amounted to US$ 51.2 billion. The manufacturing sector accounted for the largest share of approved investments from India to the SADC countries (42 percent) of total investments received by SADC) followed by financial, insurance, real estate and business services (24 percent), wholesale, retail trade, restaurants and hotels (9 percent) transport, storage and communication services and agriculture and allied activities both accounting for 8 percent share in total investments by India. Mauritius has received the highest investment in manufacturing (98.7 percent), mainly due to the country's offshore financial facilities and favourable tax conditions. The other SADC countries which have received Indian investments in manufacturing are South Africa (49 percent of the investments in manufacturing (when Mauritius is excluded from the cumulative amount), Zambia (20 percent), Tanzania (16 percent), Botswana (7 percent), Zimbabwe (4 percent), Malawi, Madagascar, Namibia, Mozambique each accounted for a share of 1 percent.

Way Forward

India's engagement with SADC has been mainly private sector driven, resulting in greater integration with the domestic market. India can assume a development partnership role to facilitate growth in manufacturing sector of SADC through areas like skill development, knowledge sharing, designing various training and educational programmes, enhanced credit access through cooperation with development finance institutions (DFIs) in the SADC region and increased interaction between the private sector of India and SADC.

1. Background and Economic Profile of SADC

The Southern African Development Community (SADC), has been in existence since 1980 as the Southern African Development Coordination Conference (SADCC) - an alliance of nine States in Southern Africa, namely Angola, Botswana, Lesotho, Malawi, Mozambique, Eswatini (Swaziland), United Republic of Tanzania (Tanzania), Zambia and Zimbabwe. SADCC was transformed into a development community on August 17, 1992, in Windhoek, Namibia, with the signing of the SADC Treaty and Declaration by the Heads of State and Government. SADC mainly focused on economic integration following the independence of the Southern African countries. The treaty was amended in 2001 to recognize new challenges and the need for institutional reforms in the region.

SADC currently has 16 member states namely Angola, Botswana, Comoros, the Democratic Republic of the Congo (DR Congo), Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe. Comoros, the latest member, was admitted to SADC at the 37th SADC Summit of Heads of State and Government in August 2017. It then became a full member at the 38th SADC Summit of Heads of State and Government in August 2018. The SADC countries are integral part of the African region comprising 35.4 percent of Africa's total land area, 31 percent of Africa's GDP, and 28.4 percent of Africa's total population[1]. Among the major regional trading blocs in Africa, SADC is the largest contributor (in terms of nominal GDP) to the African region in 2018, followed by COMESA and ECOWAS. SADC accounted for 0.8 percent of global GDP in 2018 **(Table 1.1)**.

The average economic growth of SADC has remained relatively sluggish in the last few years, with growth estimated at 1.3 percent in 2018 **(Table 1.2)**. The region's sluggishness is primarily driven by the lackluster growth in its major economies, South Africa and Angola. While South Africa's growth was subdued due to frequent mining strikes and weakness of the rand (South African Currency), fall

[1]Data pertain to the year 2018, and do not include Comoros.

Table 1.1: Nominal GDP of Select Trading Blocs in Africa (US$ bn)

Region	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018[e]
CEMAC	74.0	81.9	98.1	96.9	100.4	104.8	79.6	77.5	83.0	93.6
COMESA	474.2	550.5	551.5	643.0	649.9	668.0	695.7	705.5	641.3	680.7
EAC	91.3	99.1	122.3	135.6	151.7	164.3	158.4	160.0	174.4	192.1
ECOWAS	421.8	504.6	568.9	622.7	695.4	747.2	656.8	580.3	566.6	609.9
SACU	322.1	406.3	452.3	432.9	401.5	387.0	350.2	329.5	387.2	408.4
*SADC**	*500.2*	*611.3*	*703.4*	*714.6*	*709.2*	*713.0*	*637.3*	*600.7*	*696.9*	*716.8*
UEMOA	75.9	77.8	86.5	88.2	97.6	105.5	95.2	101.0	110.5	124.9
Africa	**1,675.8**	**1,967.2**	**2,194.4**	**2,342.7**	**2,424.9**	**2,507.5**	**2,284.6**	**2,164.1**	**2,187.2**	**2,315.8**
World	**60,393.9**	**66,025.3**	**73,244.8**	**74,639.2**	**76769.8**	**78,852.3**	**74,689.4**	**75,734.6**	**80,144.6**	**84,740.3**

*Note: [e]-Estimate; *- Does not include data for Comoros*
CEMAC: Central African Economic and Monetary Community
COMESA: Common Market for Eastern and Southern Africa
EAC: East African Community
ECOWAS: Economic Community of West African States
SACU: Southern African Customs Union
UEMOA: West African Economic and Monetary Union
Source: IMF, World Economic Outlook, April 2019; and Exim Bank Analysis

in oil sector output had affected growth of Angola. Botswana, Madagascar and Tanzania were the fastest growing economies in 2018.

SADC's combined GDP stood at an estimated US$ 716.8 billion in 2018. South Africa is the largest economy in the region, accounting for 51.3 percent of the region's GDP in 2018, followed by Angola (15 percent), and Tanzania (8.1 percent).

Average per capita GDP, at current prices, of the region, was at US$ 2038.1 in 2018, compared to US$ 2033.1 in 2017.

Table 1.2: Macroeconomic Snapshot of SADC Countries

Country/ Region	Nominal GDP (US$ bn)			Real GDP Growth (%)			Inflation (%, avg. consumer prices)			GDP Per capita (US$)			Population (mn)		
	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e
Angola	101.1	122.1	107.3	-2.6	-2.5	-0.1	30.7	29.8	19.6	3,676.8	4,303.7	3,668.9	27.5	28.4	29.3
Botswana	15.7	17.4	19.0	4.3	2.4	4.6	2.8	3.3	3.2	6,958.3	7,584.1	8,137.2	2.3	2.3	2.3
DR Congo	39.3	41.4	42.6	2.4	3.4	3.8	18.2	41.5	29.3	439.0	449.2	448.7	89.6	92.3	95.0
Eswatini	3.8	4.4	4.7	1.4	1.6	1.3	7.8	6.2	4.8	3,515.2	4,060.5	4,250.2	1.1	1.1	1.1
Lesotho	2.4	2.7	2.8	3.1	-1.6	0.8	6.2	4.5	5.2	1,216.6	1,352.7	1,357.8	2.0	2.0	2.0
Madagascar	10.0	11.5	12.1	4.2	4.2	5.0	6.7	8.3	7.3	399.7	447.7	459.3	24.9	25.6	26.3
Malawi	5.5	6.2	6.9	2.3	4.0	3.3	21.7	11.5	9.2	294.8	324.8	351.1	18.6	19.2	19.7
Mauritius	12.2	13.3	14.3	3.8	3.8	3.9	1.0	3.7	3.2	9,681.4	10,491.1	11,280.7	1.3	1.3	1.3
Mozambique	10.9	12.6	14.4	3.8	3.7	3.5	19.9	15.1	3.9	379.0	426.1	475.6	28.8	29.5	30.3
Namibia	11.3	13.2	13.8	0.7	-0.8	1.1	6.7	6.1	4.3	4,852.0	5,593.3	5,726.7	2.3	2.4	2.4
Seychelles	1.4	1.5	1.6	4.5	5.3	3.6	-1.0	2.9	3.7	15,219.1	15,859.4	16,472.1	0.1	0.1	0.1
South Africa	296.3	349.4	368.1	0.6	1.3	0.8	6.3	5.3	4.6	5,326.7	6,182.3	6,377.3	55.6	56.5	57.7
Tanzania	49.8	53.3	57.9	7.0	6.0	5.8	5.2	5.3	3.5	1,022.5	1,064.5	1,133.5	48.7	50.0	51.0
Zambia	20.9	25.9	25.2	3.8	3.4	3.8	17.9	6.6	7.0	1,252.7	1,500.6	1,416.7	16.7	17.2	17.8
Zimbabwe	20.1	21.9	26.1	0.7	3.7	3.6	-1.6	0.9	10.6	1,382.9	1,471.4	1,711.8	14.5	14.9	15.3
SADC	**600.7**	**696.9**	**716.8**	**1.0**	**1.9**	**1.3**	**-**	**-**	**-**	**1,798.9**	**2,033.1**	**2,038.1**	**333.9**	**342.8**	**351.7**
Comoros	0.6	0.6	0.7	2.2	2.7	2.8	1.8	1.0	2.0	762.7	788.4	877.5	0.8	0.8	0.8
***SADC**	**601.3**	**697.5**	**717.6**	**1.0**	**1.9**	**1.3**	**-**	**-**	**-**	**1,826.0**	**2,063.7**	**2,070.9**	**334.7**	**343.6**	**352.5**

*Note: e-Estimates; *-includes Comoros; - not applicable*
Source: IMF, World Economic Outlook, April 2019 and July 2019 Update; World Bank Database (Accessed on September 2, 2019) and Exim Bank Analysis

The SADC region has great economic potential both, in terms of domestic production and regional and international trade. The region is one of the world's most mineral-rich regions. It is endowed with numerous non-renewable resources such as coal, crude oil, natural gas and minerals. Southern Africa has huge reserves of diamonds, oil, uranium, platinum, coal and copper. For instance, South Africa has the world's largest reserves of platinum group metals (PGMs) and second-largest reserve of gold[2]. South Africa accounts for approximately 80 percent of the world's identified manganese resources and is also the largest producer of manganese globally[3]. Angola is the second-largest crude oil exporter in Africa and the tenth-largest in the world[4] (**Table 1.3**).

[2]United States Geological Survey (USGS) (2018). U.S. Geological Survey, Mineral Commodity Summaries 2018, Reston, Virginia

[3]Mineral Council, South Africa (2018). Facts and Figures 2018, Johannesburg, South Africa.

[4]Data for 2018, sourced from ITC Trademap, derived from UN Comtrade

Table 1.3: Major Resources of SADC Countries

Country	Resources
Angola	Petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, bauxite, uranium
Botswana	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver
Comoros	Fish
DR Congo	Cobalt, copper, niobium, tantalum, petroleum, industrial and gem diamonds, gold, silver, zinc, manganese, tin, uranium, coal, hydropower, timber
Eswatini	Asbestos, coal, clay, cassiterite, hydropower, forests, small gold and diamond deposits, quarry stone, and talc
Lesotho	Water, agricultural and grazing land, diamonds, sand, clay, building stone
Madagascar	Graphite, chromite, coal, bauxite, rare earth elements, salt, quartz, tar sands, semiprecious stones, mica, fish, hydropower
Malawi	Limestone, arable land, hydropower, unexploited deposits of uranium, coal, and bauxite
Mauritius	Arable land, fish
Mozambique	Coal, titanium, natural gas, hydropower, tantalum, graphite
Namibia	Diamonds, copper, uranium, gold, silver, lead, tin, lithium, cadmium, tungsten, zinc, salt, hydropower, fish (note: suspected deposits of oil, coal, and iron ore)
Seychelles	Fish, coconuts (copra), cinnamon trees
South Africa	Gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, rare earth elements, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas
Tanzania	Hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, nickel
Zambia	Copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium, hydropower
Zimbabwe	Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, platinum group metals

Source: U.S. Geological Survey & Central Intelligence Agency (CIA)

Service sector represented more than half of SADC's GDP in 2018, and is the main driver of the region's growth (**Table 1.4**). However, in countries such as Comoros, Madagascar, Malawi, and Tanzania agriculture accounts for a significant share in the GDP, while mining and utilities account for a major share of economic value added in countries like Angola, Botswana, DR Congo and Zambia. Eswatini and DR Congo have a strong manufacturing sector. Major industries in SADC countries are presented in **Table 1.5**.

Table 1.4: Value Added by Economic Activity (Percentage distribution %)

SADC Countries	Agriculture and Allied Activities*	Mining, Manufacturing, Utilities		Construction	Wholesale & retail trade, restaurants and hotels	Transport, storage and communication	Other Activities
		Mining & Utilities	Manufacturing				
Angola	8.8	24.6	6.0	13.1	21.1	5.0	21.5
Botswana	2.2	20.6	5.6	7.0	21.6	6.5	36.5
Comoros	30.8	1.7	9.0	1.9	20.6	8.3	27.7
DR Congo	20.8	21.9	20.6	1.0	12.7	9.0	13.9
Eswatini	10.0	1.4	32.9	3.1	15.7	5.3	31.7
Lesotho	6.1	14.6	15.4	5.4	12.8	6.1	39.7
Madagascar	27.7	2.8	6.4	4.3	15.3	11.6	31.8
Malawi	31.9	2.3	10.3	3.2	20.3	8.2	23.7
Mauritius	3.5	2.9	13.3	4.3	19.1	10.5	46.4
Mozambique	22.7	14.5	9.6	2.4	13.6	9.6	27.6
Namibia	7.4	15.7	11.5	3.1	14.8	5.2	42.3
Seychelles	2.4	3.4	7.3	3.0	22.3	20.4	41.3
South Africa	2.6	11.7	13.2	3.9	15.0	9.9	43.7
Tanzania	32.0	6.1	5.9	15.8	12.8	6.7	20.6
Zambia	4.3	21.1	8.7	10.2	22.0	8.1	25.6
Zimbabwe	11.6	11.3	10.0	3.0	14.3	10.5	39.3

*Note: Data pertain to 2017; *includes hunting, forestry and fishing*

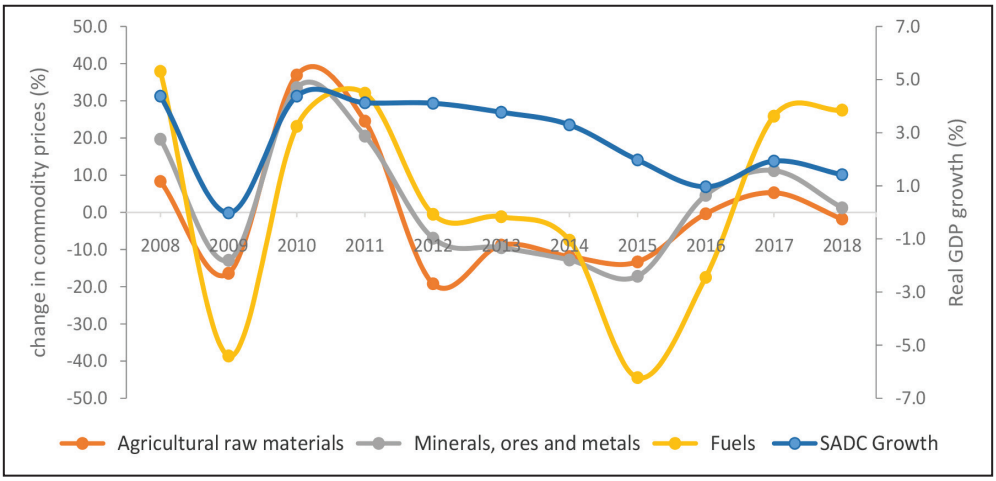
Source: National Accounts Main Aggregates Database, Statistical Division United Nations (un stats.un.org); and Exim Bank Analysis

Table 1.5: Major Industries in SADC Countries

Country	Major Industries
Angola	Petroleum, diamonds, iron ore, phosphates, feldspar, bauxite, uranium, 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, livestock processing, textiles
Comoros	Fishing, tourism, perfume distillation
DR Congo	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
Eswatini	Coal, forestry, sugar processing, soft drink concentrates, textiles and apparel
Lesotho	Food, beverages, textiles, apparel assembly, handicrafts, construction, tourism
Madagascar	Meat processing, seafood, soap, beer, leather, sugar, textiles, glassware, cement, automobile assembly plant, paper, petroleum, tourism, mining
Malawi	Tobacco, tea, sugar, sawmill products, cement, consumer goods
Mauritius	Food processing (largely sugar milling), textiles, clothing, mining, chemicals, metal products, transport equipment, non-electrical machinery, tourism
Mozambique	Aluminium, petroleum products, chemicals (fertilizer, soap, paints), textiles, cement, glass, asbestos, tobacco, food, beverages
Namibia	Meatpacking, fish processing, dairy products, pasta, beverages, mining (diamonds, lead, zinc, tin, silver, tungsten, uranium, copper)
Seychelles	Fishing, tourism, beverages
South Africa	Mining (world's largest producer of platinum, gold, chromium), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs, commercial ship repair
Tanzania	Agricultural processing (sugar, beer, cigarettes, sisal twine), mining (diamonds, gold, and iron), salt, soda ash, cement, oil refining, shoes, apparel, wood products, fertilizer
Zambia	Copper mining and processing, emerald mining, construction, foodstuffs, beverages, chemicals, textiles, fertilizer, horticulture
Zimbabwe	Mining (coal, gold, platinum, copper, nickel, tin, diamonds, clay, numerous metallic and non-metallic ores), steel, wood products, cement, chemicals, fertilizer, clothing and footwear, foodstuffs, beverages

Source: U.S. Geological Survey & Central Intelligence Agency (CIA)

Chart 1.1: Rate of Change in Annual Commodity Prices and Real GDP Growth Rate in SADC (growth %)



Note: Growth rates are based on GDP at constant 2010 US dollars. Free market commodity price indices, annual 2015=100
Source: WDI Database (World Bank) & UNCTADStat

Commodity Price Volatility

Chart 1.1 shows the movement of growth of real GDP of the SADC region with the annual percentage change in the commodity price indices. As it is evident, fuel price index has been the most volatile in the last ten years. While there were decline in prices of agricultural raw materials, mineral and fuels post-2011, overall SADC's real GDP growth showed sign of resilience. Yet, it had moderated across the years, indicating dependence of the region on commodity exports. However, although prices have started recovering from 2016, the economic growth of the region has remained modest over the last few years as some of the major economies continue to remain in recession or debt distress due to loss of revenues.

Over the years, technological change has ushered in structural changes in countries which have industrialized over time, with manufactured goods dominating their export baskets. On the other hand, Africa continued to remain dependent on primary commodity exports, relying on its resource richness. This led to de-industrialization, accompanied by a fall in manufacturing value added. Similar has happened with the SADC region. In spite of market diversification to emerging and developing economies like China and India, from saturated markets like OECD

countries, the composition of export basket continues to remain the same with more than 80 percent of commodities exported whereas industrial products and manufactured goods are largely imported[5].

The factors which influence price instability in commodity markets[6] are as follows-

- Slow down or sluggishness of growth in large economies like the USA or China can result in fluctuations in commodity prices. Therefore, business cycle in these key markets also shape the nature of international prices of com modities.

- Agricultural commodities are highly sensitive to weather conditions therefore drought or floods may result in huge losses.

- Political conflicts may also result in impeding mining activities and disrupt production.

- Other factors like price speculations by investors who use commodity derivatives may amplify the price effects of true changes in supply and demand.

- Export subsidies by advanced economies may result in excess production and dumping which would bring down the world prices below the cost of production thereby adversely affecting the farmers in developing countries.

- Exchange rate fluctuations affect a commodity's value in local currency as the producer would sell a product in the local currency.

Case for Manufacturing

The SADC member countries have taken several initiatives to further integrate the SADC region, which among others include, the SADC Industrialisation Strategy and Roadmap 2015-2063. This provides the region's long-term perspective to sustainable and equitable development, and thus to poverty reduction. It aims at technological and economic transformation of the SADC

[5]Afreximbank (2018). African Trade Report 2018, Cairo, Egypt.

[6]United Nations Development Programme (2011). "Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty", New York, USA

region through industrialization, modernization, skills development, science and technology, financial strengthening and deeper regional integration.

The 39th Ordinary Summit of the Heads of State and Government of SADC, held during August 08-18, 2019 in Dar-es-Salaam, the United Republic of Tanzania, endorsed the theme of 'A Conducive Environment of Inclusive and Sustainable Industrial Development, Increased Intra-Regional Trade and Job Creation', taking forward the SADC industrialization agenda. The Summit also noted that the region continues to export unprocessed raw material to the rest of the world, thereby forfeiting the potential benefits of the region's resource endowments. In this regard, the purpose of this study is to delve on making the region a globally competitive industrial base by having India's engagements into key potential manufacturing sectors in the SADC region.

2. International Trade and Investment of SADC Countries

The SADC Protocol on Trade, 1996 (later amended in 2010), is one of the most important legal instruments guiding SADC's trade framework. It envisioned the establishment of a Free Trade Area in the region. During the 28th SADC Summit, held in Johannesburg in August 2008, the Free Trade Area was officially launched. By the beginning of 2008, most customs duties had been eliminated on goods from the participating Member States (i.e. about 85 percent of goods attained zero duty in January 2008) and a Common Tariff System was applied to import of goods from non-Member States[7]. The Protocol on Trade in Services was developed and signed in August, 2012 as a step towards achieving a Free Trade Area in Services. Select initiatives to further integrate the SADC members include the agreement on a SADC Regional Development Fund and the SADC Industrialisation Strategy and Roadmap 2015-2063, among others. SADC is one of the eight Regional Economic Community (REC) recognized by the African Union (AU) for continental economic integration[8].

During 2008-2018, SADC's trade has had a wavering trend. After having peaked in 2013, SADC's total trade declined until 2016 and recovered since 2017. The region boasts of the major resource rich countries in Africa as well as the world. However, the commodity price downturn had a significant impact on the region's trade; declining to a seven-year low in 2016. Slowdown in major economies like South Africa and Angola also affected SADC's regional trade. SADC's total trade increased by 12.3 percent from US$ 331.2 billion 2017 to US$ 371.8 billion in 2018, was mainly on the back of strong exports. SADC's exports grew at 12.7 percent from US$ 171.8 billion in 2017 to US$ 193.7 billion in 2018

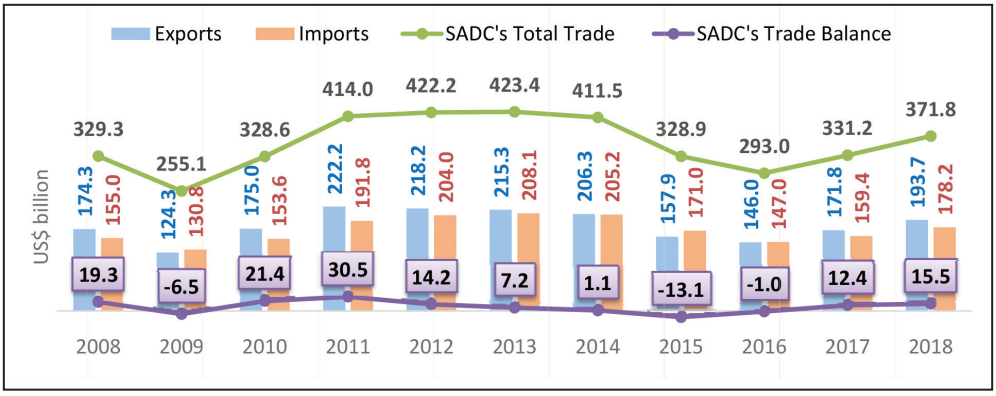
[7]Angola and DR Congo are yet to be members of this trade protocol.

[8]Other RECs recognized by AU include Arab Maghreb Union (UMA); Common Market for Eastern and Southern Africa (COMESA); Community of Sahel–Saharan States (CEN–SAD); East African Community (EAC); Economic Community of Central African States (ECCAS); Economic Community of West African States (ECOWAS); and Intergovernmental Authority on Development (IGAD). These eight sub regional bodies are the building blocks of the African Economic Community established in the 1991 Abuja Treaty, which provides the overarching framework for continental economic integration.

majorly due to increased export of petroleum products, pearls, precious stones and metals and copper and articles. Imports of the region stood at US$ 178.2 billion in 2018, an increase of 11.8 percent from US$ 159.4 billion recorded in the previous year due to increased imports by the major economies South Africa and Angola **(Chart 2.1)**.

SADC as a bloc has shown stable performance in terms of its global trade. SADC's share in global trade has remained fairly constant in last ten years at around 1 percent.

Chart 2.1: SADC's Foreign Trade



Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

SADC - Exports

Major Exporters

SADC's share in Africa's exports increased from 32.8 percent in 2008 to 39 percent in 2018. South Africa and Angola are the largest exporters among SADC countries, together accounting for 70.4 percent of the region's total exports in 2018. Other major exporters from SADC include DR Congo, Zambia and Botswana **(Table 2.1)**.

Table 2.1: SADC- Country-wise Exports

	2008			2013			2018		
Country / Region	**Values (US$ bn)**	**Share in SADC (%)**	**Share in Africa (%)**	**Values (US$ bn)**	**Share in SADC (%)**	**Share in Africa (%)**	**Values (US$ bn)**	**Share in SADC (%)**	**Share in Africa (%)**
SADC Total	**174.3**	**100.0**	**32.8**	**215.3**	**100.0**	**37.2**	**193.7**	**100.0**	**39.0**
South Africa	74.0	42.4	13.9	95.1	44.2	16.4	94.4	48.7	19.0
Angola	67.7	38.9	12.8	67.7	31.4	11.7	42.0	21.7	8.5
DR Congo	3.7	2.2	0.7	8.5	3.8	1.4	11.1	5.7	2.2
Zambia	5.1	2.9	1.0	10.6	4.9	1.8	9.1	4.7	1.8
Botswana	5.0	2.8	0.9	6.3	2.9	1.1	7.5	3.9	1.5
Namibia	4.7	2.7	0.9	7.6	3.5	1.3	6.6	3.4	1.3
Mozambique	2.7	1.5	0.5	4.0	1.9	0.7	5.2	2.7	1.0
Tanzania	3.1	1.8	0.6	3.6	1.6	0.6	4.0	2.1	0.8
Madagascar	1.7	1.0	0.3	4.4	2.0	0.8	3.8	2.0	0.8
Zimbabwe	1.7	1.0	0.3	1.6	0.8	0.3	3.0	1.5	0.6
Mauritius	2.4	1.4	0.5	2.3	1.1	0.4	2.0	1.0	0.4
Eswatini	1.1	0.6	0.2	1.9	0.9	0.3	1.9	1.0	0.4
Malawi	0.9	0.5	0.2	0.4	0.2	0.1	1.3	0.7	0.3
Lesotho	0.2	0.1	0.05	1.2	0.5	0.2	1.0	0.5	0.2
Seychelles	0.3	0.2	0.1	0.6	0.3	0.1	0.9	0.4	0.2

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Export Items

Reflecting the significant rise in export of crude petroleum from SADC, mineral fuels are the largest export item, accounting for as much as 27 percent of SADC's total exports in 2018, followed by pearls and precious stones, ores and slag, copper and its articles, iron and steel and machinery in 2018 **(Table 2.2)**.

Within the region, major exporters of mineral fuels include Angola, South Africa and Mozambique. SADC accounted for 2.1 percent of the world exports of mineral fuels in 2018, of which Angola alone accounts for 1.5 percent. Among mineral fuel exports, crude petroleum (HS-2709) is a dominant export item.

Major exporters of pearls, precious stones and metals in the SADC region include South Africa, Botswana, Angola and Namibia. The region accounted for 4.6 percent of the world exports of pearls, precious stones and metals in 2018, of which South Africa alone accounted for 2.5 percent of world exports. Within this category, diamonds (HS-7102), gold (HS-7108) and platinum (HS-7110) are the major export items from the region.

SADC's export of ores, slag and ash account for 7.3 percent of world's exports (2018), with major exporters being South Africa (5.5 percent of global export of ores, slag and ash). Other major exporters include DR Congo, Namibia, Mozambique and Zimbabwe.

Table 2.2: SADC's Major Export Items

HS Code	Item	2008		2013		2018	
		Values (US$ bn)	Share in SADC (%)	Values (US$ bn)	Share in SADC (%)	Values (US$ bn)	Share in SADC (%)
TOTAL	**All products**	**174.3**	**100.0**	**215.3**	**100.0**	**193.7**	**100.0**
27	**Mineral fuels, oils and its products**	74.3	42.7	79.7	37.0	52.3	27.0
71	**Natural or cultured pearls, precious or semi-precious stones**	19.2	11.0	29.9	13.9	30.2	15.6
26	**Ores, slag and ash**	11.2	6.4	18.1	8.4	15.7	8.1
74	**Copper and its articles**	4.8	2.7	11.2	5.2	13.3	6.9
87	**Vehicles other than railway or tramway**	7.8	4.5	8.8	4.1	11.1	5.7
72	**Iron and steel**	9.3	5.3	6.8	3.1	6.8	3.5
84	**Machinery and equipment**	6.9	4.0	7.6	3.5	6.4	3.3
08	**Edible fruit and nuts**	1.9	1.1	3.0	1.4	4.0	2.1
81	**Other base metals and its articles**	1.0	0.6	1.0	0.5	4.0	2.0
76	**Aluminium and its articles**	3.7	2.1	3.0	1.4	3.4	1.7
89	**Ships, boats and floating structures**	0.2	0.2	1.5	0.7	2.7	1.4
24	**Tobacco and manufactured tobacco substitutes**	1.4	0.8	2.4	1.1	2.5	1.3
85	**Electrical machinery and its equipment**	2.1	1.2	2.7	1.2	2.3	1.2

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Table 2.2 highlights the resource intensity of SADC's exports. Top four export items of SADC cumulatively account for 60 percent of the total exports in 2018. Petroleum and its products (HS 27) are among of the most important natural resource of SADC countries and crucial source of foreign exchange earnings. Disintegrating the petroleum exports further reveals that most of it is composed of crude petroleum oil and gas and a minimal share of refined or processed oils (**Table 2.3**). Angola and South Africa also feature in the top five petroleum exporters of Africa in 2018. The major oil exporters in Africa are highly sensitive to international oil price movement and have been adversely impacted by the commodity price downturn resulting in loss of foreign exchange revenues and lesser debt servicing capacity.

Table 2.3: Components of Petroleum and its Products Exported by SADC in 2018

HS Code	Item	Exported Value (US$ bn)	Share in SADC's total exports of Petroleum and its Products (%)	Share in Africa's exports for the respective item (%)	Top 5 exporters
2709	**Petroleum oils and oils obtained from bituminous minerals, crude**	37.0	70.8	23.8	Angola, DR Congo, Tanzania, Namibia & South Africa
2701	**Coal; briquettes and similar solid fuels manufactured from coal**	7.0	13.5	99.6	South Africa, Mozambique, Eswatini, Botswana & Tanzania
2710	**Petroleum oils and oils obtained from bituminous minerals (excluding crude)**	3.3	6.3	15.6	South Africa, Angola, Seychelles, Madagascar & Namibia
2711	**Petroleum gas and other gaseous hydrocarbons**	2.2	4.3	8.5	Angola, Mozambique, South Africa, Mauritius & Tanzania
2716	**Electrical energy**	1.1	2.0	75.6	South Africa, Mozambique, Zambia, Zimbabwe & Eswatini
2704	**Coke and semi-coke of coal, of lignite or of peat**	1.0	2.0	96.9	Mozambique, South Africa, Zimbabwe, Zambia & Botswana
2707	**Oils and other products of the distillation of high temperature coal tar**	0.3	0.6	77.2	South Africa, Angola, Botswana, Eswatini & Zambia

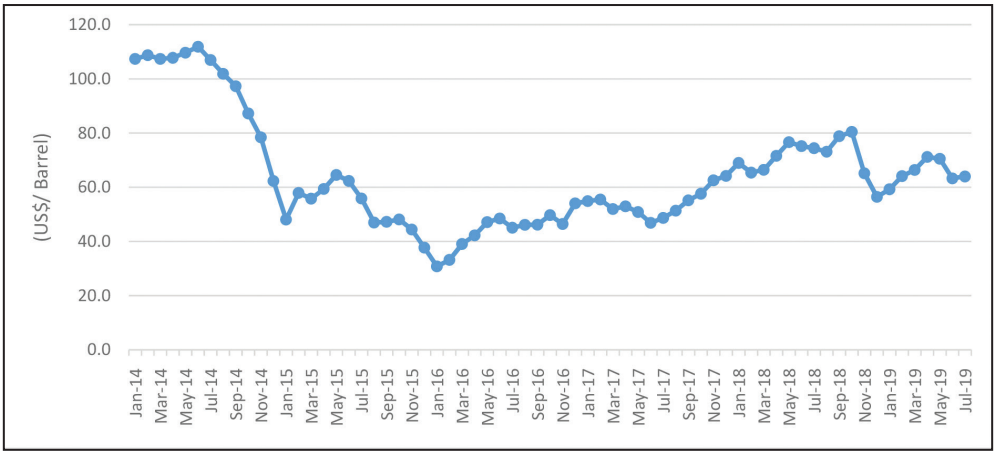
2712	**Petroleum jelly, paraffin wax, micro- crystalline petroleum wax, slack wax, ozokerite, lignite**	0.2	0.4	74.4	South Africa, Tanzania, Namibia, Lesotho & Botswana
2713	**Petroleum coke, petroleum bitumen and other residues of petroleum oil**	0.1	0.1	42.0	South Africa, Tanzania, Eswatini, DR Congo & Botswana
27	**Mineral fuels, oil and product of distillation**	**52.3**	**100.0**	**24.5**	**-**

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Chart 2.2 illustrates the crude oil price movement during January 2014 to December 2018. Oil prices fell from a peak of US$ 111.9 per barrel in June 2014 to US$ 29.8 per barrel in January 2016 post which the prices gradually recovered eventually touching US$ 76.7 per barrel in October 2018. The region's dependence on oil and mineral resources has played a crucial role in affecting its economic growth.

Crude petroleum accounted for 87 percent of Angola's exports, thus making it highly susceptible to international oil prices. Economic growth of Angola started deteriorating after 2014 from 4.8 percent to 0.9 percent in 2015 and since then it is has been in recession, with growth rates remaining in negative zone for last three years.

Chart 2.2: Trends in Crude Oil Price (Brent, US Dollar per barrel)



Source: World Bank

Several African countries depend on non-oil extractive resources, and have witnessed significant slowdown in their growth rates in recent times as a result of the commodity price downturn. South Africa, Botswana, Namibia, Tanzania and Zimbabwe feature among the major exporters of Africa of pearls, precious stones and metals (HS 71) which was the second most exported item by SADC in 2018 (**Table 2.4**).

Botswana is a small landlocked economy located in Southern Africa, and is the fifth largest economy in the region. Its growth rate shot up from 2.4 percent in 2008-10 to 5.7 percent during 2011-13 as a result of the higher demand for diamonds. However, heavy reliance on mining and exporting diamonds have dragged down the real GDP growth rate to 2.2 percent in 2014-16. Mining and quarrying accounts for nearly 20.6 percent of the GDP and 34 percent of government revenues[9] of Botswana and diamonds, whether or not worked, accounted nearly 90 percent of Botswana exports in 2018. Over reliance on commodity exports thus constrains Botswana's otherwise stable economy. Recovery in global demand majorly from the USA and China through improved consumer sentiments is likely to lead to a recovery in exports with the estimated growth increasing to 4.6 percent in 2018. To maintain a stable macroeconomic environment Botswana needs to add more value to its minerals thereby diversifying its economic base to insulate itself from international price movements.

[9]UN National Accounts Main Aggregates Database; and Botswana and the AfDB, African Development Bank Profiles

Table 2.4: Components of Pearls, Precious Stones and Metals (HS 71) Exported by SADC in 2018

HS Code	Item	Exported Value (US$ bn)	Share in SADC's total exports of pearls, precious stones & metals (%)	Share in Africa's exports for the respective item (%)	Top 5 exporters
7102	**Diamonds, whether or not worked, but not mounted or set**	12.1	40.1	98.6	Botswana, South Africa, Namibia, Angola & Lesotho
7108	**Gold, incl. gold plated with platinum, unwrought or not further worked**	8.7	29.0	28.2	South Africa, Tanzania, Zimbabwe, Namibia & Zambia
7110	**Platinum, incl. palladium, rhodium, iridium, osmium and ruthenium, unwrought or in semi-manufactured**	7.8	25.9	100.0	South Africa, Zimbabwe, Eswatini & Mauritius
7112	**Waste and scrap of precious metal or of metal clad with precious metal;**	0.5	1.6	96.0	South Africa, Zambia, Mauritius, DR Congo & Zimbabwe
7118	**Coin, incl. legal tender**	0.4	1.4	99.9	South Africa, Tanzania, DR Congo, Seychelles & Eswatini
7113	**Articles of jewelry and parts**	0.3	1.0	93.5	South Africa, Zimbabwe, Mauritius, Namibia & Seychelles
7103	**Precious stones and semi-precious stones, whether or not worked or graded**	0.3	0.8	92.5	Mozambique, Madagascar, South Africa, Tanzania & Zambia
71	**Natural or cultured pearls, precious stones and metals**	**30.2**	**100.0**	**57.2**	-

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Lack of economic diversification and excessive concentration on mineral resources makes the African economy vulnerable towards global shocks. Not only it adversely affects the GDP, it also hurts the local economic development as income and employment reduces. While most of the African economies witnessed growth in the last decade owning to foreign direct investment (FDI), large amount of such investment was in the extractive sector. As a result, with the global prices for commodities falling, Africa has witnessed a fall in foreign investments as well.

The fourth-largest item of export for SADC in 2018 was copper and its articles accounting for 6.9 percent of its total exports. Zambia and DR Congo are the major exporters of copper articles within the SADC region. DR Congo is highly

dependent on mining activities. Copper accounted for 37.2 percent of its total exports followed by other base metals mainly cobalt and ores, slag and ash in 2018[10]. However, post 2013 many of the mines have been closed due to subdued global demand thereby affecting thousands of families, dependent on the mining sector for their livelihood. Real GDP growth of DR Congo increased from 2.4 percent in 2016 to 3.9 percent in 2018, reflecting increasing international prices of copper. In a similar manner, Zambia's growth prospects have also been influenced by the change in price of copper. Unrefined copper and copper alloys accounted for 72.9 percent of Zambia's exports in 2015. With falling copper prices, the real GDP growth rates of Zambia accordingly fell from 7.6 percent in 2012 to just 2.9 percent in 2015. It started recovering from 2016, with the economy growing at 3.5 percent in 2018 as a result of improved domestic production of copper from new and refurbished mines, and exports.

The problem with an economy being dependent on exporting non-renewable natural resources is that the commodity is sensitive to global price movements and stands a chance of being depleted over time. South Africa, despite being one of the most established economies in Africa, is also dependent on mining of gold, platinum, coal and iron ore. South Africa was one of the biggest gold producers in the world with more than 75 percent of the world's reserves. However, with time, the reserves have depleted and many of the gold mines have therefore closed. One-third of the gold industry's 180,000 workers lost their jobs during 2004 to 2015[11]. Lately, with the slowing down of China, demand for coal and iron ore has also declined thus adversely affecting the country's mining sector. Accordingly, real GDP growth of South Africa has also significantly moderated from 2.7 percent in 2013 to 0.8 percent in 2018. South Africa has observed a continued slow down since 2011 as a result of structural weakness in the economy coupled with erratic mining and quarrying.

Other mineral rich economies like Namibia and Zimbabwe are also dependent on international commodity prices and thus have observed slow down as a result of the downturn.

Table 2.5 represents the components of ores, slag and ash exported by SADC in 2018.

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[10]Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

[11]Kevin Sieff, "South Africa's gold industry, like its economy, is crumbling", The Washington Post, March 07, 2016

Table 2.5: Components of Ores, Slag and Ash (HS 26) Exported by SADC in 2018

HS Code	Item	Exported Value (US$ bn)	Share in SADC's total exports of ores, slag and ash (%)	Share in Africa's exports for the respective item (%)	Top 5 exporters
2601	**Iron ores and concentrates**	4.2	26.9	84.9	South Africa, Angola, Zimbabwe, Madagascar & Namibia
2602	**Manganese ores and concentrates**	3.6	23.2	66.8	South Africa, Zambia, Namibia, DR Congo & Zimbabwe
2610	**Chromium ores and concentrates**	2.0	12.9	99.8	South Africa, Zimbabwe, Madagascar, Tanzania & DR Congo
2603	**Copper ores and concentrates**	1.4	9.2	77.2	DR Congo, South Africa, Botswana, Zambia & Madagascar
2605	**Cobalt ores and concentrates**	0.9	5.5	98.3	Zambia, South Africa & Namibia
2614	**Titanium ores and concentrates**	0.8	5.3	67.9	South Africa, Mozambique & Madagascar
2612	**Uranium or thorium ores and concentrates**	0.7	4.2	100.0	Namibia, Madagascar, South Africa & Malawi
2615	**Niobium, tantalum, vanadium or zirconium ores and concentrates**	0.6	4.0	64.9	South Africa, Mozambique, DR Congo, Madagascar, Zimbabwe
2604	**Nickel ores and concentrates**	0.4	2.5	96.3	Zimbabwe, South Africa
2616	**Precious-metal ores and concentrates**	0.4	2.4	99.2	South Africa, Zimbabwe, Madagascar, Namibia & Mozambique
2618	**Granulated slag**	0.2	1.6	99.1	South Africa & Mozambique
2608	**Zinc ores and concentrates**	0.2	1.0	28.7	Namibia, South Africa, Zambia & DR Congo
26	**Ores, slag and ash**	15.7	100.0	67.4	South Africa, Guinea, DR Congo, Gabon & Namibia

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Major Export Markets

While developed countries such as the USA and Germany, among others, continue to be the traditional destinations for SADC's exports, developing countries such as China and India have emerged as major export destinations in recent years. In 2018, China and India were the largest export destinations for the region accounting for 21.6 percent and 6.3 percent of SADC's global exports. India's share in SADC's exports has increased from 2.3 percent in 2008 to 6.3 percent in 2018, thus becoming the 2nd largest export destination for the region, which is a significant improvement from 11th rank in 2008 **(Table 2.6).**

Major suppliers to China from the SADC region include South Africa, Angola, DR Congo, Zambia and Zimbabwe. India's major suppliers from the region include South Africa, Angola, Botswana and Tanzania. While major suppliers to the USA were South Africa, Angola and Botswana.

Table 2.6: SADC's Major Export Destinations

Importers	Share in SADC's Exports (%)		
	2008	2013	2018
China	16.9	23.2	21.6
India	2.3	5.4	6.3
USA	16.6	6.1	5.1
South Africa	4.2	5.3	4.7
Germany	3.9	2.0	4.1
UK	6.1	4.1	3.5
UAE	0.9	1.7	3.2
Belgium	1.9	1.9	3.0
Switzerland	2.9	3.5	2.8
Japan	4.8	2.9	2.7

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

SADC – Imports

Major Importers

As regards imports, South Africa dominates imports of the SADC region, accounting for more than half of the region's imports **(Table 2.7).** Other major importers in the region include Angola, Zambia, Tanzania and Namibia.

China is the largest supplier for South Africa, accounting for 18.3 percent of the country's import in 2018. This was followed by Germany, the USA, Saudi Arabia and India; and South Africa's imports from China mainly included electronic and electrical equipment and machinery, accounting for 26.6 percent and 20.3 percent of South Africa's imports from China, respectively in 2018.

Angola's main sources of imports include China (14.1 percent of Angola's imports in 2018), Portugal, Singapore, Belgium and Togo.

Table 2.7: SADC- Country-wise Imports

Importers	2008			2013			2018		
	Values (US$ bn)	Share in SADC (%)	Share in Africa (%)	Values (US$ bn)	Share in SADC (%)	Share in Africa (%)	Values (US$ bn)	Share in SADC (%)	Share in Africa (%)
SADC Total	**155.0**	**100.0**	**33.6**	**208.1**	**100.0**	**35.4**	**178.2**	**100.0**	**31.1**
South Africa	87.6	56.5	19.0	103.3	49.6	17.6	93.4	52.4	16.3
Angola	20.5	13.2	4.4	26.8	12.9	4.6	16.4	9.2	2.9
Zambia	5.1	3.3	1.1	10.2	4.9	1.7	9.5	5.3	1.6
Tanzania	8.1	5.2	1.8	12.5	6.0	2.1	8.5	4.8	1.5
Namibia	4.7	3.0	1.0	7.6	3.6	1.3	8.3	4.7	1.4
DR Congo	3.9	2.5	0.9	7.2	3.4	1.2	7.0	3.9	1.2
Mozambique	4.0	2.6	0.9	10.1	4.9	1.7	6.8	3.8	1.2
Zimbabwe	2.8	1.8	0.6	7.7	3.7	1.3	6.3	3.5	1.1
Botswana	5.2	3.4	1.1	7.4	3.6	1.3	6.2	3.5	1.1
Mauritius	4.7	3.0	1.1	5.4	2.6	0.9	5.3	3.0	0.9
Madagascar	3.9	2.5	0.8	2.7	1.3	0.5	3.9	2.2	0.7
Seychelles	1.0	0.6	0.2	0.9	0.4	0.2	1.9	1.1	0.3
Eswatini	0.3	0.2	0.1	1.8	0.8	0.3	1.8	1.0	0.3
Lesotho	1.1	0.7	0.2	1.8	0.9	0.3	1.5	0.9	0.3
Malawi	2.2	1.4	0.5	2.8	1.3	0.5	1.5	0.8	0.3

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Major Import Items

In contrast to SADC's export basket, which is largely dominated by crude oil, SADC's imports are relatively diversified. Mineral fuels and machinery are the two largest import items, followed by electronic and electrical equipment, vehicles other than railway or tramway, plastics and its articles and pharmaceutical products **(Table 2.8)**.

SADC's import of mineral fuels, oils and its products, was mainly dominated by petroleum oils not crude (HS 2710). The region's petroleum oil imports were mainly sourced from Saudi Arabia, India and South Africa.

SADC's import of machinery and equipment, the second-largest import item of the region, were mainly from China, South Africa, Germany, the USA and Italy. Within machinery and equipment, automated data processing machines were the major import items of SADC. Major importers of machinery and equipment, include South Africa, Angola and Zambia.

Table 2.8: SADC's Major Import Items

HS Code	Product label	2008		2013		2018	
		Values (US$ bn)	Share in SADC (%)	Values (US$ bn)	Share in SADC (%)	Values (US$ bn)	Share in SADC (%)
TOTAL	**All products**	**155.0**	**100.0**	**208.1**	**100.0**	**178.2**	**100.0**
27	Mineral fuels, oils and its products	28.5	18.4	40.3	19.4	30.3	17.0
84	Machinery and equipment	22.8	14.7	26.0	12.5	20.8	11.7
85	Electrical machinery and its equipment	13.2	8.5	16.6	8.0	13.7	7.7
87	Vehicles other than railway or tramway	14.0	9.0	18.1	8.7	13.0	7.3
39	Plastics and its articles	3.6	2.3	5.3	2.6	5.6	3.1
30	Pharmaceutical products	2.7	1.7	4.4	2.1	5.0	2.8
71	Natural or cultured pearls, precious or semi-precious stones	1.9	1.2	3.5	1.7	3.9	2.2
73	Articles of iron and steel	4.7	3.0	5.5	2.7	3.5	2.0
89	Ships, boats and floating structures	1.8	1.1	4.9	2.4	3.4	1.9
90	Cereals	2.9	1.9	4.6	2.2	3.4	1.9

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Major Import Sources

As regards SADC's global imports, China has emerged as the leading supplier to SADC, accounting for as much as 15.8 percent of SADC's total imports in 2018, followed by South Africa and Germany. India is the fourth-largest source for SADC's imports, accounting for 4.9 percent in 2018 increasing from 3.5 percent in 2008 **(Table 2.9).**

China's main markets in the SADC region include South Africa, Tanzania and Angola. South Africa's exports to the region were mainly towards its neighboring countries, namely, Botswana, Namibia and Mozambique. In the case of India, its main markets in the SADC region comprise South Africa, Tanzania and Mauritius.

Table 2.9: SADC's Major Import Sources

Exporters	Share in SADC's Imports (%)		
	2008	2013	2018
China	10.4	12.2	15.8
South Africa	11.5	13.1	11.9
Germany	7.5	5.9	5.9
India	3.5	5.3	4.9
USA	6.7	4.7	4.3
Saudi Arabia	3.9	4.0	3.5
UAE	1.8	2.6	3.2
UK	3.6	3.6	2.8
Japan	4.1	3.0	2.4
Singapore	1.1	2.2	2.4

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Commodity Dependence of SADC Countries

According to the UNCTAD[12], a country is considered "commodity-dependent" if the commodities exported by the country account for more than sixty percent of its total merchandise exports in value terms. Based on this calculation, Sub-Saharan Africa is the most commodity dependent region in the world with 89 percent of the countries being dependent on commodity exports. This was followed by Middle East & North Africa with 65 percent of its countries,

[12]UNCTAD (2019). The Sate of Commodity Dependence 2019, Geneva: UN.

East Asia and Pacific, Latin America and the Caribbean, South Asia, and Europe and Central Asia. North American countries were found to be commodity independent.

During 2013-17, mineral fuels and oils (majorly crude petroleum) accounted for 96 percent of its total merchandise exports in Angola. Similarly, countries like Seychelles being island economy is highly dependent on fishery products. Zambia on the other hand is heavily dependent on copper exports **(Table 2.10)**. Countries like Eswatini, Lesotho, Mauritius and South Africa are commodity independent.

Table 2.10: Level of Commodity Dependence of SADC Countries

Development Status of the country								
Country	LDC	Land-locked	Country Classification on Income level				Overall Commod-ity depen-dence	Major Commodity
			Low	Low-er-mid-dle	Up-per-Mid-dle	High		
Angola	■			■			100%	Petroleum crude (96%)
Botswana		■			■		94%	Pearls & precious stones (85%)
Comoros	■		■				73%	Spices (66%)
DR Congo	■		■				93%	Copper & copper ores (68%)
Eswatini		■		■			36%	Forestry products (12%)
Lesotho	■	■		■			33%	Pearls & precious stones (22%)
Madagascar	■		■				71%	Agricultural commodities (38%)
Malawi	■	■	■				82%	Tobacco (48%)
Mauritius					■		38%	Fishery products (17%)
Mozam-bique	■		■				93%	Ores & metals (37%)
Namibia					■		80%	Ores & metals (52%)
Seychelles						■	89%	Fishery products (69%)
South Africa					■		56%	Ores & metals (33%)
Tanzania	■		■				86%	Agricultural commodities (41%)
Zambia	■	■		■			87%	Copper (67%)
Zimbabwe		■	■				86%	Tobacco (31%)

Note: Data pertain to 2013-2017; Colour Coding: Dependence on exports agricultural prod ucts (Green), dependence on fuel exports (Yellow), dependence on exports of minerals, ores and metals (Orange) and no colour implies no dependence.
Source: State of Commodity Dependence Report 2019, UNCTAD

Commodity dependence has been more or less exclusively a developing country phenomenon, as a result, these economies are more vulnerable to negative commodity price shock. As the economies of these countries slowed down their fiscal situation deteriorated leading to increase in public debt mostly comprising external debt. A large portion of these countries are mineral or fuel dependent.

Commodity price volatility generates uncertainty within and about an economy when the economy is heavily dependent on exports. These price fluctuations not only slow down the growth, it affects the domestic demand of the economy due to reduced income thereby leading the country to debt distress and poverty, typically more observed in case of the LDCs. The correlation between annual growth in commodity price indices (all groups including agricultural commodities, minerals, metals and ores and fuels) and real GDP growth rate of SADC for the period 1996 to 2018 using UNCTADStat data averaged 0.56. However, a much higher correlation is observed when we consider SADC annual export growth and growth in commodity prices (all groups). The correlation goes up to 0.9 therefore revealing the high price sensitivity of the region's exports to commodities.

When individual categories of commodity price indices are considered over the same period of time, while the agricultural commodity price indices' correlation with SADC's GDP growth stood at 0.5, its correlation with export growth of SADC is much higher at 0.86. Similarly, minerals, ores and metal price indices' correlation with export growth is much higher at 0.82 compare to its correlation with SADC's GDP growth, which stood at 0.47. When it comes to fuel price indices, SADC's GDP growth correlation was at 0.61 whereas exports growth shows a correlation of 0.86.

Foreign Investment in SADC Countries

The SADC countries signed the Finance and Investment Protocol in 2006, acknowledging the need for accelerating growth, investment and employment in the region through increased cooperation, coordination and management of macroeconomic, monetary and fiscal policies.

The importance of FDI as part of external resources for its role in transfer of technology and development of regional and global value chain has been emphasized in the SADC Industrialization Strategy and Roadmap 2015 – 2063.

Table 2.11: Country-wise FDI inflows to SADC Region (US$ mn)

Country/ Region	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Angola	1,679.0	2,205.3	-3,227.2	-3,023.8	-1,464.6	-7,120.0	3,657.5	10,028.2	-179.5	-7,397.3	-5,732.5
Botswana	520.9	208.7	218.4	293.2	146.5	67.1	515.2	378.6	122.2	177.1	228.7
Comoros	4.6	13.8	8.3	23.1	10.4	4.2	4.7	4.9	3.6	3.9	7.9
DR Congo	1,726.8	663.8	2,939.3	1,686.9	3,312.1	2,098.2	1,843.2	1,673.5	1,204.7	1,340.2	1,493.9
Eswatini	105.7	65.7	119.6	108.4	31.5	84.7	25.5	41.3	21.1	-56.0	25.4
Lesotho	61.8	91.3	51.3	149.5	24.4	84.1	65.8	40.5	47.6	43.1	39.3
Madagascar	1,392.7	1,269.4	764.7	788.1	777.6	551.3	313.7	435.8	450.6	389.1	349.1
Malawi	123.9	194.5	46.1	93.3	80.9	88.5	387.1	509.7	115.7	90.2	101.6
Mauritius	382.9	247.8	430.0	433.4	589.0	293.3	455.6	216.5	378.8	442.9	371.5
Mozambique	591.6	898.3	2,531.7	3,558.5	5,629.4	6,175.1	4,901.8	3,866.8	3,093.4	2,293.1	2,711.1
Namibia	720.3	841.2	283.8	817.1	1,060.8	769.9	441.2	933.3	353.6	461.2	195.8
Seychelles	182.1	171.4	210.8	207.4	261.4	170.3	230.0	194.5	155.2	191.9	123.9
South Africa	9,209.2	7,502.1	3,635.6	4,242.9	4,558.8	8,300.1	5,770.7	1,729.4	2,235.0	2,006.9	5,334.0
Tanzania	1,383.3	952.6	1,813.3	1,229.4	1,799.6	2,087.3	1,416.1	1,560.8	864.0	937.7	1,104.8
Zambia	938.6	694.8	1,729.3	1,108.5	1,731.5	2,099.8	1,488.7	1,304.9	662.9	1,107.5	569.0
Zimbabwe	51.6	105.0	165.9	387.0	399.5	400.0	544.8	421.0	371.8	349.4	744.6
SADC	**19,075.0**	**16,125.7**	**11,720.8**	**12,102.7**	**18,949.0**	**16,153.9**	**22,061.4**	**23,339.8**	**9,900.7**	**2,381.0**	**7,668.2**
Share in Africa's FDI (%) Inflows	*32.9*	*28.5*	*25.1*	*26.5*	*33.3*	*32.3*	*40.9*	*41.0*	*21.3*	*5.8*	*16.7*

Source: UNCTADstat; and Exim Bank Analysis

SADC countries have encouraged foreign direct investment (FDIs) by developing various pro-investment policies. Agro-processing, downstream processing of mineral resources and industry- and service-driven value chains were identified as the potential avenues to drive economic growth in the region.

During the last decade, FDI inflows to SADC region peaked in 2015, mainly due to following large investments inflows into Angola. With the fall in investments in Angola, FDI declined in the subsequent year till 2017. From 2018, FDI into SADC region started recovering, increasing three-fold from US$ 1.4 billion in 2017 to US$ 7.7 billion, largely driven by higher investment in South Africa. As a result, SADC's share in Africa's FDI inflows, which declined from a peak of 40.9 percent in 2015 to 5.8 percent in 2017, increased to 16.7 percent in 2018 (**Table 2.11**).

The movement in primary commodity prices can be associated with similar movement in export revenue causing instability in foreign exchange earnings of the SADC countries; thereby leading to growth volatility and a slower recovery as reflected in **Chart 1.1**.

Increase in FDI flows to South Africa in 2018 was mainly due to increase in intra company Increase in loans, accompanied by considerable increase in equity inflows as well. During the year, major investments were received in the automotive sector by China-based automaker Beijing Automotive Industry Holding, BMW (Germany) and Nissan (Japan). Further, South Africa also received investments in the renewable energy sector by the Mainstream Renewable Energy of Ireland for building a 110 MW wind farm, with capital of amount US$ 186 million[13].

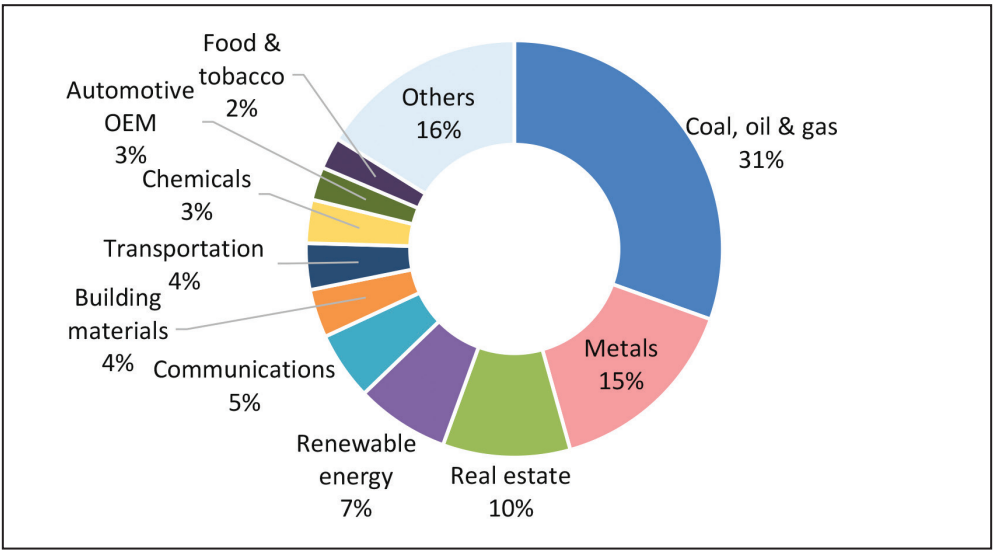
FDI flows to Angola are negative in the last three years -US$ 5.7 billion as a result of the decline in oil production and profit repatriations by foreign parent companies, thus weighing on new investments. In an attempt to encourage FDI, the Angolan government has recently introduced an investment law removing the mandatory national ownership share of 35 per cent in greenfield investments and the minimum investment requirements.

Mozambique received FDI amounting to US$ 2.7 billion in 2018, up from US$ 2.3 billion in 2017 majorly due to intracompany transfers by the companies engaged in gas exploration and production.

During 2008-2018, foreign investments in SADC were mainly into coal, oil and gas, metals, real estate, and renewable energy, among others **(Chart 2.3)**

[13]UNCTAD (2019), World Investment Report 2019, Geneva: UN.

Chart 2.3: Major Sectors Receiving Investment in SADC during 2008-2018



Note: FDI Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Source: fDi Markets online database and Exim Bank analysis

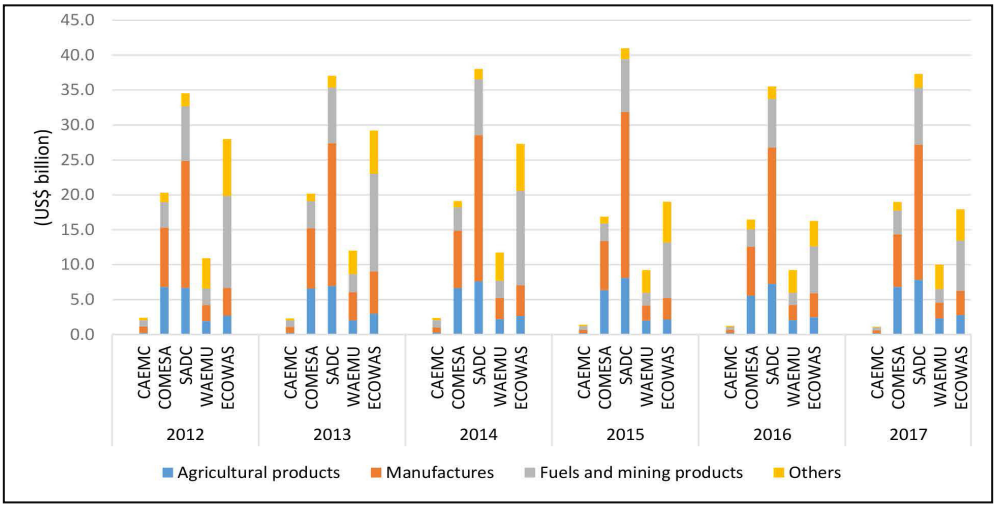
3. Manufacturing Export Profile of SADC Countries

According to the World Trade Organisation (WTC), Africa contributed 1.9 percent in World's manufacturing value added, and nearly half of Africa's contribution originated from the SADC region[14].

In fact, SADC ranks first among African RTAs in value terms, representing 37.3 percent of total African exports in 2017. SADC also shows the highest share of manufacturing exports to the continent vis-à-vis its exports to the world, which mainly includes fuels and mining products **(Chart 3.1** and **Chart 3.2)**. SADC's manufacturing exports to Africa mainly comprised machinery and transport equipment from South Africa.

According to a report by African Export-Import Bank (Afreximbank)[15], in the southern Africa region, fuel and manufactured goods enter the continent through South Africa's ports and are transported by road to various countries including

Chart 3.1: African RTAs Exports to Africa by Main Product Group

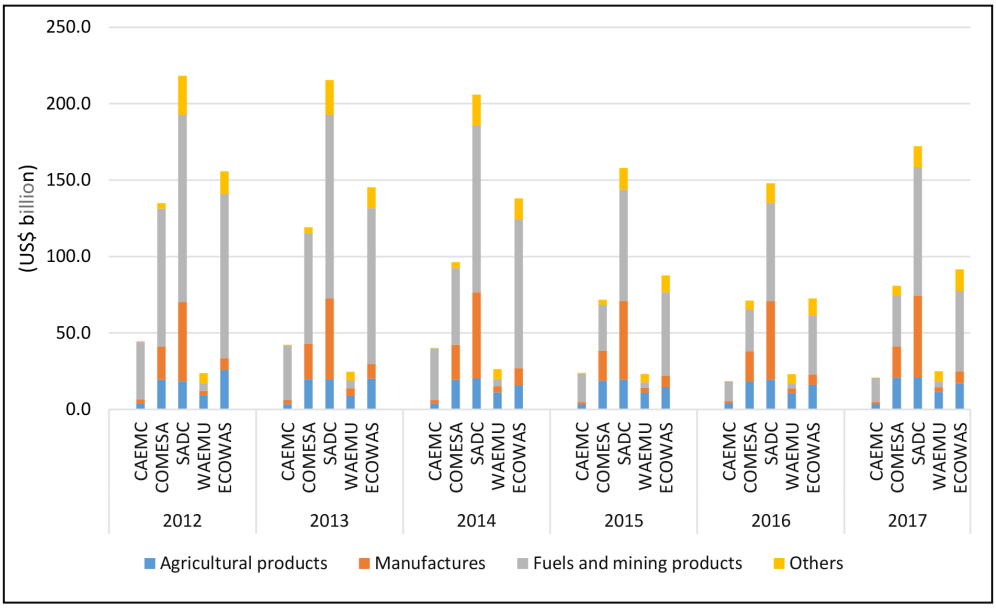


Source: WTO

[14] As per latest data available in WTO

[15] Afreximbank (2018). African Trade Report 2018, Cairo, Egypt.

Chart 3.2: African RTAs Exports to World by Main Product Group



Source: WTO

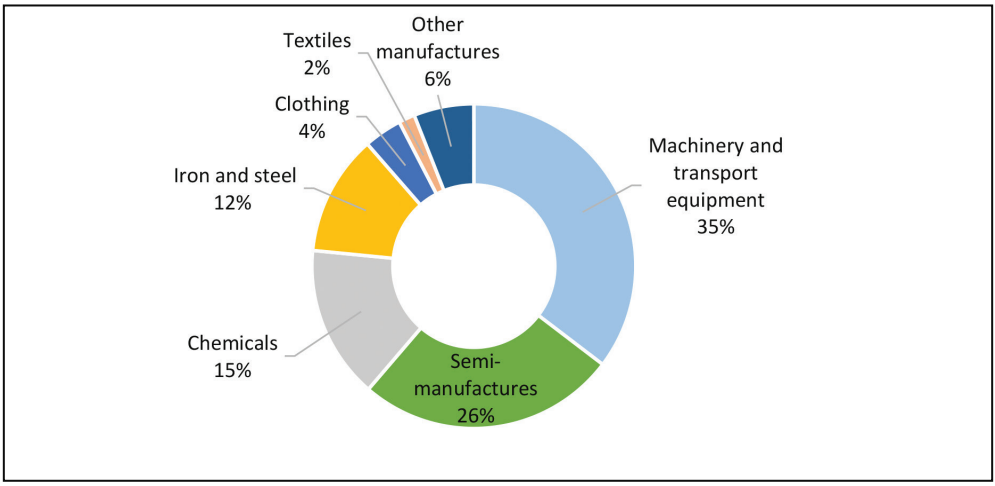
Botswana, DR Congo, Lesotho, Eswatini, Zambia and Zimbabwe. Cobalt, copper and gold, on the other hand, go in the other direction.

While analyzing the sub categories of manufacturing exports by SADC to the world as well as Africa, **Chart 3.3** and **Chart 3.4** illustrate that machinery and transport equipment account for the largest share of manufacturing exports in both cases (35 percent to the world and 36 percent to Africa, respectively). SADC's export of machinery and transport equipment comprised automotive products (51 percent of machinery and transport equipment in 2017) followed by semi manufactures (26 percent) and chemicals (15 percent). Pharmaceutical products account for a meagre share of 6.3 percent within the chemicals category indicating the scope for increasing exports[16]. Textiles and clothing together accounted for roughly 6 percent of total manufacturing exports.

SADC's exports to Africa also follow a similar pattern with machinery and transport equipment accounting for the bulk of manufacturing exports (36 percent). This was followed by chemicals, iron and steel and clothing. Within the machinery

[16]Calculated from WTO data on merchandise exports from data.wto.org

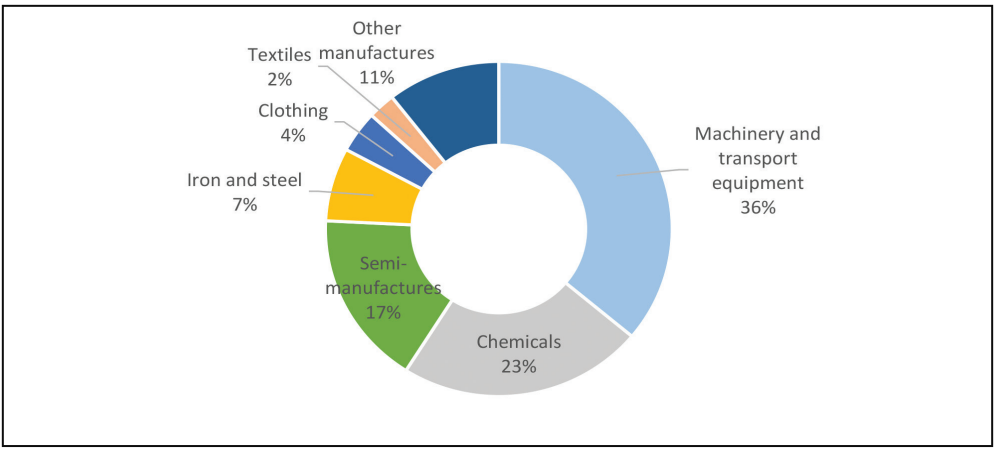
Chart 3.3: Major Categories of Manufacturing by SADC Exported to the World



Note: SADC's global manufacturing exports stood at US$ 53.4 bn in 2017
Source: WTO

and transport equipment category, automotive products accounted for 26 percent share in export of machinery and transport equipment. Pharmaceutical products account for 7.5 percent in total export of chemicals.

Chart 3.4: Major categories of Manufacturing by SADC exported to Africa



Note: SADC's manufacturing exports to Africa stood at US$ 19.3 bn in 2017
Source: WTO

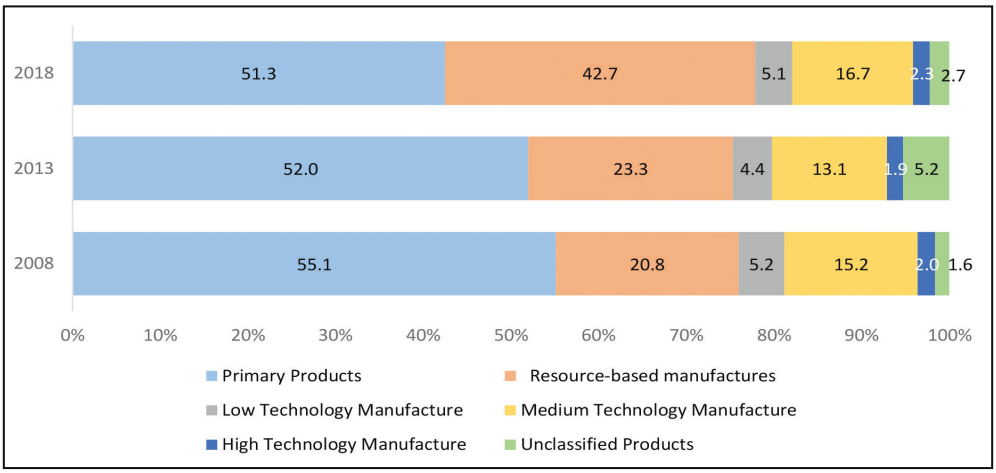
An analysis of SADC's global trade revealed that in the past five years trade deficits were witnessed for two consecutive years, viz. 2015 and 2016, mainly due to declining export of mineral fuel, oils and its distillation products in these two years. In addition, the region is also facing structural challenges including poor infrastructure and inadequate access to technology, financial services and skill development[17]. Primary products continue to account for maximum share of exports, accounting for 51.3 percent in 2018 (**Chart 3.5**). Resource based manufacturing and low technology intensive manufacturing have witnessed a decline whereas medium and high technology intensive manufacturing have remained stagnant, thus leaving negligible scope for creating backward or forward linkages within the economy. However, on the contrary to SADC's exports to the world, SADC's exports to Africa are more technology intensive (**Chart 3.6**).

Three areas of focus for boosting Africa's industry-led growth are – new policies to promote industrial exports which would help African companies compete in the global market, capacity building of the domestic firms and promote industrial clusters[18]. Currently, wherever there are factories form cluster, local suppliers would open up businesses and eventually expand. African producers tend to be engaged at the extremes of production process, either as suppliers of raw materials, or in low-value activities of assembly (cut, make and trim), where growth prospects are limited.

[17]African Development Bank (2019). Southern African Regional Outlook 2019, Abidjan Côte d'Ivoire: African Development Bank Group

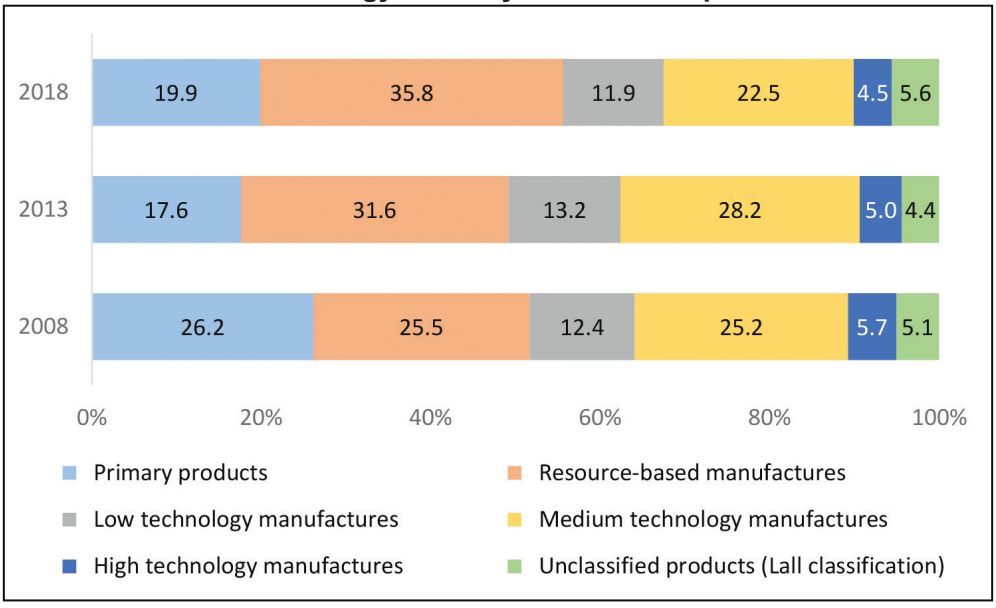
[18]Newman, Carol (Ed.) et al. (2017). "Made in Africa – the future of production on the continent". World Economic Forum, Jan 2017

Chart 3.5: Technology Intensity of SADC's Exports to World



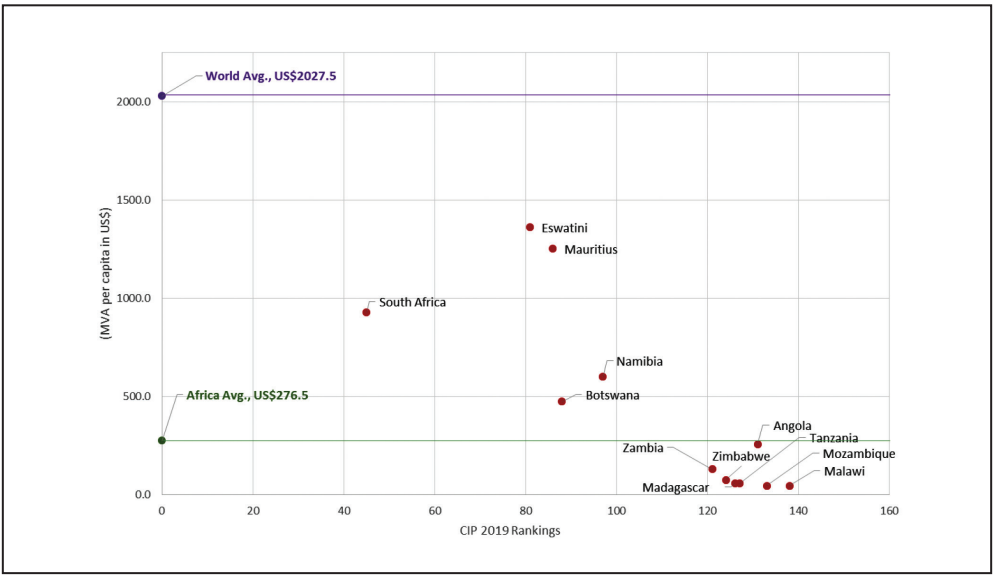
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Chart 3.6: Technology Intensity of SADC's Exports to Africa



Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Chart 3.7: Manufacturing Value Added (MVA) Per Capita for SADC Countries



Note: Manufacturing value added per capita is for constant US$ 2010 prices; Data for Comoros, DR Congo, Lesotho and Seychelles are not available. Data pertain to 2017, as world average and Africa Average latest available data is for 2017. The rest of the analysis on individual countries is for 2018 data.
Source: UNIDO Database

To understand the domestic situation of a country and its competitiveness in terms of manufacturing, we use the manufacturing value added per capita (constant 2010 US$ prices). This parameter allows for comparing a country independent of its size thereby revealing its stage of development and is expected to be higher with higher structural change. The world average of manufacturing value added (MVA) per capita stood at US$ 2,027.5 in 2017. Africa has the lowest MVA per capita of US$ 276.5[19] **(Chart 3.7)**.

Technology intensiveness of the goods exported by SADC countries also highlights the role of primary products in the region's exports. The more technology intensive the goods, the lesser the vulnerability towards international commodity price shocks.

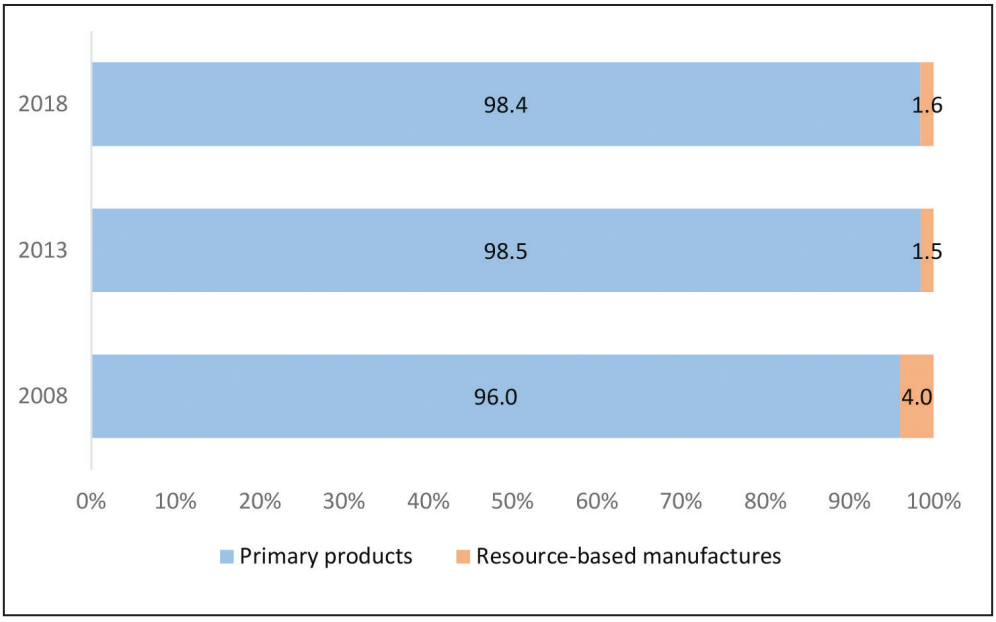
[19]UNIDO (2018). Industrial Development Report 2018, Vienna, Austria: UNIDO

Angola

According to UNIDO, Angola ranks 131st out of 150 countries in the Competitive Industrial Performance (CIP) Index 2019, which measures the industrial competitiveness across economies[20]. Angola's competitiveness has improved over the years as shown by the increase in ranking, in the CIP Index 2019, from 147th position in 2008 to 130th in 2014. The MVA as a percentage of GDP has improved from 3 percent in 2008 to 8 percent in 2018. The MVA per capita stands at US$ 262 in 2018, improving from US$ 102 in 2008.

Angola mainly exported primary products and resource-based manufacturing in the last decade. Share of resource based manufacturing has decreased from 4 percent in 2008 to 1.6 percent 2018 **(Chart 3.8)**.

Chart 3.8: Technology Intensity of Angola's Exports to World



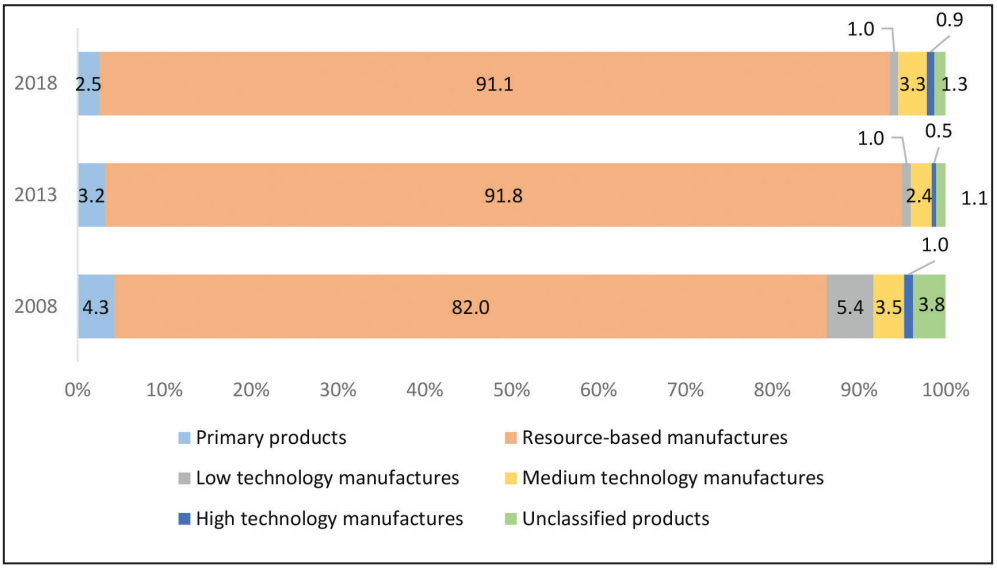
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

[20]The CIP Index covers three main dimensions, each consisting of two indicators. These dimensions are: i) the capacity to produce and export manufactured goods, ii) technological deepening and upgrading, and iii) world impact. The higher the scores in any of the three dimensions, the higher the country's industrial competitiveness and its CIP Index. The CIP ranking for 2019 was for 150 countries.

Botswana

Botswana ranked 88th in the CIP rankings. The manufacturing exports are majorly composed of resource based manufacturing, primarily diamonds, with the share increasing over the years **(Chart 3.9)**. The manufacturing per capita of Botswana has increased from US$ 384.5 in 2008 to US$ 486 in 2018. MVA as a percentage of GDP was 6 percent in 2008 and marginally increased to 6.3 percent in 2018. Botswana ranked 86th in the Ease of Doing Business Rankings 2019. Botswana is increasingly focussing on diversification to other sectors such as leather, dairy, textile and apparel. The major challenges of Botswana are small market size, inadequate access to finance, lack of skilled labour, poor entrepreneurship skills and capacity constraints in terms of infrastructure[21].

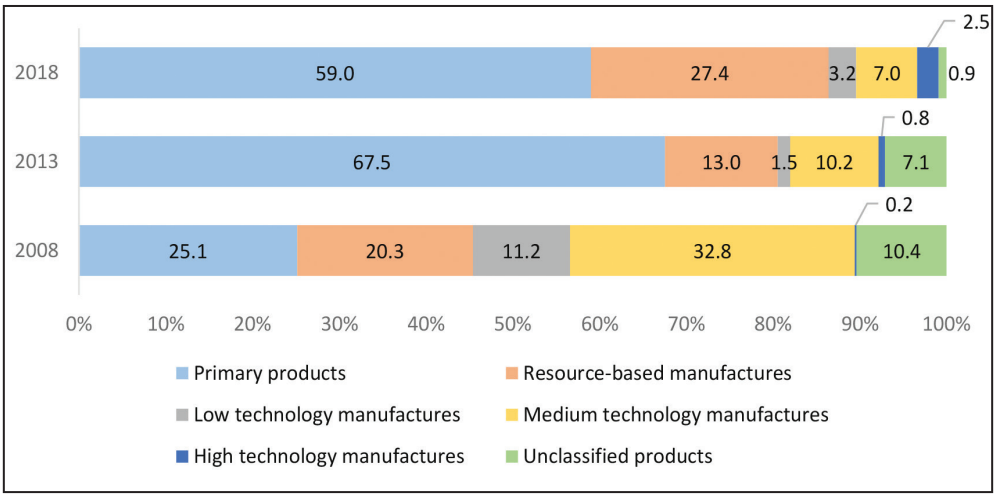
Chart 3.9: Technology Intensity of Botswana's Exports to World



Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

[21]Friedrich-Ebert-Stiftung Botswana

Chart 3.10: Technology Intensity of Comoros' Exports to World



Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Comoros

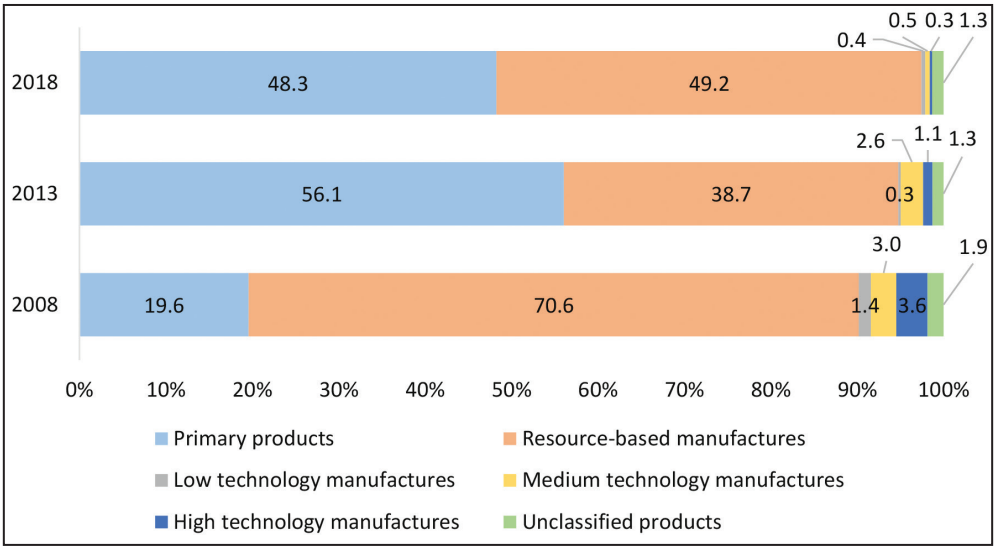
Comoros is not ranked in the CIP 2019. Comoros' exports are majorly driven by primary products. The dependence has increased over the years from 25.1 percent of primary product exports to 59 percent in 2018. However, in the last ten years the share of resource based manufactures has increased from 20.3 percent to 27.4 percent (**Chart 3.10)**. Comoros being an island economy is dependent on export of agricultural commodities with spices accounting for 51 percent of its total exports. In 2018, MVA per capita stood at US$ 99 and MVA as a percentage of GDP at 5.8 percent.

DR Congo

DR Congo is also not ranked by CIP 2019. DR Congo's exports have increasingly become primary product driven rising from 19.6 percent in 2008 to 56.1 percent by 2013 and stood at 48.3 percent in 2018. This may be attributed to the increase in prices of copper. There is therefore a large scope for DR Congo to diversify into mineral processing. DR Congo also has an export potential for coffee and wood products (**Chart 3.11**)[22]. DR Congo's MVA per capita stood at US$ 67 and manufacturing as a percentage of GDP stood at 16.3 percent in 2018.

[22]International Trade Centre (ITC). Country Brief - Democratic Republic of the Congo (accessed on September 20, 2019 http://www.intracen.org/country/democratic-republic-of-the-congo)

Chart 3.11: Technology Intensity of DR Congo's Exports to World

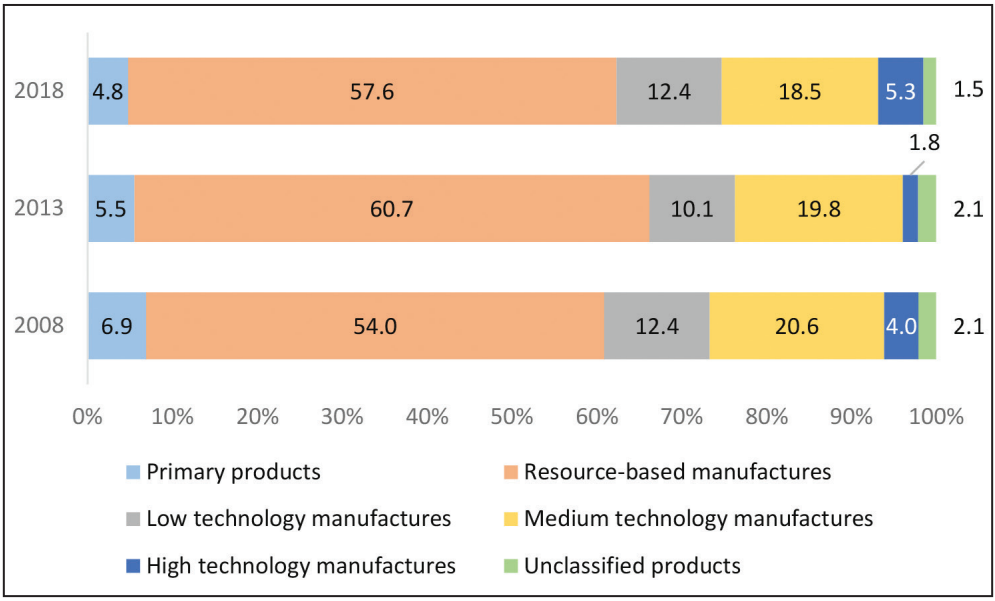


Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Eswatini

Eswatini ranked 81st in the CIP Index rankings 2019. After South Africa, Eswatini is the best performer among SADC members, in terms of its CIP rankings in 2019. Its rank improved from 84 in 2008. Eswatini's exports are majorly resource based manufacturing followed by low and medium technology intensive manufacturing as shown in **Chart 3.12.** Sectors like electronic component manufacture and assembly, auto components, leather goods and footwear, pharmaceuticals and furniture have opportunities. Its MVA per capita increased from US$ 1054.2 in 2008 to US$ 1320 in 2018. The share of MVA as a percentage of GDP has increased from 30 percent in 2008 to 33.6 percent in 2018.

Chart 3.12: Technology Intensity of Eswatini's Exports to World

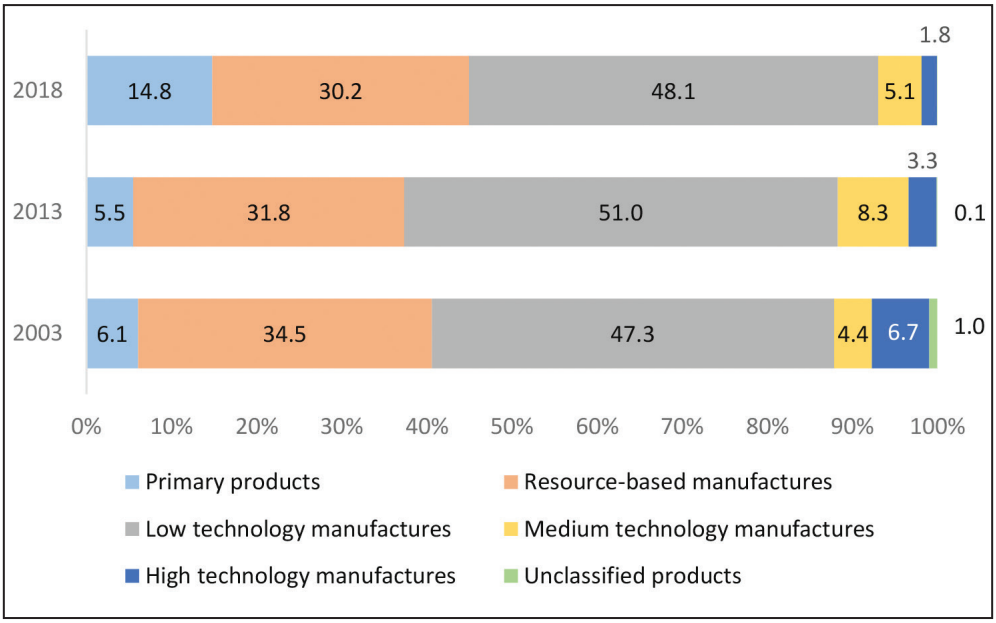


Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Lesotho

Lesotho is also not ranked in the CIP 2019. Lesotho has a relatively balanced export composition with low technology manufacturing accounting for the major share of exports during the last ten years **(Chart 3.13).** Lesotho has emerged as a textile and leather manufacturer and exporter within the region, as reflected in the share of low technology manufacturing. The MVA per capita of Lesotho was at US$ 143 and MVA as a percentage of GDP stood at 10.7 percent in 2018.

Chart 3.13: Technology Intensity of Lesotho's Exports to World

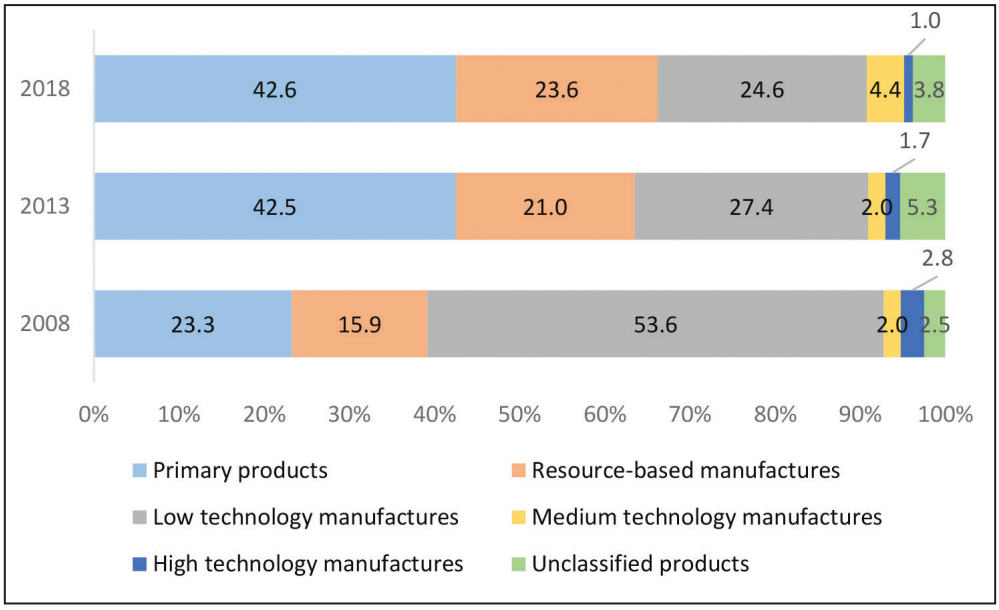


Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Madagascar

Madagascar was ranked 126th in the CIP 2019, moving up by 2 ranks since last year. The MVA per capita stood at US$ 61.3 in 2008 and has increased to US$ 143 in 2018. Share of primary products in exports have increased from 23.3 percent in 2008 to 42.6 percent in 2018, whereas low technology manufacturing has decreased from 53.6 percent in 2008 to 24.6 percent in 2018 **(Chart 3.14).** Inadequate transport infrastructure is mainly cited as a challenge to Madagascar's manufacturing. The country has the potential to be one of the largest textile and apparel exporters in Sub-Saharan Africa with the AGOA giving access to the exports of Madagascar to America. Madagascar manufactures golf apparel, sweatshirt, t-shirts and knitwear. One of the constraints that Madagascar faces in the manufacture of textile products is the supply of cotton seeds, yarn and fabric. Thus a value chain may be developed by sourcing from Tanzania or Zimbabwe.

Chart 3.14: Technology Intensity of Madagascar's Exports to World



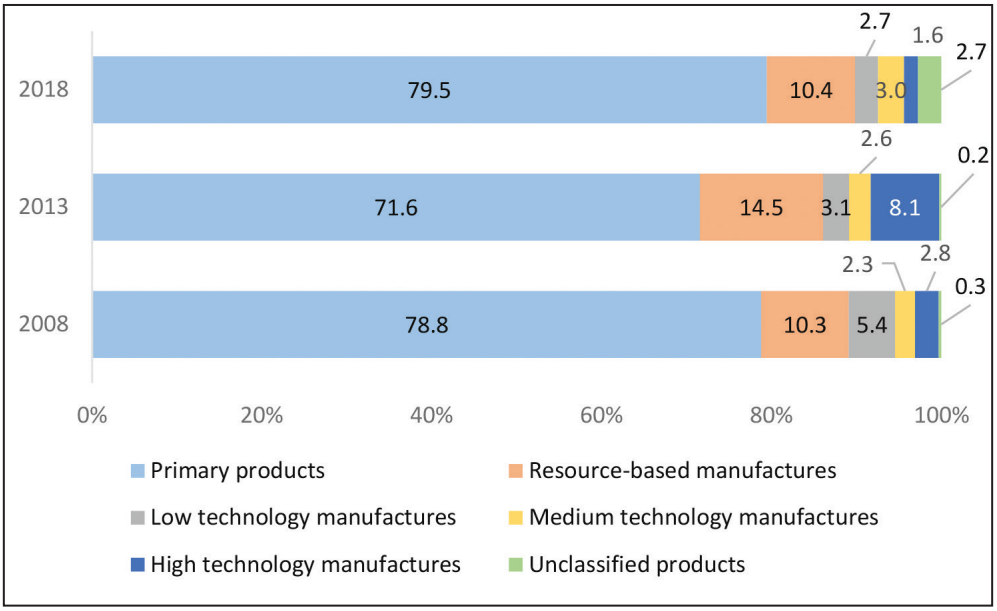
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Malawi

Malawi ranked 138th in the CIP 2019, lowest among the SADC countries. The MVA per capita was US$ 33.62 in 2008, which improved marginally to US$ 46 in 2018. MVA as a percentage of GDP stood at 8 percent in 2008 and has increased to 9.5 percent in 2018. Malawi's exports are mainly driven by primary products, mainly tobacco exports (unprocessed) (**Chart 3.15**). Malawi faces constraints like lack of skilled labour, low productivity and high transport costs. It mainly manufactures textiles and agro-processed products tea, soya and sugar[23].

[23]Commonwealth Network Malawi

Chart 3.15: Technology Intensity of Malawi's Exports to World



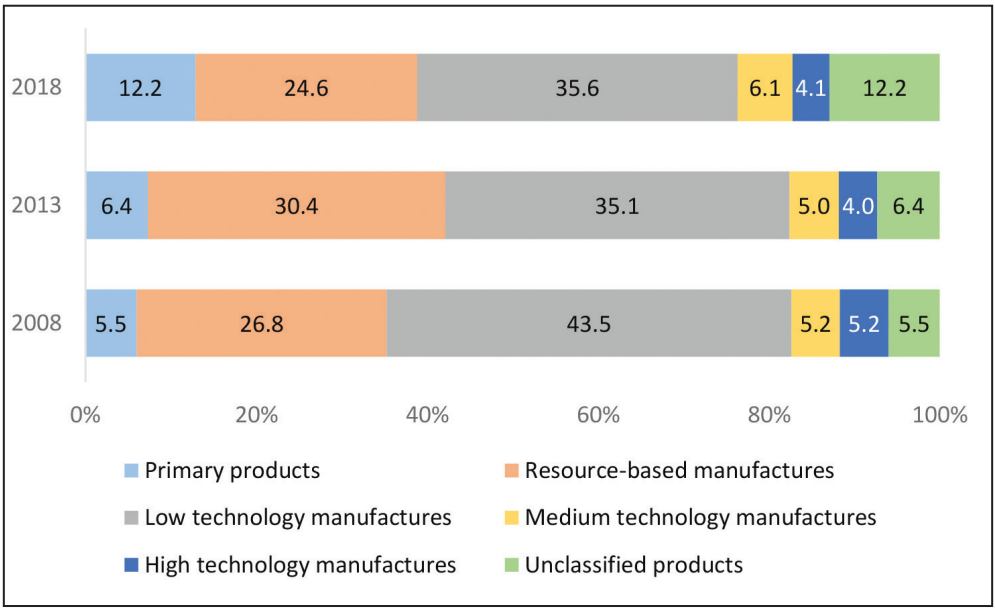
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Mauritius

Mauritius is ranked 86th in the CIP 2019, improving from 87th rank last year. Mauritius has a balanced composition of exports (**Chart 3.16).** Its MVA per capita improved from US$ 1,095 in 2008 to US$ 1,276 in 2018, one of the highest among African countries. The MVA as a percentage of GDP stood at 15 percent in 2008. However, it reduced to 12 percent with the services sector driving the economy. Mauritius has potential for pharmaceutical and medical devices manufacturing and light engineering goods. Textiles is one of the strongholds of Mauritius with opportunities in branded garments, technical textiles, medical textiles, seat covers and upholsteries[24].

[24]FICCI

Chart 3.16: Technology Intensity of Mauritius's Exports to World



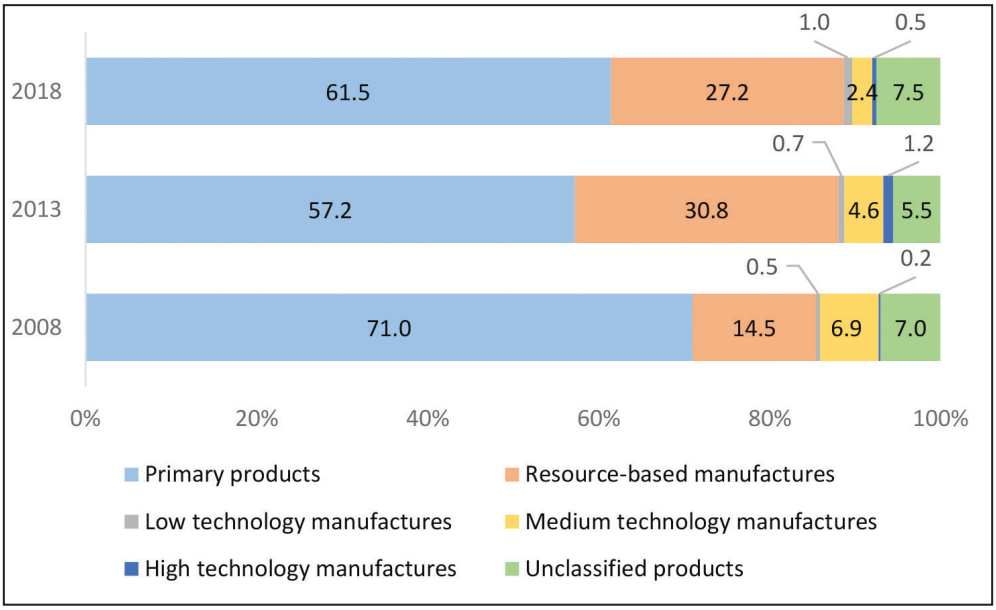
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Mozambique

Mozambique ranked 133rd in CIP 2019. The manufacturing per capita of Mozambique in 2008 was US$ 45.1, which remained unchanged in 2018. Mozambique's MVA as a percentage of GDP, which was 12 percent in 2008, declined to 8.7 percent in 2018. Mozambique's mainly exports primary products (**Chart 3.17**). Mozambique's manufacturing industry is majorly composed of micro, small and medium companies characterised by low technology intensive manufacturing like metal processing, chemicals, paper and packaging, textiles, food processing, furniture and wood products. The challenges faced by Mozambique's manufacturing sector, are competition from foreign imports, irregular electricity supply and bureaucratic delay. Mozambique has a favourable location with transport linkages with South Africa, Malawi, Zambia and DR Congo. The domestic extractive industry majorly gas offers scope for manufacturing of equipment. Mozambique also has the potential for pharmaceutical manufacturing and plastic products[25]. However, the share of resource based manufacturing has

[25]Deloitte (2017). 'Investment Opportunities in Mozambique Manufacturing Edition', October 2017

Chart 3.17: Technology Intensity of Mozambique's Exports to World



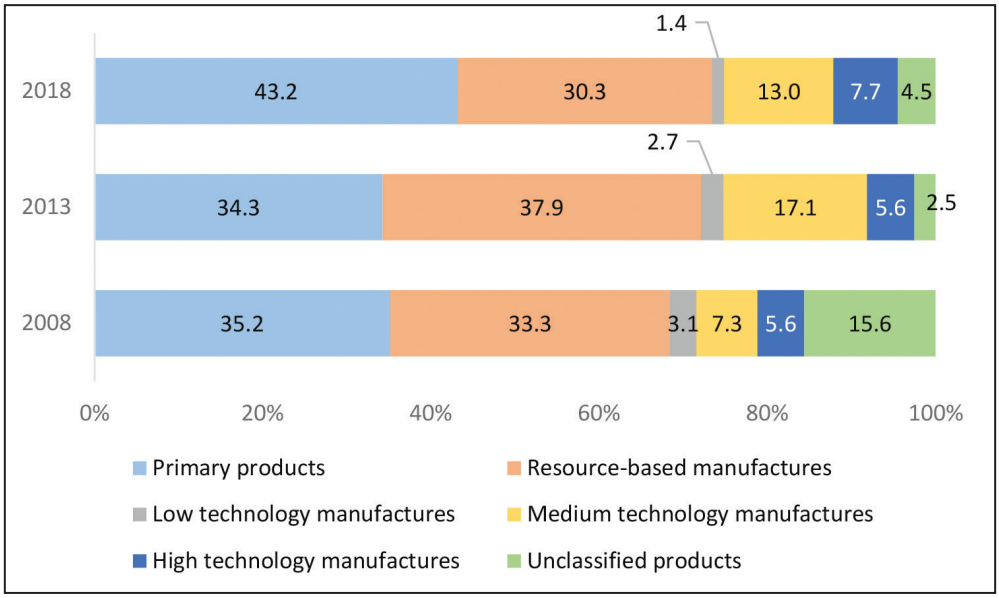
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

increased from 2013 to 2018 from 14.5 percent in 2008 to 30.8 percent in 2013 but later declined to 27.2 percent in 2018. Primary products form the major share of exports due to Mozambique's dependence on mineral fuels and aluminium exports.

Namibia

Namibia is ranked 97th of the 150 countries rated in the CIP 2019. Namibia's exports are majorly dependent on primary products (diamonds, copper, uranium) and resource based manufacturing mainly mineral processing (**Chart 3.18**). Its MVA per capita increased from US$ 609.3 in 2008 to US$ 621 in 2018. The MVA as a percentage of GDP decreased from 12 percent in 2008 to 10.7 percent in 2018. Policy uncertainty remains a major challenge for companies to manufacture in Namibia. In order to reduce dependence on mineral exports, Namibia may diversify into mineral processing and other related industries like bricks or stone crushing plants, sodalite processing plant, sandstone and quartzite processing, chlorine and caustic soda factory, mining and equipment.

Chart 3.18: Technology Intensity of Namibia's Exports to World



Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

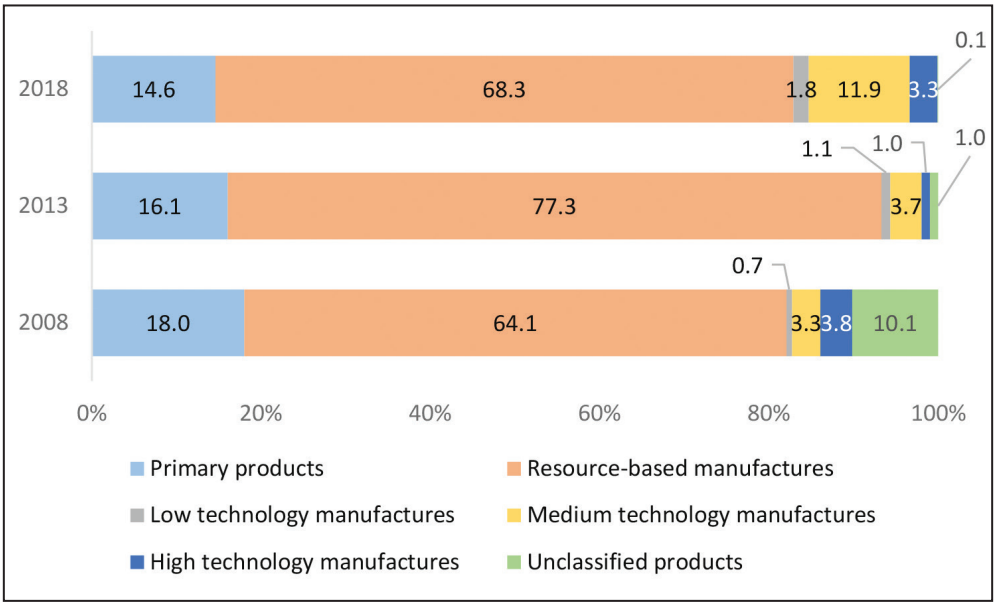
manufacturing, and safety equipment manufacturing, among other[26]. Medium technology manufacturing also has a considerable share in Namibia's exports. This is mainly due to export of automotive components, although it is at a very nascent stage presently.

Seychelles

Seychelles is not ranked by CIP. MVA per capita for Seychelles stood at US$ 1,066 and the share of MVA in GDP stood at 7.4 percent in 2018. Seychelles' exports are majorly into resource based manufacturing, which increased from 64.1 percent in 2008 to 68.3 percent in 2018, and involves oil drilling and food processing. The primary products exported are majorly marine products (**Chart 3.19**).

[26]Deloitte (2017). 'Invest in Namibia Harnessing investment to drive economic recovery', October 2017

Chart 3.19: Technology Intensity of Seychelles' Exports to World



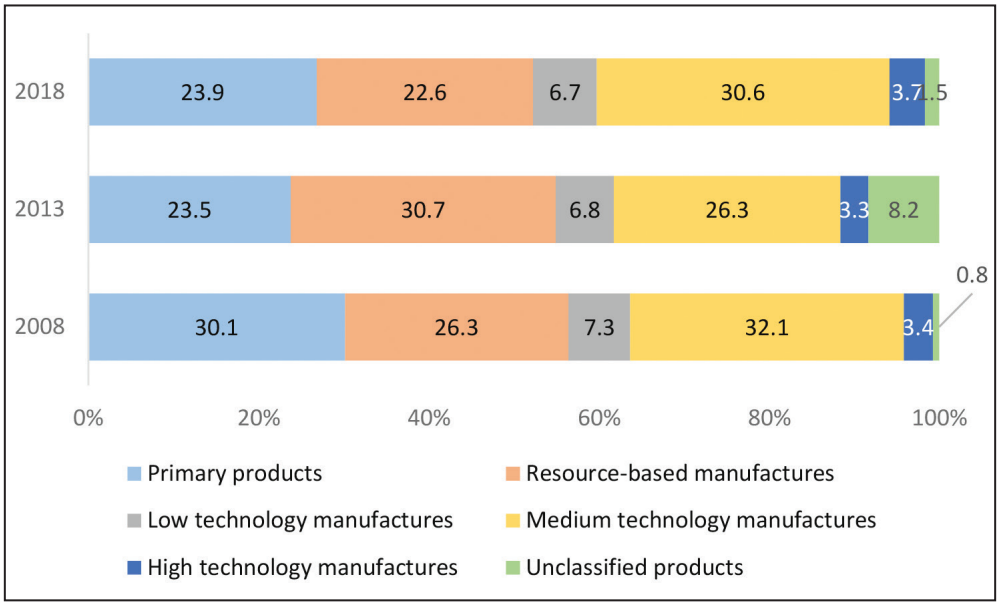
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

South Africa

South Africa ranked 45th out of 150 countries by CIP 2019. It is the highest ranked country in the CIP 2019 among SADC members. South Africa's exports are mainly dominated by primary and resource based manufacturers **(Chart 3.20)**. South Africa's MVA per capita reduced from US$ 1,026.8 in 2008, to US$ 912 in 2018. The MVA as a percentage of GDP stood at 14 percent of GDP in 2008 but decreased to 12.2 percent in 2018. The major manufacturing sectors in South Africa include, among others, agro processing, automotive, chemicals, metal processing and textile and apparel. The considerable share of medium technology manufacturing share indicates the re-export of automotive and other intermediate or processed goods. The domestic manufacturing of South Africa is mainly comprised resource based manufacturing, although the share has decreased in recent years due to slow down in the economy. The major challenge posing South Africa is the rise in unit cost of labour, however labour productivity has remained constant[27]. Other issues like structural problems in the economy and global competition are also slowing down the manufacturing sector.

[27]World Bank (2019). Marek Hanusch, "Why South African manufacturing is under pressure", World Bank Blog, July 23, 2019

Chart 3.20: Technology Intensity of South Africa's Exports to World

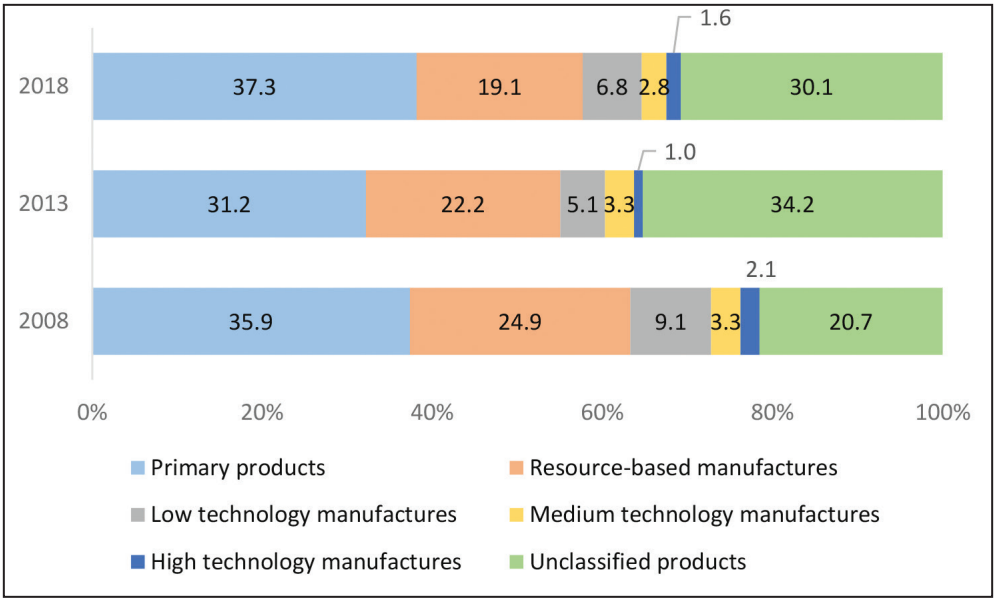


Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Tanzania

Tanzania ranked 127th in the CIP 2019. The MVA as a percentage of GDP decreased from 7 percent in 2008 to 6.8 percent in 2018 for Tanzania. The MVA per capita increased from US$ 43.4 in 2008, to US$ 60 in 2018. Tanzania's exports mainly comprised primary products and resource based manufacturing. Share of resource based manufacturing has however decreased and replaced by export of primary products **(Chart 3.21).** Tanzania's manufacturing is majorly in food processing, textile and apparel, leather products and footwear and printing and paper products. These sectors may be further developed and integrated into the value chain.

Chart 3.21: Technology Intensity of Tanzania's Exports to World



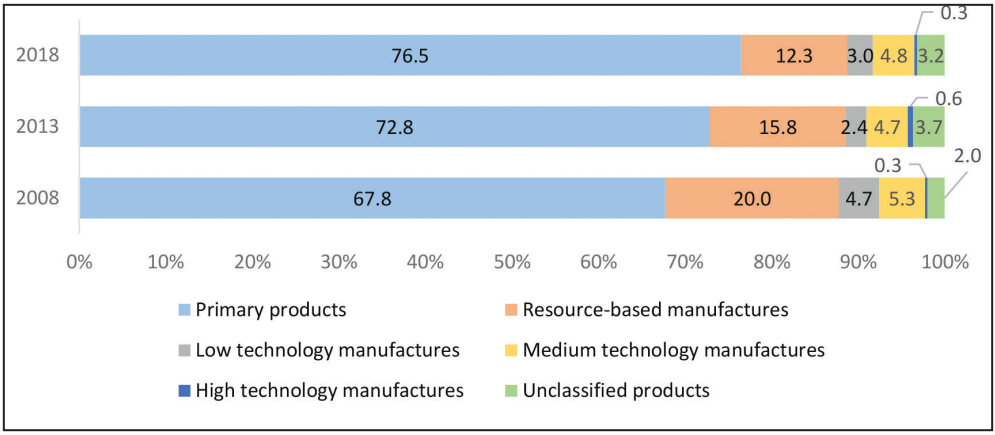
Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Zambia

Zambia ranked 121st in the CIP 2019. Zambia's MVA per capita has increased from US$ 111.5 in 2008 to US$ 131 in 2018. MVA as a percentage of GDP has reduced from 9 percent in 2008 to 8 percent in 2018. This reflects in the composition of Zambia's exports, with the share of resource based manufacturing declining from 20 percent in 2008 to 12.3 percent in 2018. Its exports are majorly driven by primary products **(Chart 3.22).** Zambia is heavily dependent on copper exports. There is thus a need for economic diversification in sectors with potential such as textile and apparel, mineral processing, metal products, leather products and agribusiness[28]. The factors which have constrained private sector growth in the economy are policy inconsistency, corruption and high domestic lending rates.

[28]World Bank (2013). Hinh T. Dinh, "Light Manufacturing in Zambia, Job Creation and Prosperity in a Resource-Based Economy"

Chart 3.22: Technology Intensity of Zambia's Exports to World

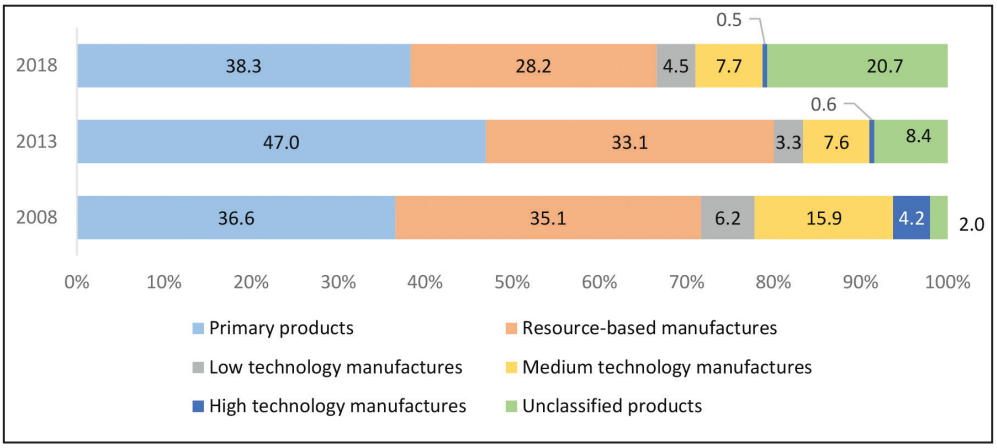


Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

Zimbabwe

Zimbabwe ranked 124th in CIP 2019. Zimbabwe's MVA per capita stood at US$ 63.5 in 2008 and increased up to US$ 90.4 in 2012. Thereafter it started declining and stood at US$ 73 in 2018. MVA as a percentage of GDP, has consistently declined from 16 percent in 2008 to 7.8 percent in 2018. This was majorly as a result high production cost, inadequate supply of energy, distortions arising from price control across all sectors and macroeconomic instability. Zimbabwe's exports are primary products and resource based manufacturing (majorly agribusiness and mining and its associated industries) (**Chart 3.23).** The share of medium and high technology intensive products have diminished over time from 2008 to 2018. Challenges to Zimbabwe's manufacturing sector are the adverse climatic conditions affecting the agri-business sector. Other issues are power shortages, exchange rate instability and high inflation. Zimbabwe could diversify to sectors like textile and apparel, wood products and furniture and chemical and pharmaceutical manufacturing.

Chart 3.23: Technology Intensity of Zimbabwe's Exports to World



Source: UNCTADstat (Based on Lall Classification); and Exim Bank Analysis

4. SADC's Potential for Moving up the Value Chain

According to the Southern Africa Economic Outlook 2019[29], the sectoral composition of the region, suggests the need for structural transformation through value addition and manufacturing and job creation. Africa's working-age population is projected to increase from 705 million in 2018 to almost 1 billion by 2030.

The economic composition of the SADC region is dominated by the services sector. However, in service sector the output per person is just twice that of agriculture whereas manufacturing output per worker is six times that of agriculture[30]. Presently, only one out of five workers in Africa gets employed in the formal sector. Thus, for this rising population, there is a major need for employment generation for which a strong value-added manufacturing base would be required.

The economic growth of a country, in this case, is measured by how diverse and complex a product it manufactures, which necessarily require logistics, finance and involve high technology. Most of the African economies produce goods, which require low level of complexity. This is also reflected in the export structure of these economies. Average per capita income generated by African industrial sector stands at US$ 700 per capita, much lower compared to US$ 2,500 per capita of Latin America and US$ 3,400 that in East Asia[31].

The importance of private sector in fostering industrialisation and employment is undeniable. According to a report by Brookings Institution, Africa is going to witness a threefold increase in business to business spending in manufacturing from US$ 201.3 billion in 2015 to US$ 666.3 billion in 2030. According to AfDB

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[29]African Development Bank (AfDB).

[30] Newman, Carol (Ed.) et al. (2017). "Made in Africa – the future of production on the continent". World Economic Forum, Jan 2017.

[31]African Development Bank (2019). Célestin Monga et al., "Creating Decent Jobs: Strategies, Policies and Instruments", Policy Research Document 2, Abidjan Côte d'Ivoire: African Development Bank Group.

statistics, private sector accounts on an average 70 percent of the GDP in the Southern African region[32]. A healthy private sector would help in job creation, employment generation, provides wider variety of goods and services along with infrastructure development which would indirectly unblock the public sector funds for other uses.

Moving up the value chain

When compared with other African RTAs, SADC showed the highest share of manufacturing exports to Africa vis-à-vis its exports to the world. However, this is mainly because of South Africa, whose exports are mainly dominated by manufacturing. In contrast, other members export mainly primary and resource-based products and accordingly tend to compete with each other, while it would be a gain for each member when they could rather produce goods or services which are complementary.

South Africa's diversified exports compared to other SADC members highlights the potential to exploit more traditional comparative advantages in more complementary goods, or trade in services[33]. South Africa already has in place several successful ventures in this direction. For example, South Africa's automobile industry source car seats from Lesotho and ignition wiring sets from Botswana[34].

Development of regional and global value chains could, therefore, lead to an increase in intra-regional and global trade, while at the same time help in overcoming the challenge of excessive reliance on primary commodities and market diversification. This will also partly depend on the capacity of member countries to increase their sourcing from the region to create more value for exports.

An analysis of the GVC participation rate for SADC countries, highlights the high rate of Domestic Value Added (DVA - downstream component) embedded in other countries' exports (**Chart 4.1**). Foreign Value Added (FVA-upstream component) in exports is much lower in the SADC region, where natural resources and

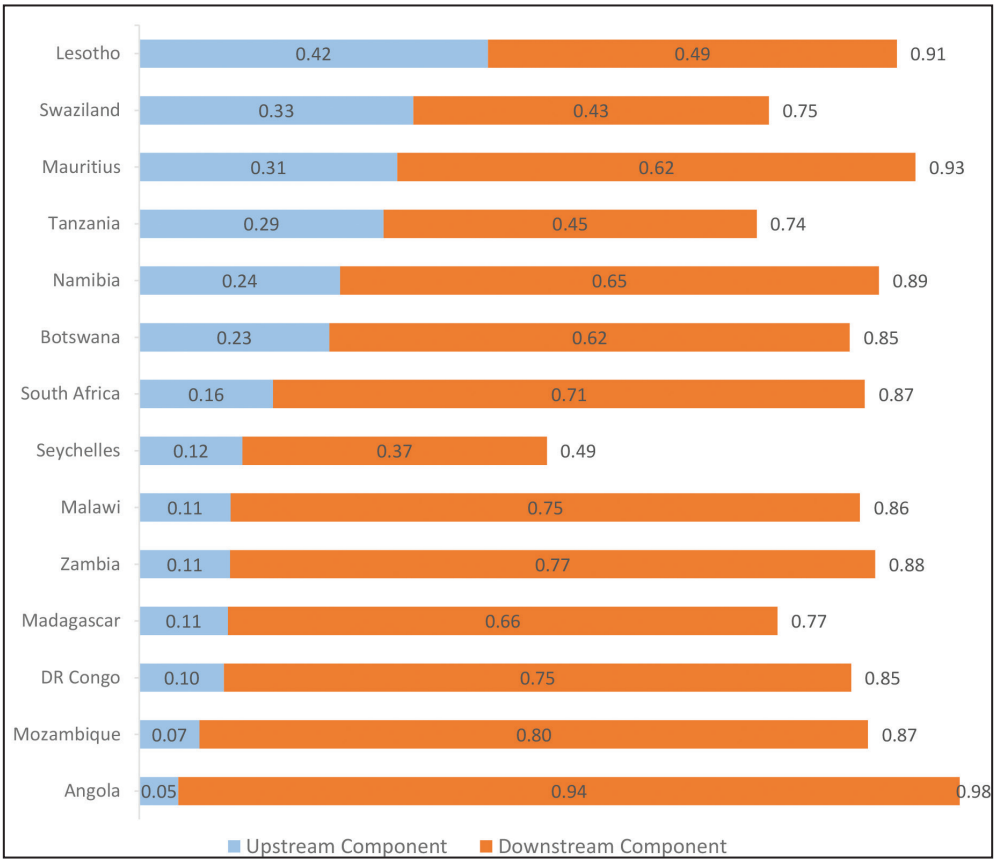
[32]Southern Africa includes Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Sao Tome Principe, South Africa, Eswatini, Zambia and Zimbabwe.

[33]OECD (2017). OECD Economic Surveys: South Africa 2017, OECD Publishing.

[34]UNCTAD (2018), World Investment Report 2018, New York and Geneva: UN.

commodities exports with little foreign inputs tend to play an important role. The GVC participation rate indicates the portion of a country's exports that is part of a multi-stage trade process, capturing both upstream and downstream integration. This is computed as the sum of its FVA (upstream component) and the part of its DVA embedded in other countries' exports (downstream component), usually expressed as shares of the country's gross exports (GVC participation rate). This indicator, although less intuitive than FVA, provides a more detailed picture of countries' and regions' participation in GVCs[35].

Chart 4.1: GVC Participation of SADC Countries, 2018



GVC Participation Index= [foreign value added (FVA)/ Gross Exports] + [domestic value added (DVA)/ Gross Exports]
Note: Data for Zimbabwe is not available

Source: UNCTAD-Eora Global Value Chain Database; and Exim Bank Analysis

[35]WTO "Trade in Value-Added and Global Value Chains" profiles Explanatory notes; and Koopman, R., W. Powers, Z. Wang and S.-J. Wei (2010). "Give credit to where credit is due: tracing value added in global production chains", NBER Working Papers Series 16426, September 2010.

The key challenge of the policy makers is to identify the entry points to a particular value chain and then integrate within the regional level.

Following are the typical characteristics of the SADC region[36] –

Participation of the SADC countries in regional value chain is modest at the best. It is mostly characterized by downstream participation through export of primary commodities, minerals, agricultural goods with limited value addition. The only exceptions in this case are the apparel and automobile value chains which have developed across South Africa.

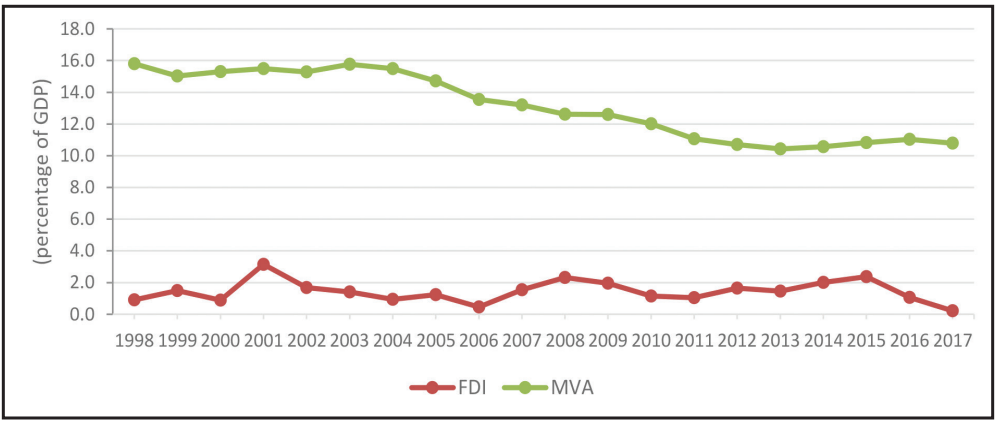
The SADC value chain is essentially of Hub and Spoke model with South Africa remaining as the centre point with lead firms and corporates. This limits the participation of the other countries within the region. Weak logistics, inadequate physical infrastructure and skill deficiencies act as constraints to the integration of the SADC economies to regional as well as global value chains.

Another factor is the scale of economy. Countries like Botswana, Lesotho, Namibia and Eswatini, Mauritius and Seychelles are smaller economies with limited scope of industrialization which inhibits cluster development. On the other hand, South Africa which has a large scale accounting for almost 50 percent of the regional GDP creates an imbalance.

SADC value chain participation is typically characterized with a downstream component. This is unlike what happens in case of a backward linkage where countries reduce their dependence of the primary commodities. The share of MVA is positively correlated to the value chain participation of a country. However, as shown in **Chart 4.2** MVA as a percentage of GDP has declined for SADC in the last 20 years. FDI inflows have however remained consistent because of the region's resource richness.

[36] 'Action Plan for SADC Industrialization Strategy and Roadmap', Approved by Summit in Lozitha, Swaziland on March 18, 2017.

Chart 4.2: FDI and Manufacturing Value added as a percentage of GDP in SADC countries



Source: National Accounts Main Aggregates Database, Statistical Division United Nations (unstats.un.org);

Opportunities and Key Sectors

Consumer goods like apparel and agribusiness (food processing) are classified under light manufacturing. Light manufacturing can be a suitable alternative to low productivity agricultural sector. Especially for an economy endowed with low-skilled labour, light manufacturing serves as a source for mass job creation and therefore boosts economic growth.

Labour intensive light manufacturing has led to growth of many developing countries including China and Viet Nam that started at almost the same level as Sub-Saharan Africa in the 1980s. Over time, Sub Saharan Africa has lost its market share to China which has emerged as a global manufacturing hub. Despite having preferential access to the US and the European Union markets, Sub-Saharan Africa's share has continually declined with less than one per cent market share in global light manufacturing. Even though Sub-Saharan Africa was liberalised, it could not compete with the better quality and cheaper imports from Asian countries like China, Viet Nam, Singapore, Korea, Thailand, and Malaysia[37].

[37]World Bank (2012). Hinh T. Dinh, Vincent Palmade, Vandana Chandra, and Frances Cossar, "Light Manufacturing in Africa", World Bank, Washington, DC.

The recent increase in cost of labour in China's light manufacturing sector has now created an opportunity for Sub-Saharan Africa to develop its light manufacturing industry using its large supply of low-skilled workers and natural resources optimally.

I. AGRO-PROCESSING

The agricultural sector is the most critical sector for the African continent and same applies for the SADC region. According to World Bank[38], the agricultural sector of Sub-Saharan Africa, has the potential to become a US$ 1 trillion industry by 2030. About 41.2 million people in 13 SADC countries are estimated to be food insecure this consumption year. The situation indicates a cumulative effect of persistent drought conditions compounded by floods, pests, conflict (in DR Congo and northern Mozambique), economic challenges, poverty and chronic structural issues. These drivers are exacerbated by climate change. Agriculture as a sector plays a major role in the region as well as Africa's well being given the act that more than 60 percent of Sub-Saharan Africa's farmers are small landholders. According to a report by McKinsey & Company investments are required in fertilizers, improved quality of seeds, basic storage and irrigation for realizing Africa's full potential for agriculture. Action Plan for SADC Industrialization Strategy and Roadmap include soya, sugar and related products, cassava, food and drinks, fisheries, forestry, dairy, leather and leather products, meat and meat products, fruit and vegetables, etc. as potential value chains in the agro-processing sector. **Table 4.1** shows the countries identified for respective agro-processing clusters.

[38]World Bank (2013). "Growing Africa: Unlocking the Potential of Agribusiness", World Bank, Washington, DC.

Table 4.1: Potential Countries for Investing in Agro-processing Value Chain

Agro-processing Cluster	Countries
Soya	South Africa, Zimbabwe, Zambia, DR Congo, Malawi, Madagascar
Sugar	Malawi, Mozambique, South Africa, Eswatini, DR Congo, Tanzania, Zambia, Zimbabwe, Mauritius, Botswana
Meat Products (Poultry & Beef)	Botswana, South Africa, Zambia, Zimbabwe, Namibia, Eswatini, Madagascar, Tanzania, DR Congo
Dairy Products	Madagascar, South Africa, Namibia, Tanzania, DR Congo, Malawi, Botswana, Zambia, Zimbabwe, Eswatini
Fish and fish products	Angola, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Zambia, Madagascar, Malawi, Tanzania, DR Congo, Zimbabwe
Horticulture	Eswatini, Lesotho, Zambia, South Africa, Malawi, Madagascar, Zimbabwe, DR Congo, Namibia, Tanzania
Forestry (Timber and non-timber forest products (medicinal, cosmetics, essential oils and other herbal products)	DR Congo, South Africa, Angola, Madagascar, Eswatini, Mozambique, Zimbabwe, Zambia, Namibia, Tanzania, Malawi, Mauritius

Source: Action Plan for SADC Industrialisation Strategy and Roadmap

The following select SADC member countries show good potential for investments in the food-processing sector:

(a) Botswana

The Eleventh National Development Plan (NDP 11) of Botswana[39] identifies agro-food processing as one of the strategic sector for integrating Botswana to the global value chain. Botswana being a Net Food Importing Developing Country (NFIDC) gives it the scope to increase domestic production of basic foodstuffs, particularly cereals (grain sorghum and maize) and pulses. The national demand for cereals stands at 200,000 tons per year, of which local production is able to supply only 16 percent. The cattle population is estimated at 2.1 million. Livestock production exceeds domestic demand. Botswana has exported range-fed beef to the European Union in the past and is trying to tap the Middle East

[39]'National Development Plan 11, April 2017 – March 2023', Ministry of Finance and Development Planning, Republic of Botswana, September 2016

market as well. Opportunities for meat processing and tanning may be explored. The country consumes around 4,000 tons of fish per year and out of which only 300 tons are produced locally and 3,700 tons are imported from neighbouring countries. Scope in aquaculture may be explored by potential investors[40].

(b) DR Congo

DR Congo is endowed with 80 million hectare of arable land, and 4 million hectare of irrigable lands of which only 10 percent is currently exploited. It has a vast area of pasture for raising more than 40 million large heads livestock[41]. The country also has a fish potential of 700,000 tons per year, a varied climate and abundant rainfall (1000 mm per year) and a large reserves of fresh water. DR Congo has identified food crops as well as cash crops which have the potential to be further developed into the agricultural value chains. Other areas having investment opportunities include development of the Special Economic Zone (SEZ) Maluku, development of economic activities in the agro industrial parks including that of Bukanga-Lonzo which is already operational and creation of an international market in Kinshasa. Other than this, 22 agro-industrial parks have also been identified with ongoing feasibility studies for a few[42].

(c) Madagascar

Agribusiness is a key potential investment sector in Madagascar, with the country having 35 million hectare of arable land, of which only 2 million being farmed[43]. There are exemptions for fertilizers and other agricultural inputs. Agricultural enterprises and food processing companies targeting export markets are also eligible for a free enterprise regime. The major products which may be considered for the development of value chains are rice, maize, meat (zebu), essential oils, fishery products and wood. Madagascar also has potential to produce vanilla, cloves, cocoa pods, lychees, green coffee, etc. However, low level of commercialization, lack of infrastructure and difficulties in accessing land, continue to impede agricultural modernization. To develop agriculture,

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[40]U.S. Department of Commerce's International Trade Administration, Export.gov, Botswana –Agricultural Sector, July 18, 2017 (https://www.export.gov/article?id=Botswana-Agricultural-Sectors)

[41]'Democratic Republic of Congo Agriculture Investment Opportunities Brief, 2013', Comprehensive African Agricultural Development Plan (CAADP) Investment Facilitation Program.

[42]National Agency for the Promotion of Investments, DR Congo, 2016

[43]African Development Bank (2018). Country Strategy Paper, Madagascar, July 2018.

the authorities in 2015 adopted the Agriculture, Livestock and Fisheries Sector Programme (PSAEP). Through this programme, the government aims at increasing productivity, expanding production areas, food security, access to the local market, repositioning of exports, and sector governance[44].

(d) Malawi

Malawi is known for its tall tropical South East Asian grass (Saccharum officinarum) which has thick, solid, tough stems, which are a chief commercial source of sugar. Malawi produces refined as well as specialty sugars targeting the local, regional and international markets. The types of sugar that are produced include refined sugar, sugar syrup, cane sugar and specialty sugar (for export markets)[45].

Areas for cooperation in the agro-processing industry: One approach to all the SADC countries agricultural development will not lead to growth, because of the different nature of economies and political and natural conditions. However, the common factor which holds back these countries are inadequate new and modern investments in infrastructure, irrigation methods and other farming practices. They are unable to utilise the agricultural production and trade potential of these commodities to the fullest. The Indian business models involving cost effective technologies could thus be replicated in such cases of agro processing. The Indian Dairy industry is a classic example of how structured marketing linkages were used in realizing sustainable economic returns involving a rural/smallholder enterprise. India has championed the cooperative model was dominated by unorganized small players and limited number of private companies[46]. SADC economies face similar issues of small and fragmented agricultural landholding or enterprises. Bringing them together into clusters may help in developing a successful value chain creating market linkages.

Agribusiness is one of the potential sectors where India can look to invest in SADC. The agricultural sector of both India and SADC are largely characterized by labour intensive farming, small landholdings and diverse nature of agricultural production. India's stance on the agricultural sector of Africa has been more

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[44]International Monetary Fund (2017). Country Report No. 17/225 for the Republic of Madagascar, July 2017

[45]Malawi Investment and Trade Centre (www.mitc.mw)

[46]PWC (2016). India-Africa Partnership in Agriculture Current and Future Prospects.

towards providing technology expertise to Africa[47]. The African agribusiness sector needs support in terms of finance, market information, logistics and adequate infrastructure in the form of cold storage facilities, warehouses, etc. Investment in such areas will facilitate agricultural processing in potential countries by India and it could be a win-win situation for both India and African countries.

Several investment opportunities exist in the SADC region in agriculture and allied activities, including livestock production (for dairy and beef), aquaculture and horticulture. Additional revenues may be generated by adding value to these primary products and exported through various trading arrangements in place such as the AGOA, China General Tariff Preferential Treatment, Japan Preferential Trade Arrangement Benefiting LDCs, Generalized System of Preferences (GSP) Schemes of the EU, and India Preferential Trade Arrangement Benefiting LDCs, among others. Investment opportunities have been identified in the following segments:

a) Processing factories for soya, oil seeds, rice, pulses and other products.

b) Fruits, vegetables and spices**:** cold storage and relevant transportation infrastructure; processing factories for processed food products like purée, spices, pastes and juices; cleaning and grading facilities; ; market development; and contract farming.

c) Large scale commercial farming may be explored for fruits, vegetables, spices and tea.

International markets including South Africa, Kenya, Asia and Europe may be explored for exporting the processed products.

d) Sugar: Large scale production of sugarcane in the areas under the Green Belt Initiative (GBI) could be utilised for processing sugarcane thereby setting up sugar factories and ethanol factories.

II. MINERAL PROCESSING

One of the key elements of the SADC Industrialisation Strategy is to utilise its mineral resources and integrate to value chains through processing. The SADC

[47]India: The Development Partner Africa Needs, Berkeley Political Review, October 2016

region accounted for 28.5 percent of total exports of mineral fuels, oils and product of distillation (HS 27) from Africa and 58.4 percent of pearls, precious stones and metals (HS 71) from Africa in 2017[48]. These two commodities also top the list of India's exports to the world, accounting for a share of 26.5 percent of India's total exports.

(a) Botswana

Botswana has large deposits of semi-bituminous coal, which is used to produce electricity. The coal reserves are estimated at around 212 billion tonnes. However only one coal mine is functional at present, the state-owned Morupule coal mine even though the country is blessed with large coal reserves[49]. Places where substantial deposits exist include, Mmamabula, Morupule, Mabesekwa, Mmamantswe and Sese. The Morupule mine has been expanded in order to supply coal to the Morupule coal fired power stations. Demand for coal is expected to grow over the coming years as a result of the demand generated from the power generation plants to be used locally and for export. According to a study by the Botswana Chamber of Mines Market capability, potential exists for up to 24 new mines, which could produce over 190 million tonnes of coal per year.

Revenue received from the diamond industry has boosted development of physical and social infrastructure of Botswana. Diamonds used to be exported in rough or uncut from Botswana to London, before the establishment of the Diamond Trading Company Botswana in 2013. This led to the relocation of diamond trading activities from London to Gaborone, and ensured value addition to diamond mining and generated more jobs in the economy. Orapa, Letlhakane, Jwaneng, Lerala, and the "B/K pipes" near Orapa and Damtshaa are the major diamond mines which are currently in operation and continue to be the main source of revenue for the economy.

The Botswana Diamond Hub was established with the objective of developing a diamond processing industry in Botswana. Gaborone has developed as a

[48]ITC Trademap, derived from UN Comtrade (accessed on January 31, 2019)

[49]Economist Intelligence Unit (EIU)

major center for diamond ancillary businesses with approximately 28 licensed cutting and polishing companies in operation. There exists potential to expand operations in other parts of the country[50].

Investment opportunities include activities such as trading, cutting and polishing of diamond as well as ancillary support services to the diamond industry. These include banking, security, insurance, certification and brokerage services, among others.

(b) Eswatini

According to the Swaziland Investment Promotion Authority (SIPA), mineral resources in the Kingdom of Eswatini include gold, diamonds, coal, iron ore and quarry, among others, which may be explored for processing.

(c) Zimbabwe

Investment in the mining sector, especially in diamonds, presents significant opportunity. One of the examples of Indian investments in this sector is of Surat Rough Diamond Sourcing India Ltd. This company entered into an agreement with the Zimbabwean government for US$ 1.2 billion worth of rough diamonds. It has also signed an agreement with the Angolan company Endiama[51]. Another area of cooperation that may be considered is the establishment of India-Africa Diamond Institute in the diamond producing cluster. This would facilitate capacity building and technology transfer in the SADC countries engaged in diamond cutting and polishing[52].

(d) DR Congo

DR Congo has huge potential in mineral-based industries such as copper-cobalt-zinc industry, diamond, chromium, nickel, tin, bauxite and phosphate, iron and manganese industry[53].

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[50]GO Botswana, Botswana Trade and Investment Centre (www.gobotswana.com)

[51]International Centre for Trade and Sustainable Development (2016). Ndiaye Alioune, "India's investment in Africa: Feeding up an ambitious elephant", Bridge Africa, Volume 5 - Number 7, September 2016

[52]Rajya Sabha TV Press Release titled 'India, Botswana to expedite establishment of diamond institute, boost defence cooperation', November 01, 2018 (https://rstv.nic.in/india-botswana-expedite-establishment-diamond-institute-boost-defence-cooperation.html)

[53]DR Congo National Agency for Investment Promotion (ANAPI)

(e) Madagascar

The law on major mining investments in Madagascar is a special legal and fiscal framework for large mining investments over US$ 17 million. Under this, an investor can benefit from zero percent VAT on exports, exemption from VAT on import of materials, goods and equipment. An Indian company Tirupati Graphite PLC in partnership with Optiva Securities is developing the Vatomina Graphite Project in Madagascar. Vatomina is a high-grade and high purity flake graphite deposit, located on the east coast of Madagascar, in the Toamasina Province.

In October 2017, Tirupati Graphite Plc acquired 100 percent equity of the Sahamamy-Sahasoa project, having 8 km^2 mining permit with an additional 8 km^2 applied for grant. The project has been supported by Tirupati India for over 3 years with 100 percent output purchased[54].

(f) South Africa

Mining has been traditionally considered as a sector of significance for both, India and South Africa. In 2017, it contributed 6.8 percent to South Africa's GDP[55]. Mining is set to be an industry of focus and high impact for both India and South Africa in the coming years. South Africa has received investments worth US$ 1.6 billion by Vedanta Resources in Gamsberg Zinc mine. Jindal Africa is pursuing coal mining and iron ore projects in South Africa employing more than 500 people at its Kiepersol Colliery in Mpumalanga. Action Group, a diversified mining group from India, has invested substantially in the sector and currently operates a silica mine and a wollastonite mine in a joint venture in INSA Coal Holdings[56].

Areas for cooperation in the mineral processing industry: In India, in addition to environmental impact assessments and the initiatives under the sectoral legislation, the private sector is sensitized, and companies report their sustainability performance in addition to financial reporting. The Digital Technology in Mining Report, 2017[57] by Accenture shows that private sector is making large

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[54]Tirupatigraphte.com (Company website)

[55]'Mining in the Changing Times: India and South Africa' Invest India article dated April 12, 2018, (www.investindia.gov.in)

[56] CII & PWC (2018). "Indian Industry's Inclusive Footprint in South Africa"

[57]Accenture conducted an online survey of 201 C-level and top management executives and functional leaders in the mining and metals industry. The survey was fielded in mid-October through mid-November 2016 and included respondents from Australia, Brazil, Canada, Chile, China/Hong Kong, Indonesia, India, Singapore, South Africa, USA and UK.

investments for using robotics and automation in mining operations (pegged at 54 percent of the total expenditure), followed up by investments made in remote operating centres, drones and wearing technologies. In September 2017, Anil Agarwal, founder of Vedanta Resources was reported to create a ₹5,000 crores angel fund which aims to support metal-based start-ups developing products for the automotive and construction sectors – creating the demand pull for the mining sector[58].

There has been an increasing importance of involving artificial intelligence for adopting the industry 4.0. Smarter technologies, robotics and automation not only make mining safer reducing casualties but also develop avenues for optimal mining and recycling, minimizing environmental after-effects and driving sustainable practices. Hence, sustainable mining and metal processing could be undertaken by Indian companies in the SADC region wherein value chains may be developed for the following sub-sectors as shown in **Table 4.2**.

Table 4.2: Potential Countries for Investing in Mineral Processing

Sub-Sectors	Countries
Energy Mineral (including polymers)	Angola (oil), Botswana (coal), DR Congo (oil, gas, coal and uranium), South Africa (coal), Mozambique (gas and coal), Tanzania (gas and coal), Madagascar, Zimbabwe, Eswatini (coal), Malawi, Namibia (uranium, coal and gas)
Ferrous Minerals (Iron/Steel)	Angola, DR Congo, South Africa, Tanzania, Mozambique, Zambia, Zimbabwe, Eswatini, Namibia
Base-metals Mineral (Copper, Aluminium, Nickel, Cobalt)	DR Congo, Zambia, South Africa, Namibia, Mozambique, Tanzania, Madagascar, Zimbabwe
Fertilizer	South Africa, Zimbabwe, Zambia, DR Congo, Malawi, Mozambique, Angola, Tanzania, Namibia
Diamonds	Botswana, Namibia, South Africa, Zimbabwe, DR Congo, Lesotho, Angola, Tanzania
Platinum	South Africa, Zimbabwe, DR Congo
Cement	South Africa, Zimbabwe, Zambia, DR Congo, Mozambique, Namibia, Malawi, Tanzania
Soda Ash	Botswana, Zambia, South Africa, Tanzania
Mining machinery	South Africa, Zambia
Small Scale Mining	Malawi, DR Congo, Tanzania

Source: Action Plan for SADC Industrialisation Strategy and Roadmap

[58]Invest India (www.investindia.gov.in)

III. MANUFACTURING

Africa has the potential to capture 100 million labour intensive manufacturing jobs by 2030 due to structural changes in the Chinese economy. Business-to-business spending in manufacturing in Africa is projected to reach US$ 666.3 billion by 2030 increasing by US$ 201.28 billion from its 2015 level. However, this would require implementing strategies that involve targeted investments in infrastructure, improved regional integration, and the establishment of special economic zones (SEZs) for priority sub-sectors.

The average share of manufacturing in SADC's total GDP was at 11 percent in 2016[59]. Most of the region's industrial production continues to be on resource-based manufacturing, owing to the presence of huge natural resource wealth. In fact, for Africa as a whole, investments in manufacturing have also been uneven, with almost 70 percent of the continent's manufacturing activities concentrated in just four countries viz. South Africa, Egypt, Nigeria and Morocco. Most of Africa's total manufacturing value added (MVA) is driven by the higher level of industrial development in North and South Africa[60].

Share of manufacturing exports of SADC is the highest compared with African RTAs at 36 percent in 2017 compared to CEMAC (7 percent), COMESA (28 percent), ECOWAS (9 percent) and UEMOA (13 percent)[61]. If we compare, African RTAs lag behind considerably compared to ASEAN (72 percent), EU (80 percent), NAFTA (72 percent) and MERCOSOUR (31 percent). Lack of trade related infrastructure and high costs make it difficult for these regions to achieve diversification of exports and benefit from the proximity of markets.

According to a study by the World Bank, sectors like textile and apparel, leather products, wood products, and metal products, among others, can be considered as labour intensive manufacturing which are relatively low cost and generate larger scale of employment. However, the major challenges faced by these sectors are the availability, costs, and quality of inputs; access to industrial land; access to finance; lack of entrepreneurial skills, both technical and managerial; lack of worker skills; and poor trade logistics[62].

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[59]World Bank's Estimates

[60]Brookings (2018). 'The Potential of Manufacturing and Industrialization in Africa', September 2018

[61]WTO (2018). World Trade Statistical Review 2018, July 2018. Geneva

[62]World Bank (2012). Hinh T. Dinh, Vincent Palmade, Vandana Chandra, and Frances Cossar, "Light Manufacturing in Africa", World Bank, Washington, DC.

a) Pharmaceuticals

According to McKinsey, the African pharmaceutical market is estimated to be valued at US$ 40-65 billion[63]. Much of the projected growth will come with a change in regulations, increase in health spending and a rise in demand for medicines to treat chronic and lifestyle-related ailments. One such change in regulation came into force in June 2017 with the formation of the South African Health Products Regulatory Authority (SAHPRA) and that is expected to quicken the pace of new product approvals in the country. The regional pharmaceutical use is estimated at more than US$ 3 billion. However, more than half of the essential medicines are imported from outside the continent. Nine out of sixteen countries in the SADC region are LDCs and therefore eligible for the TRIPS flexibility as three of the sixteen countries are LDCs and therefore exempted from drug patent till January 2033 thus ensuring access to essential medicine for all[64]. This could be utilised for manufacturing of generic drugs. Also scope for specialized packaging materials exist like printed polycarbonate paper for manufacturing strips, printed blister or laminated aluminium foil, rigid , rigid PVC film for blister packing which are at present imported as there are no local manufacturers for such items[65].

The Indian pharmaceutical industry is known for being the largest worldwide provider of generic drugs, and accounts for supplies over 50 percent of global demand for several vaccines. More than 80 percent of anti-retroviral (ARV) drugs are supplied globally by Indian pharmaceutical companies[66]. Indian pharmaceutical industry has been active in Africa and has been a success especially because of manufacturing ARV drugs, which are mainly used for HIV treatment. As a result of the cost-effective production process adopted by Indian pharmaceutical companies, the cost of ARV therapy has been brought down significantly[67]. Overall, pharmaceutical products accounted for 15 percent of India's exports to SADC in 2018.

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[63]McKinsey & Company (2015). "Insights into Pharmaceuticals and Medical Products Africa: A Continent of Opportunity for Pharma and Patients", April, 2015

[64]"WTO members agree to extend drug patent exemption for poorest members", WTO Press Release 2015

[65]Inside the African Pharma Market, Getrude Mothibe, International Business and Investment Forum, March 2018

[66]Indian Pharmaceutical Industry, India Brand Equity Foundation, April 2017

[67]International Centre for Trade and Sustainable Development (2016). Ndiaye Alioune, "India's investment in Africa: Feeding up an ambitious elephant", Bridge Africa, Volume 5 - Number 7, September 2016

Indian pharmaceutical firms may consider entering into joint ventures with their African counterparts, open subsidiaries or enter into agreement with local companies for producing drugs at low cost. Indian pharmaceutical company Cipla had entered into joint venture with Quality Chemicals Industries Ltd. in 2008 in Uganda, to open a production unit for anti-malaria drugs. Similar patterns could be followed in countries like Madagascar, DR Congo, Tanzania and Namibia.

Cipla has subsidiaries in South Africa in the name of Cipla Medpro whereas Lupin has by the name of Pharma Dynamics. Ranbaxy, another prominent Indian global pharmaceutical firm, does business in South Africa under the name of Sonke[68].

Areas for cooperation in pharmaceutical industry: Indian generic companies stand to benefit significantly by investing in SADC. Indian manufacturers can take advantage of the international Intellectual Property Rights (IPR) exemptions for the least developed countries (LDCs) until July 01, 2021, as was agreed by the TRIPS Council. SADC countries like Angola, Comoros, DR Congo, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia[69] could be utilised for this purpose. Secondly, instead of just exporting generic drugs to these countries, Indian pharmaceutical manufacturers could focus more towards production within the partner country, particularly those where they have already established steady supply chains. Prior knowledge and understanding of the market would help the Indian pharmaceutical companies would help in setting up manufacturing units. SADC countries also stand to benefit in the sense that local production would imply more reliable source of pharmaceuticals under public control. Domestic manufacturing would also lead to creation of more jobs in the pharmaceutical sector and other linked sectors[70].

SADC countries lack trained professionals due to absence of educational programmes covering topics ranging from drug discovery to marketing of drugs. With increasing international drug manufacturing companies setting up local subsidiaries, the need for clinical research specialists would increase. In this connection, Indian companies may step in by investing in training relatively

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[68]ibid.

[69]UNCTAD List of LDCs (Accessed on September 20, 2019 - https://unctad.org/en/pages/aldc/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx)

[70]ORF (2016). Tanoubi Ngangom. “India and Africa’s Partnership for Access to Medicines”

qualified local staffs for engaging them in clinical research in order to manufacture medicines locally at a lower cost, rather than importing active pharmaceutical ingredients. Secondly, African markets vary enormously in terms of size and economic conditions. Given such a condition, the Indian companies interested in doing business should first target cities in order to optimize the initial set up costs and gradually expand their operations to mid-sized markets as well as rural markets. Developing local sales and marketing team helps in gaining market share. The Indian pharmaceutical manufacturers setting up units in Africa could also focus on training to develop the technical and marketing skills of the workers[71].

The role of local business partners is again very crucial when it comes to doing business. In order to expand their markets, local partnerships would serve to understand the local environment. For example, in order to reach geographically dispersed healthcare facilities and pharmacies, Cipla has appointed local distributors. GSK works with drug packaging companies in Nigeria in order to offer different ranges of products to tap multiple consumer segments. Companies such as Merck import only the active pharmaceutical ingredient for its diabetic drug Glucophage. Rest of the tablet pressing and packing is done by its local partner in Nigeria[72].

Manufacturing active pharmaceutical ingredient in local subsidiaries in African countries by training the local staffs would, therefore, save India's import costs and reduce production costs over a period of time, while having a knowledge spill-over effect. Secondly, since African markets vary in terms of size and economy, product differentiation in terms of packaging or according to the import restrictions imposed would help in further increasing the industry's competitiveness across the continent. Involving local staff in sales and marketing will also boost sales as they would understand the market nature**. Table 4.3** shows the countries identified by the SADC Action Plan which have the potential for value chain development.

[71]McKinsey & Company (2015). "Insights into Pharmaceuticals and Medical Products Africa: A Continent of Opportunity for Pharma and Patients", April, 2015

[72]Ibid

Table 4.3: Potential Countries for Investing in Pharmaceutical Products

Sub-Sectors	Countries
Anti-retrovirals (ARV)	South Africa, Zimbabwe, Tanzania, DR Congo, Namibia, Malawi
Anti-TB drugs	South Africa, Zimbabwe, Zambia, Namibia, DR Congo
Anti-malarial (Artemisinin)	Madagascar, DR Congo, Tanzania (Artemisinin, Biolarvicides), South Africa, Namibia
Health commodities (Syringes; Intra Venous Infusions - IV Fluids; Surgical Equipment; Laboratory Reagents and Materials; Methylated Spirit	Malawi, Namibia

Source: Action Plan for SADC Industrialisation Strategy and Roadmap

Tying up with the local medical or pharma graduates who may be willing to set a start-up.

b) Consumer Goods

Leather and Footwear

Botswana has an annual national herd size of 2.5-3.3 million cattle with abundant supply of raw hides and skin locally. The Botswana Meat Commission (BMC) estimates the average off-take ratio of 9 percent of the annual throughput, yielding 200,000-300,000 hides per year[73]. Demand for leather products are expected to increase with the increasing middle class population in the continent as well as outside. With a small number of micro businesses and artisanal enterprises operating as tanneries, hide collectors and leather product manufacturers, Botswana is in the process of creating a leather cluster which would start with the development of a leather park in Lobatse which is yet to be operational due to lack of funds. Lesotho has only two shoe manufacturing factories despite the fact that the shoes qualify for all benefits under AGOA[74]. Lesotho's footwear industry is dominated by two footwear manufacturers Jaguar Shoes and Reflex Footwear which produce about 7.2 million pairs of shoes per year which are majorly exported to South Africa[75].

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[73]Go Botswana: Botswana Investment & Trade Centre (www.gobotswana.com)

[74]Lesotho National Development Corporation (LNDC)

[75]Lesotho's Textile, Apparel & Footwear Manufacturing Industry, Lesotho Ministry of Trade and Industry, April 2017

Areas for cooperation in leather and footwear: Investment opportunities in this sector include leather tanning and finishing, footwear and footwear components, leather garments, leather goods including bags, car seat covers, wallets, belts, gloves and other accessories.

Textiles and Apparel

Lesotho has a single vertically integrated spin-yarn dye-weave textile mill that specialises in the manufacture of denim fabrics. Formosa Textiles, a Taiwanese company, sources cotton lint from a range of Southern African countries including Zimbabwe, Zambia, South Africa, Mozambique and Malawi. Firms are present in other segments such as denim, non-denim woven fashion, industrial work wear and knit garments; and primarily export to the US and limited volumes to Canada. In 2016, Lesotho exported 201,408,447 knit garments and 94,231,425 woven garments to the US market under the dutyfree AGOA. Two of Lesotho's knit garment manufacturers are directly connected to textile (spin/knit/dye) manufacturing operations located in South Africa – Basotho Leisurewear (linked to Tradelink Industries – a vertically integrated knit fabric mill located in South Africa's Western Cape province), and Fantastic Clothing (linked to Tai Yuen – a spin-knit-dye fabric mill based in South Africa's KwaZulu-Natal province)[76]. The work wear produced in Lesotho is typically used by workers in the mining, agricultural and manufacturing sectors; and some retail operations. Most of the firms cater to the domestic market of Lesotho and countries in the SADC region and few export to Australia. One such example is Jonsson Manufacturing which employs 2800 people and is a fully supported by a substantial in-house design centre.

Lesotho enjoys tariff-free access to the U.S. market along with proximity to South African infrastructure and logistics services for shipping time-sensitive fashions to American customers[77].

Areas for cooperation in textiles: Opportunity exists for establishment of higher value added garments as well as for establishment of knit mills to support the local garment industry. Taiwanese investors in the Lesotho garment industry were motivated by access to the USA market through the AGOA. In Malawi, there

[76]ibid

[77]Irene Yuan Sun (2017). "The World's Next Great Manufacturing Center", Harvard Business Review, June 2017

exists scope for investments in supplying certified seeds, setting up ginning, yarn or textile factories and exporting processed cotton and textile products to the USA under the AGOA. However, the bottleneck faced by these textile & apparel industry in the SADC region are power shortage, lack of economies of scale and fragmented regional markets. The competitiveness would increase of these small enterprises through formation of production clusters. Advanced technology and management techniques may be supplied by the Indian investors like other Asian investors from China and Taiwan[78].

Table 4.4: Potential Countries for Investing in Consumer Goods

Sub-Sectors	Countries
Leather, Leather Goods and Footwear	Botswana, Lesotho, Namibia, Zambia, South Africa, Zimbabwe, Mozambique, Madagascar, Malawi, DR Congo, Eswatini, Tanzania
Clothing and Textiles	Botswana, Lesotho, Madagascar, Mauritius, Namibia, South Africa, Eswatini, Zimbabwe, Malawi, Tanzania, Mozambique, DR Congo

Source: Action Plan for SADC Industrialisation Strategy and Roadmap

c) Automotive components

According to Deloitte, rising income levels across many African countries and emergence of the middle class would result in Africa becoming the final frontier of the global automotive industry. South Africa dominates the automotive trade of the continent[79]. South Africa is a leading automobile manufacturer in Africa with presence of suppliers and original equipment manufacturers (OEMs) like BMW, Toyota, Volkswagen and Ford[80]. It is also the largest exporter of automobiles worth US$ 10 billion in 2017[81]. There are a number of established Indian companies including Mahindra & Mahindra, Tata Motors, KLT Automotive, Motherson Sumi Systems and Ashok Leyland that are active in the automotive sector in South Africa[82]. Tata, one of India's largest enterprises, has been in Africa since the 1970s. Tata Automobile Corporation SA (TACSA), a subsidiary of Tata Africa Holdings, markets and distributes the entire range of commercial

[78]Carnegie-Tsinghua Centre for Global Policy (2014). Tang Xiaoyang. "The Impact of Asian Investment on Africa's Textile Industries", August 2014

[79]Deloitte (2018). Deloitte Africa Automotive Insights, May 2018

[80]Bloomberg, "BMW, Volkswagen, Ford, and other car manufacturers in massive battle with South Africa", May 22, 2018

[81]ITC Trademap, derived from UN Comtrade (accessed on January 31, 2019)

[82]CII & PWC (2018). "Indian Industry's Inclusive Footprint in South Africa"

vehicles manufactured by Tata Motors through a national dealership network, which are assembled in a plant in Pretoria. Passenger cars and light commercial vehicles are imported as fully built units from India. Mahindra & Mahindra also offer affordable vehicles to the South African market. Both these companies have established markets in South Africa and have expanded in other African economies with their wide range of products such as tractors, backhoe loaders, trucks, buses and agricultural equipment.

Areas of cooperation in automotive sector: There are several avenues for Indian automobile manufacturers to tap the SADC automobile market. Regional value chains may be developed where SADC countries like Lesotho produce car seats, Botswana produces ignition wiring sets, while Madagascar has facilities for assembling. Indian investors like Tata and Mahindra have already invested in South Africa, Zambia and Botswana. Exports channelized through the LDCs stand to benefit from the AGOA and various other preferential trade agreements.

5. India's Investment in SADC Countries: Way Forward

South-South investment has gained prominence in recent years. It is not only a key source of financing for developing countries, but also acts as a medium for transferring standards, knowledge and cost effective business models. These business models are often in concurrence with the requirements and conditions prevailing in developing economies, having an impact on bilateral and regional trade thereby generating more employment and cost effective production of affordable goods and services. In recent years, besides being major recipients of global FDI inflows, India has emerged as an important global investor with increasing overseas investments in other developing economies of Africa, Asia and Latin America.

Though India had business interest and investment in Africa since very long, these were largely driven by small and medium enterprises and traders. But the recent wave of FDI from India to Africa is increasingly driven by the bigger Indian companies.

In the SADC region, most Indian companies have made significant investments in the extraction sector. Sustained increase in commodity prices coupled with increasing demand for energy and raw materials in the domestic economy are the major driving forces for these companies. Particularly for oil and energy companies, the quest for energy security is one of the major motivating factors for investing in the region.

In the SADC region, Indian multinational enterprises (MNEs) have ventured into both greenfield and brownfield investments, spanning across various sectors including manufacturing, mining, construction, and energy, among others.

According to data from the Ministry of Finance and the Reserve Bank of India (RBI), India's approved cumulative investments[83] in the SADC region during April 1996 to March 2019 amounted to US$ 60.5 billion. Mauritius, Mozambique and

[83]Approved Overseas Direct Investment implies RBI Approvals (financial commitments) for Overseas Direct Investment in Equity, Loan and Guarantees

South Africa are the top destinations of India's investments in the region. India's investments in the SADC region accounted for nearly 93.8 percent of Indian investments in Africa during April 1996 to March 2019 **(Table 5.1).**

Indian FDI in Africa has traditionally been concentrated in Mauritius. While in itself, Mauritius neither has large resource base nor does it have significant domestic market to warrant the amount of investment it has received over the years. However, the country's offshore financial facilities and favourable tax conditions have made Mauritius an attractive destination for onward routing of Indian investments. As Indian companies have become more globalized, many have chosen either to use their locally incorporated subsidiaries abroad to invest, or to establish holding companies and/or special purpose vehicles, or other regional financial centres, in countries like Mauritius which give tax benefits to raise funds and invest in third countries.

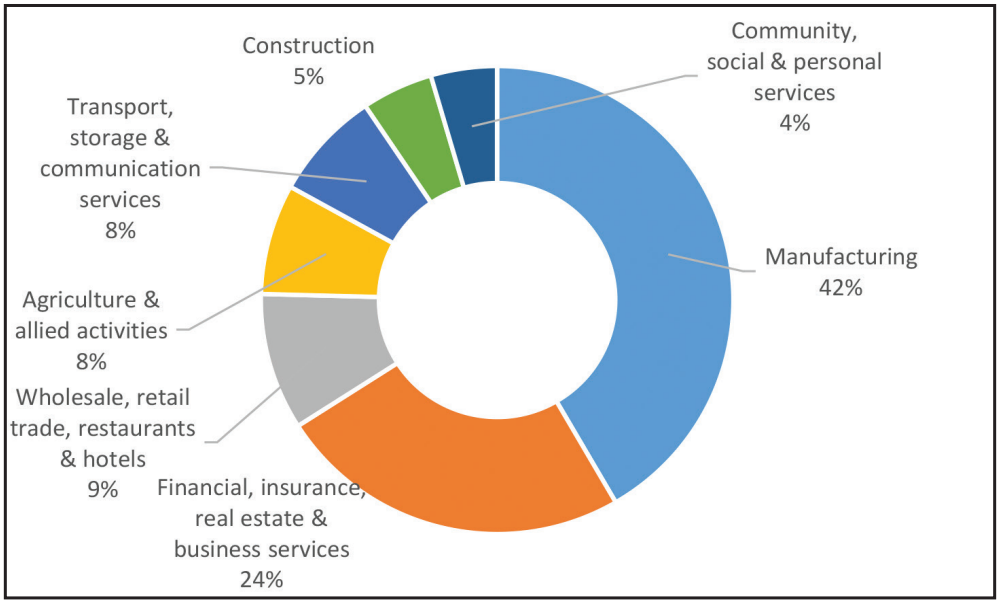
Table 5.1: India's Approved Overseas Direct Investment in the SADC Region (US$ mn)

S.No	Name of the country	April, 1996 to March 2014	2014-15	2015-16	2016-17	2017-18	2018-19	April, 1996 to March 2019
1	Mauritius	38630.2	4580.8	3670.4	5392.7	1387.1	3086.8	56,748.0
2	Mozambique	2665.9	7.7	1.7	8.0	37.3	40.2	2,760.8
3	South Africa	408.2	29.5	60.6	32.5	64.9	54.8	650.5
4	Zambia	23.3	41.7	79.7	10.8	10.2	2.6	168.3
5	Tanzania	61.5	1.6	11.4	0.2	21.8	17.2	113.7
6	Botswana	32.9	5.0	-	0.1	9.8	0.5	48.3
7	Zimbabwe	15.2	0.2	-	1.7	4.1	4.5	25.7
8	DR Congo	5.1	0.2	-	-	-	1.7	7.0
9	Madagascar	2.5	0.3	0.9	0.8	0.1	-	4.6
10	Seychelles	3.5	-	-	-	-	0.9	4.4
11	Malawi	0.3	0.1	0.5	0.9	0.5	0.4	2.7
12	Namibia	2.3	-	-	-	-	0.5	2.8
13	Eswatini	0.4	-	-	-	0.1	-	0.5
SADC		**41,839.70**	**4,667.10**	**3,825.20**	**5,447.80**	**1,535.90**	**3,210.19**	**60,525.9**

Note: '-' not available/ negligible

Source: Ministry of Finance, Government of India, RBI, and Exim Bank analysis

Chart 5.1: Sectoral Share of India's Investments in SADC



Note: Agriculture & allied activities include hunting, forestry, fishing and mining; Data pertain to April 2010-March 2019 with investments amounting to US$ 51.2 billion.
Source: RBI

The manufacturing sector accounted for the largest share of approved investments from India to the SADC countries (42 percent of total investments received by SADC) followed by financial, insurance, real estate and business services (24 percent), wholesale, retail trade, restaurants and hotels (9 percent), transport, storage and communication services and agriculture and allied activities each accounting for 8 percent share in total investments by India during 2010-11 to 2018-19 **(Chart 5.1)**.

Mauritius has received the highest investment in manufacturing (98.7 percent), due to the offshore financial facilities and favourable tax conditions. The other SADC countries which have received Indian investments in manufacturing are South Africa (49 percent of the investments in manufacturing if we exclude investments in Mauritius), Zambia (20 percent), Tanzania (16 percent), Botswana (7 percent), Zimbabwe (4 percent) and Malawi, Madagascar, Namibia, Mozambique each accounted for a share of 1 percent.

Key Challenges to Enhancing Investments in SADC

In the whole process of enhancing investments, there are certain challenges involved at different levels which SADC economies (South Africa being an exception) need to overcome in order to develop as a manufacturing base –

- **Low productivity:** Despite wage rates being low, cheap labour cannot be used as an advantage unless productivity that is output per worker increases, which is at present one of the lowest across the world.

- **Lack of scale:** African countries lack the size or scale of production required to compete with the scale of imports from Asian or European countries.

- **Lack of skill set:** Limited education or insufficient skill set makes majority of the vast young working age population unemployable.

- **Infrastructure bottlenecks:** Supply of utilities like power, water and connectivity issues have been a chronic problem with the African manufacturing industry.

Way Forward

India's engagement with SADC has been, in many areas, private sector driven resulting in greater integration with the domestic market. Following are the areas where India can assume a development partnership role to facilitate growth in manufacturing sector of SADC.

- **Skill Development:** India has always assumed a development partnership role when it comes to its engagement with SADC. With a significant increase in working population in the region, one of the biggest opportunities for SADC would be development of skilled manpower to engage in manufacturing activities. India may engage with other SADC development institutes to enrich human resource through various skill development programmes in manufacturing. Technical expertise may be shared with them for different light manufacturing sectors.

- **Knowledge Sharing:** Since India's manufacturing sector is essentially dominated by SMEs, similar to that of SADC, Indian companies

could share their experience with their counterparts in SADC. Indian manufacturing associations could tie up with their SADC counterparts to develop respective sectors of their specialisation through collaboration. This could include building common resource centres for disseminating market and business related information, common quality testing labs for their products, among others.

- **Designing Educational Programmes:** One of the important initiatives essential for development of SADC pharmaceutical industry is building a pool of professionals for clinical research. Similarly, in the case of textile industry, educational programme relating to technical know-how, efficiency in production, designing, packaging and marketing, among others, would be essential to develop countries in the continent as a garment manufacturing hub. India may collaborate with relevant educational institutes in SADC countries to deliver diploma programmes or vocational training for such sectors to train the workforce.

- **Credit Access:** As stated earlier, another major challenge for the SADC manufacturing sector to thrive is access to credit for investment, especially in the case of textiles and agri-business as these are mainly characterised by small holders. They usually lack the financial capability to invest in setting up businesses. Indian financial institutions and banks could contribute to enhancement of credit access through knowledge sharing or through collaborating with financial institutions and banks in the SADC region.

- **Organising B2B Meets:** Enhancing of two-way trade and investment flows could not be sustained without vibrant people-to-people contacts. There could be various rounds of consultations among business fraternity, with special focus on dedicated sector/s in each round. This will help in exchange of ideas and business propositions among entrepreneurs and investors, thus boosting trade and investment activities between the two regions. Such B2B meets could be jointly facilitated by industrial bodies or investment and trade promotion agencies, with support from respective governments.

6. Export-Import Bank of India in SADC Region

Export-Import Bank of India (Exim India) commenced operations in 1982. The Bank was set up under an Act of Parliament (Export-Import Bank of India Act 1981), for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade. In its endeavour to promote India's international trade, Exim India's vision has evolved from financing, facilitating and promoting trade and investment, to a conscious and systematic effort at creating export capabilities. Exim India, today, seeks to develop commercially viable business relationships with externally oriented companies.

SADC region has always been a focus region for Exim India, and thus a critical component of its strategy to promote and support two-way trade and investment. As a partner institution to promote economic development in the Region, the commitment towards building relationships with the SADC Region is reflected in the various activities and programmes, which Exim India has set in place.

Exim India has representative offices in Johannesburg, South Africa and Addis Ababa, Ethiopia, play a key role in facilitating economic cooperation with the SADC Region, and are closely associated with several of the Bank's initiatives. The representative offices interface with multilateral institutions such as African Development Bank (AfDB), Afreximbank, regional financial institutions such as Trade and Development Bank (TDB) (erstwhile PTA Bank), and developmental financial institutions such as Industrial Development Corporation of South Africa Ltd. (IDC), as well as Indian missions in the region with the aim of increasing bilateral commercial engagements.

Lines of Credit

To enhance bilateral trade and investment relations, Exim India has in place several Lines of Credit (LOCs) extended to a number of institutions/agencies in the SADC region. These LOCs supplement the 'Focus Africa' programme of

the Government of India (GOI) and are extended especially to priority sectors, identified by GOI for mutual cooperation and benefit. Besides these operating LOC extended at the behest of GOI, Exim India extends its own commercial LOCs to various financial institutions and other entities in Africa, such as, TDB (covering 17 countries in the eastern and southern African region), Indo-Zambia Bank and Afreximbank. These LOCs facilitate import of project-related equipment and services from India on deferred credit terms. At the same time, many of these LOCs are earmarked for infrastructure and related projects. As on August 31, 2019, the total number of operative LOCs to the SADC region stood at 59 extended to 13 countries and amounting to US$ 3.8 billion which are guaranteed by GOI. A list of LOCs extended to African countries is given at **Annexure 2** and select examples include:

Countries:

- **Angola** – Railway rehabilitation project; industrial park; and textile project;
- **Comoros** – Installation of power project
- **DR Congo** –Hydroelectric project; setting up a cement factory acquisition of buses and acquisition of equipment for MIBA; transmission and distribution project; and installation of pumps; installation of solar photovoltaic power project
- **Lesotho** – Export of tractors, pump sets, consultancy services and irrigation equipment; and vocational training centre project;
- **Madagascar** – Rice productivity and fertilizer production project;
- **Malawi** – Cotton processing; one-village one-project; green belt initiative; irrigation and threshing plant; irrigation network; commissioning of sugar processing facility; and construction of water supply system;
- **Mauritius** – Supply of offshore patrol vessel; purchase of specialised equipment and vehicles; and acquisition of Waterjet Fast Attack Craft;
- **Mozambique** – Gaza Electrification Project; water drilling project; IT park project; housing project; road rehabilitation project; rural drinking

water and electricity project; and solar photovoltaic module manufacturing plant; procurement of railway rolling stock

- **Seychelles** – Implementation of integrated health information system; and import of goods and services from India for specific projects;

- **Eswatini** – IT project; and agricultural development and mechanization of agriculture;

- **Tanzania** – Export of tractors, pumps and vehicles; water supply schemes; purchase of vehicles; and extension of pipeline;

- **Zambia** – Hydroelectric project; and pre-fabricated health posts; and

- **Zimbabwe** – Up-gradation of pumping station and river water intake system; and renovation/ upgradation of thermal power plant;

Project Exports

Exim India has been providing a steady stream of support to project activities in engineering, procurement, and construction (civil, mechanical, electrical or instrumental). This includes the provision of specific equipment related to supplies, construction and building materials, consultancy, technical know-how, technology transfer, design, and engineering (basic or detailed). Exim India also supports existing or new projects, plants or processes that require additional assistance in processes such as international competitive bidding including multilaterally funded projects in India. Some of the examples include Lusaka city decongestion project in Zambia, supply of vehicles, spare parts and medical instruments to the Ministry of Defence and National Service, Tanzania and construction of a transmission line in Mozambique.

Buyer's Credit under National Export Insurance Account (NEIA)

In order to provide further impetus to project exports from India on medium- or long-term basis, especially in the infrastructure sector, in April 2011, a product called Buyer's Credit under National Export Insurance Account (BC-NEIA) was introduced. Under this programme, Exim India facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government owned entities for import of goods and services from India on

deferred credit terms. Indian exporters can obtain payment of eligible value from Exim India, without recourse to them, against negotiation of shipping documents. NEIA is a Trust, set up by Ministry of Commerce and administered by ECGC Ltd.

As on August 31, 2019, a positive list of 91 countries have been identified by ECGC for which Indian exporters can avail BC-NEIA, of which 37 countries belong to Africa. Exim India has sanctioned an aggregate amount of US$ 1.6 billion under BC-NEIA for 14 projects in Africa valued US$ 1.7 billion. Within the SADC region, US$ 423.8 million was sanctioned towards power transmission and distribution lines in Zambia; setting up LPG and Bitumen storage facility in Mozambique; supply of vehicles to Tanzania; and Lusaka city decongestion project.

Finance for Joint Ventures Overseas

Further, Exim India supports Indian companies in their endeavour to globalise their operations, through overseas joint ventures (JVs) and wholly owned subsidiaries (WOS). Such support includes loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoters to set up such ventures overseas. In the SADC Region, Exim India has supported several such ventures in countries such as South Africa, Mauritius, Tanzania and Zambia across a range of sectors like agriculture and food processing, agro-based products, auto and auto components, chemicals, construction, electronics, engineering goods, EPC services, mining and minerals, plastics products, packaging, software and IT enabled services, and textiles. These ventures serve to promote value addition, as also contribute to capacity building and capacity creation in host countries. As on August 31, 2019, Exim India through its overseas investment finance programme has supported 31 Indian companies in four countries in the SADC region with an aggregate sanction of ₹ 42.1 billion.

Association with African Development Bank (AfDB)

India is a member of the African Development Bank (AfDB) Group. Many Indian companies participate in projects funded by the AfDB Group. Exim India works very closely with AfDB and has an active programme which offers a range of information, advisory and support services to Indian companies to enable more effective participation in projects funded by multilateral funding agencies, including AfDB. Exim India assists Indian companies in projects supported by AfDB by

not only fund and non-fund based assistance, but also by providing advance alerts on upcoming opportunities. With support from Exim India, Indian project exporters have secured a number of overseas contracts in Africa in sectors such as power, telecommunications, transport, water supply & sanitation. Exim India and AfDB have also signed an agreement for co-financing projects in Africa. The agreement envisages joint financing of projects (priority being given to support projects of small and medium enterprises) in regional member countries of AfDB. Exim India also organizes Business Opportunities seminars in Projects funded by AfDB across various centres in India.

Africa – India Partnership Day

Exim India together with FICCI (Federation of Indian Chambers of Commerce and Industry) organizes the Africa - India Partnership Day, on the sidelines of AfDB's Annual Meeting, with an objective of sharing India's developmental experiences with Africa, particularly in Public-Private Partnership model of financing infrastructure development. Exim India, along with FICCI, has so far hosted five such events; first being on May 30, 2013 in Marrakech, Morocco; followed by Kigali, Rwanda, on May 22, 2014, Abidjan, Côte d'Ivoire, on May 27, 2015, Zambia on May 24, 2016 and India (Ahmedabad) on May 24, 2017. The sixth Africa-India partnership day was organized by Exim India on June 13, 2019 during the Annual Meeting of AfDB 2019 at Malabo, Equatorial Guinea. The focus of the event was on "Africa's Regional Integration". The Africa-India Partnership Day has become a regular feature of the AfDB Annual Meeting, and showcases the immense scope for expanding the mutually enriching partnership between Africa-India.

Project Development Company (PDC) in Africa

Africa is a region of opportunities, as the continent is receiving plenty of investments in the infrastructure space. The PPP structure is slowly getting popularised by the national governments, increasing the interest of the private sector in infrastructure development. However, institutional capacity in several African nations is in a nascent stage.

Addressing the limited institutional capacity in Africa on conceptualisation, management, execution and imparting project development initiatives, Exim India along with other Indian institutions has joined hands with the AfDB, and promoted a Project Development Company (PDC) for infrastructure development in Africa.

The PDC, named Kukuza Project Development Company, has been incorporated in Mauritius in July 2015. 'Kukuza' in Swahili means 'a cause to growth'. Reflecting the name, the PDC is expected to provide specialist project development expertise to take the infrastructure project from concept to commissioning in the African Continent. The PDC will provide the entire gamut of project development expertise to various infrastructure projects, such as project identification, pre-feasibility/ feasibility studies, preparation of detailed project reports, environmental and social impact assessment, etc.

The PDC shall utilise the domain expertise of each partner during the project development process to establish a bankable and sustainable implementation format based on an in-depth understanding of the concerns of all the stake holders - public authority, users community, developers/ investors and lenders.

Exim India's Country Mission

With a view to enhancing India's bilateral trade and investment relations and in order to support Indian entrepreneurs in their globalisation endeavours, Exim India has commissioned a country mission to select countries in Africa. The Mission endeavours to provide a framework for enhancing India's engagement in select countries in Africa by way of identifying key areas for commercial engagement while also assisting these countries in achieving their developmental objectives. This initiative is backed by Exim India's longstanding strategic and commercial relations with various institutions, bodies and organisations in Africa through its various capacity building programmes in various sectors in these countries.

The Mission to Africa covered countries including Mozambique, Rwanda and Tanzania in November 2014. The Mission team closely coordinated with Indian Missions, and held various rounds of interactions with Government officials of partner countries, multilateral institutions, business community, exporters, banks, Indian business diaspora, and other stakeholders, with a view to identifying business, trade and investment opportunities for Indian entrepreneurs.

Exim India's engagements in ITC's SITA

On March 09, 2014, Department for International Development (DFID) mandated the International Trade Centre (ITC), United Kingdom, to design and implement

a project, called 'Supporting India's Trade Preferences for Africa' now called 'Supporting Indian Trade and Investment for Africa' (SITA). SITA is a six-year (2014-2020) project that aims at promoting exports from five East African countries – Ethiopia, Kenya, Rwanda, the United Republic of Tanzania and Uganda – to India through investment and skills transfer from the Indian side. Exim India had entered into an MOU with ITC in Geneva on March 26, 2014, under which it was associated with ITC's SITA initiative. The Project was in its inception Phase during March 2014 to March 2015, where a roadmap for SITA, including the focus sectors, was defined. The implementation phase of SITA (March 2015-March 2020) was officially launched in New Delhi, India, during March 19-20, 2015.

Member of Association of African Development Finance Institutions (AADFI)

Exim India is a member of Association of African Development Finance Institutions (AADFI), a forum of institutions/ banks with the objective of creating co-ordination and economic solidarity among the development finance institutions in the African continent. The membership of AADFI helps to provide a platform for building linkages with other institutions in Africa, which are members of AADFI.

Association with Other Indian Institutions

Further, Exim India's equity in Agricultural Finance Corporation, which offers consultancy support in development of agro-technology; promotes membership in 'Small Farmers' Agri-Business Consortium (SFAC)', an investment institution whose objectives include promoting small and medium agri-business ventures, places Exim India in a vantage position to share its expertise and support development related activities in Africa.

Global Network of Exim Banks and Development Finance Institutions (G-NEXID)

Exim India has entered into a Memorandum of Understanding (MOU) with four Exim Banks and Development Financial Institutions (DFIs) to form Global Network of Exim Banks and Development Financial Institutions (G-NEXID). The five signatories are Export-Import Bank of India, Export-Import Bank of Malaysia, African Export-Import Bank, Andean Development Corporation and Export-Import Bank of Slovakia. G-NEXID was formally launched at its inaugural

meeting at UNCTAD, Geneva on March 13, 2006. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and strengthen financial cooperation to promote trade and investment relations between developing countries. G-NEXID has been granted 'observer' status by UNCTAD.

G-NEXID members in the African Region include: African Export-Import Bank, Cairo; Banque Nationale d' Investissement, Côte d'Ivoire; Banque Pour Le Financement De Petites Et Moyennes Entreprises, Tunis; Central African States Development Bank, Brazza Ville; Development Bank of Mali, Bamako; Development Bank of Namibia, Windhoek; Development Bank of Zambia, Lusaka; Development Bank of Southern Africa, Midrand; East African Development Bank, Kampala; Economic Community of Western African States, Lome; Industrial Development Bank of Kenya, Nairobi; Industrial Development Corporation South Africa, Sandton; Nigerian Export-Import Bank, Nigeria; and TDB Bank, Nairobi.

Inter-Bank Cooperation Mechanism among BRICS members

BRICS, which comprise Brazil, Russia, India, China and South Africa, is an association of five major emerging national economies. In order to develop and strengthen economic ties and investment cooperation among BRICS countries, in 2010, state financial institutions for development and export support of the BRICS nations entered into a MOU, laying the foundation of BRICS Inter-Bank Cooperation Mechanism. Exim India is the nominated member development bank under the BRICS Inter-Bank Cooperation Mechanism, along with other nominated member development banks from member nations of BRICS namely BancoNacional de Desenvolvimento Economico e Social (BNDES), Brazil; State Corporation Bank for Development and Foreign Economic Affairs – Vnesheconombank, Russia; China Development Bank (CDB), and Development Bank of Southern Africa (DBSA). The Inter-Bank Cooperation among BRICS countries is expected to facilitate trade and help raise the economic profile of member countries at regional and global levels. Inter-Bank Cooperation is the first step toward closer cooperation within BRICS, and the member countries will jointly finance projects in high technology, innovation and energy saving.

Exim India signed two multilateral financial cooperation agreements with member development banks of BRICS nations during the fifth BRICS Summit held in March

2013 at Durban, South Africa. The two Agreements signed are 'BRICS Multilateral Infrastructure Co-financing for Africa' and 'BRICS Multilateral Cooperation and Co-financing Agreement for Sustainable Development in Africa'. A Memorandum of Understanding (MoU) on Collaborative Research on Distributed Ledger and Block Chain Technology in the context of development of digital economy was signed in 2018 under the BRICS Interbank Cooperation Mechanism.

GPCL as a Consultant

Global Procurement Consultants Ltd. (GPCL) has been promoted by Exim India in association with leading public sector and private sector consultancy organizations. GPCL's shareholding pattern creates a synergetic fusion of expertise, thereby providing a unique platform for sharing of collective Indian experience in a partnership mode with developing countries and emerging economies, in the professional management of projects, with particular reference to procurement services. GPCL synthesizes India's consultancy expertise in project management and procurement across varied sectors of the economy including finance, infrastructure, energy, transportation, environment, information and communication technology, industry, agriculture, mining, water resources, health and education. GPCL provides technical assistance in enhancing quality, transparency, efficiency and effectiveness of procurement and implementation services to help attain desired institutional and corporate objectives. GPCL supports, enhances and extends scope of project supervision, monitoring and evaluation as also strengthening of institutional capacity for effective programme/ project implementation. In doing so, GPCL leverages upon its demonstrated strengths derived from its core staff, panel of specialists, and resources of its shareholders to assist funding and project executing agencies.

GPCL has a demonstrated track record spanning all stages of the procurement cycle covering procurement advisory services, procurement management, procurement review, performance review, provision of support services, valuations, financial advisory services, overall procurement audit and governance, as also associated services related to training and capacity building. GPCL has undertaken a number of assignments, in India and numerous countries abroad, directly for multilateral funding agencies or in projects funded by them. GPCL also has the distinction of being selected in some instances by the World Bank on a sole source basis, both in India and abroad.

GPCL has extensive experience supporting projects in Africa, and assignments undertaken include:

1. **Procurement Audit** of contracts in World Bank funded projects in Eritrea, Ghana, Malawi, Nigeria and Uganda covering Health, Education, Agriculture, Infrastructure, Power, Privatization and Emergency rehabilitation.

2. **Comprehensive re-appraisal** of Water Supply Projects in Nigeria funded by AfDB.

3. **Country Procurement Assessment Review (CPAR)** in the Kingdom of Eswatini for AfDB in order to examine the existing public procurement framework, benchmark them with good procurement practices, and provide recommendations to revamp the system for better governance.

4. **Procurement Monitoring Agent** for a World Bank funded health project in Kenya calling for review of the procurement of goods, services and minor works including an audit of the procurement processes of the institutions and procurement units supported by the project.

Partner in Institutional Building in Africa

As a partner institution in promoting economic development in Africa, Exim India shares its experience in the setting up of institutional infrastructure for enhancing international trade. In this regard, the Bank has taken active participation in the institutional building process in a number of countries in Africa. Besides being associated in the setting up of the Afreximbank, Exim India undertook an assignment to design, develop, and implement a programme on Film Financing for Nigerian Export-Import Bank (NEXIM Bank) for expanding its exposure in financing films (under Film Financing Programme). Exim India has also been involved in the design and implementation of Export Finance Programmes for Industrial Development Corporation, South Africa; Consultancy Assignment for the Government of Mauritius on 'Projecting Mauritius as an investment hub for Indian Firms'; establishment of Export Credit Guarantee Company in Zimbabwe; and preparing a blue print for setting up of Export-Import Bank of Zimbabwe.

In 2015, International Trade Centre (ITC), Geneva, under its 'Supporting Indian Trade and Investment for Africa (SITA)' Project, awarded Exim India with Phase - 1 of an assignment for 'Institution Capacity Building for Export Credit and Insurance' to enhance trade competitiveness in Rwanda. The objective of the assignment is to establish a rationale and suggest a broad framework for establishing an Export Credit Insurance Corporation in Rwanda.

In 2018-19, Exim India concluded an assignment for the Ghana Export-Import Bank (GEXIM) for providing technical assistance across its various operational areas. Exim India also delivered a 21-day training programme for GEXIM officials in Ghana, and organized a skill enhancement programme for the top management of GEXIM in Mumbai.

Institutional Linkages

Exim India has been consciously forging a network of alliances and institutional linkages to help further economic co-operation with the SADC Region. Towards this end, Exim India has taken up equity in Afreximbank and Development Bank of Zambia. These endeavours are supplemented by the various Memoranda of Cooperation (MOCs) / Memoranda of Understanding (MOUs), the Bank has in place, with key institutions in the African Region including: AfDB; Trade and Development Bank (TDB); Afreximbank; Board of Investment, Mauritius; ECO Bank (Pan African Bank); and Industrial Development Corporation of South Africa Ltd. (IDC).

Knowledge Building and Technology Transfer

In the area of knowledge building and technology transfer, Exim India's research studies have focused on potential areas for boosting India's trade and investment relations with Africa, the Economic Community of West African States (ECOWAS), Southern African Customs Union (SACU), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Least Developed Countries (LDCs), as also the member countries of Maghreb region. In order to support AfDB's High 5 agenda, Exim India released five studies namely, Integrate Africa: A Multidimensional Perspective; Feed Africa: Achieving Progress through Partnership; Water, Sanitation and Healthcare in Africa: Enhancing Facility, Enabling Growth; Power Sector in Africa: Prospect and Potential; and Manufacturing in Africa: A Roadmap for Sustainable Growth.

Representative Office

Exim India has representative offices in Addis Ababa, Ethiopia; Johannesburg, South Africa; and Abidjan, Côte d'Ivoire, which play a key role in facilitating economic cooperation with the African region. Exim India's Johannesburg representative office has jurisdiction over all SADC member countries except Tanzania. Tanzania falls under the jurisdiction of Exim India's Addis Ababa representative office.

The representative offices interface with various institutions such as Industrial Development Corporation of South Africa Ltd., African Development Bank, regional financial institutions such as TDB, AfreximBank, and West African Development Bank (BOAD) as well as Indian missions in the region, thereby being closely associated with the Bank's initiatives in the African region.

In a Nutshell

In sum, Exim India, with its comprehensive range of financing, advisory and support services, seeks to create an enabling environment for enhancing two-way flow of trade, investment and technology between India and the SADC Region. While promoting infrastructure development and facilitating private sector development in host countries, the various efforts of Exim India, ensconced in its range of activities, also contribute towards institutional building in the African Region.

1. Investment Promotion Agencies in SADC

Country	Investment Promotion Agency	Website
Angola*	Angola's Private Investment and Export Promotion Agency (AIPEX)	www.anip.co.ao
Botswana	Botswana Investment and Trade Centre (BITC)	www.bitc.co.bw
Comoros	Agence Nationale pour la Promotion des Investissements ANPI-Comoros	www.investcomoros.net
DR Congo	Agence Nationale pour la Promotion des Investissements (ANAPI)	www.investindrc.com
Eswatini	Swaziland Investment Promotion Authority (SIPA)	www.sipa.org.sz
Lesotho	Lesotho National Development Corporation (LNDC)	www.lndc.org.ls
Madagascar	Economic Development Board of Madagascar (EDBM)	www.edbm.gov.mg
Malawi*	Malawi Investment and Trade Centre (MITC)	www.mitc.mw
Mauritius	Economic Development Board Mauritius	www.edbmauritius.org
Mozambique*	Mozambique Investment Promotion Centre (CPI)	www.cpi.co.mz
Namibia	Namibia Investment Centre (NIC)	www.mti.gov.na/nic.html
Seychelles*	Seychelles Investment Bureau (SIB)	www.investinseychelles.com
South Africa	Investment South Africa – Department of Trade & Industry (DTI)	www.thedti.gov.za
Tanzania	Tanzania Investment Centre (TIC)	www.tic.co.tz
Zambia	Zambia Development Agency	www.zda.org.zm
Zimbabwe*	Zimbabwe Investment Authority (ZIA)	www.investzim.com

** Sourced from SADC website (https://www.sadc.int/themes/economic-development/investment/investment-promotion/)*

Source: World Association of Investment Promotion Agencies (http://www.waipa.org/)

2. Exim Bank of India's LOCs in SADC (As on August 31, 2019)

- **GOI-supported LOCs**

Sr. No	Country	Borrower	Amount of Credit (US$ mn)	Products/Projects covered
1	Angola	Government of Angola	40.0	Railway Rehabilitation
2	Angola	Government of Angola	30.0	Industrial park
3	Angola	Government of Angola	15.0	Setting up a textile project (cotton ginning & spinning)
4	Comoros	Government of Comoros	41.6	For installation of an 18 MW power project in Moroni
5	DR Congo	Government of DR Congo	33.5	Setting up a cement plant, acquisition of buses and acquisition of equipment for MIBA
6	DR Congo	Government of DR Congo	25.0	Installation of hand pumps and submersible pumps
7	DR Congo	Government of DR Congo	42.0	Execution of Kakobola Hydroelectric Power Project
8	DR Congo	Government of DR Congo	168.0	Katende Hydro-electric Project
9	DR Congo	Government of DR Congo	82.0	Completion of Katende Hydro-electric Project
10	DR Congo	Government of DR Congo	34.5	Development of Power Distribution Project in Bandundu Province
11	DR Congo	Government of DR Congo	109.9	Financing transmission and distribution project in Kasai province for evacuation of electricity from Katende Hydroelectricity Power Project
12	DR Congo	Government of DR Congo	33.3	Financing installation of 15 MW solar photovoltaic power project at Karawa, province – North Ubangi
13	DR Congo	Government of DR Congo	25.3	Financing installation of 10 MW solar photovoltaic power project at Lusambo, province – Sankuru
14	DR Congo	Government of DR Congo	24.6	Financing installation of 10 MW solar photovoltaic power project at Mbandaka, Province – Equator
15	Eswatini	Government of Eswatini	20.0	Information technology park
16	Eswatini	Government of Eswatini	37.9	Agricultural Development and Mechanization of Agriculture
17	Lesotho	Government of Lesotho	5.0	General purpose: Contracts approved include export of pump sets, consultancy services and irrigation equipment
18	Lesotho	Government of Lesotho	4.7	Vocational training center for empowerment of youth and women
19	Madagascar	Government of Madagascar	25.0	Project for rice productivity and project for fertilizer production

Sr. No	Country	Borrower	Amount of Credit (US$ mn)	Products/Projects covered
20	Madagascar	Government of Madagascar	2.5	Completion of unfinished fertilizer plant project
21	Malawi	Government of Malawi	30.0	supply of irrigation, storage, tobacco threshing plant and one village- one project
22	Malawi	Government of Malawi	50.0	Cotton Processing Facilities, Green Belt Initiative and One Village One Product Project
23	Malawi	Government of Malawi	76.5	Irrigation Network and Sugar processing equipment and fuel storage facility
24	Malawi	Government of Malawi	23.5	Construction of a new water supply system from Likhubula river in Mulanje to Blantyre
25	Mauritius	Government of Mauritius	48.5	Offshore Patrol Vessel from M/s Garden Reach Shipbuilders & Engineers Ltd.
26	Mauritius	Government of Mauritius	46.0	Purchase of specialised equipment and vehicles
27	Mauritius	Government of Mauritius	18.0	To finance the acquisition of Waterjet Fast Attack Craft
28	Mauritius	Government of Mauritius	52.3	Project Trident
29	Mauritius	SBM [Mauritius] Infrastructure Development Co. Ltd. [a nominated agency of Government of Mauritius]	500.0	Equity Participation for financing various Infrastructure Projects
30	Mozambique	Government of Mozambique	20.0	General purpose - Contracts approved include supply of water drilling machinery, equipment, accessories, components and spares, support vehicles, water and fuel tankers and electrical equipment
31	Mozambique	Government of Mozambique	20.0	Electrification of Gaza province
32	Mozambique	Government of Mozambique	20.0	Transfer of water drilling technology and equipment
33	Mozambique	Government of Mozambique	25.0	To finance IT Park Project which will comprise construction of building and (a) incubator facility, (b) research and learning centre and (c) technology park and administrative facility
34	Mozambique	Government of Mozambique	30.0	Rural Electrification Project in the provinces of Inhambane, Zambezi and Nampula
35	Mozambique	Government of Mozambique	25.0	Rural Electrification of Cabo Delgado, Manica, Niassa Provinces
36	Mozambique	Government of Mozambique	20.0	Enhancing productivity of rice, wheat, maize cultivation
37	Mozambique	Government of Mozambique	13.0	Solar Photo Voltaic Module Manufacturing Plant
38	Mozambique	Government of Mozambique	250.0	Improving the quality of power supply

Sr. No	Country	Borrower	Amount of Credit (US$ mn)	Products/Projects covered
39	Mozambique	Government of Mozambique	19.7	Rural drinking water project extension
40	Mozambique	Government of Mozambique	149.7	Rehabilitation of Road between Tica, Buzi and Nova Sofala in Mozambique
41	Mozambique	Government of Mozambique	47.0	Construction of 1200 houses in Mozambique
42	Mozambique	Government of Mozambique	38.0	Construction of 1600 Borewells with Hand pumps and 8 Small Water Systems
43	Mozambique	Government of Mozambique	95.0	Procurement of railway rolling stock including locomotives, coaches and wagons
44	Seychelles	Government of Seychelles	8.0	General Purpose and Implementation of Integrated Health Information System
45	Seychelles	Government of Seychelles	10.0	Import of goods and services from India for specific projects funded by Development Bank of Seychelles (DBS)
46	Seychelles	Government of Seychelles	10.0	Procurement of goods and projects as per the specified needs
47	Tanzania	Government of Tanzania	40.0	Export of tractors, pumps and equipment from India
48	Tanzania	Government of Tanzania	36.6	Financing the purchase of 679 vehicles
49	Tanzania	Government of Tanzania	178.1	Water supply schemes to Dar-es-Salaam
50	Tanzania	Government of Tanzania	268.4	Extension of Lake Victoria Pipeline to Tabora, Igunga and Nzega
51	Tanzania	Government of Tanzania	92.2	Rehabilitation and improvement of water supply system in Zanzibar
52	Tanzania	Government of Tanzania	500.0	Water Supply scheme in 17 towns
53	Zambia	Government of Zambia	29.0	Itezhi-Tezhi Hydro power project
54	Zambia	Government of Zambia	50.0	Pre-fabricated health posts
55	Zambia	Government of Zambia	18.0	Pre-fabricated health posts
56	Zimbabwe	Government of Zimbabwe	28.6	Up-gradation of Deka Pumping Station and River Water Intake System in Zimbabwe
57	Zimbabwe	Government of Zimbabwe	87.0	Renovation/Up- gradation of Bulawayo Thermal Power Plant
58	Zimbabwe	Government of Zimbabwe	19.5	Completion of Phase II : Up-gradation of Deka Pumping Station and River Water Intake System
59	Zimbabwe	Government of Zimbabwe	23.0	Up-gradation of Bulawayo Thermal Power Plant
Total			**3,815.3**	

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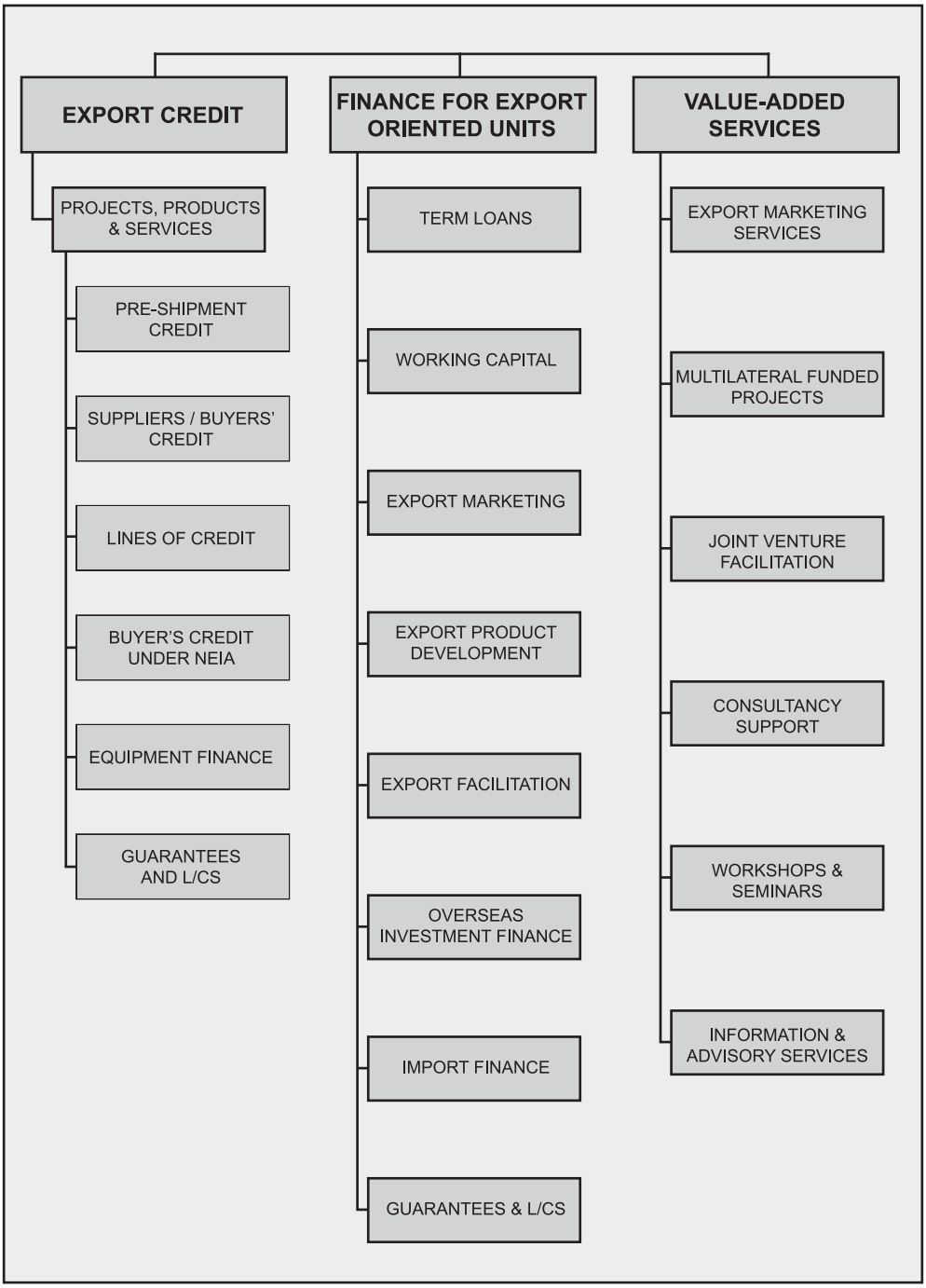

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