REINVIGORATING INDIA'S ECONOMIC ENGAGEMENTS WITH SOUTHERN AFRICA

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Reinvigorating India's Economic Engagements with Southern Africa

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Executive Summary

The Southern African Development Community (SADC) has been in existence since 1980 and currently has 16 member countries, namely Angola, Botswana, Comoros, DR Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe. The SADC countries are an integral part of the African region, comprising 35.4 percent of Africa's total land area, 28.4 percent of Africa's GDP, and 28.2 percent of Africa's total population. Among the major regional trading blocs in Africa, SADC is the second largest contributor (in terms of nominal GDP) to the African region in 2021, after COMESA (which has 21 African countries as members). SADC accounted for 0.8 percent of global GDP in 2021.

The SADC region recorded an estimated GDP growth of 4 percent in 2021, against an average negative growth rate of 4.8 percent in 2020 as South Africa's economy posted strong growth of nearly 5 percent, the highest since 2007, reflecting large fiscal stimuli. Growth in the region is projected to moderate to 3.8 percent in 2022 as the effects of these stimuli fade out, especially in South Africa, which is projected to post 2.3 percent growth. Botswana, with 12.5 percent growth, was the top-performing economy in 2021. The recovery of growth in the region was driven largely by rising prices and global demand for metals and non-metals and by vaccination rollouts, which aided some recovery in tourism. Botswana, DR Congo, Madagascar, Mauritius, Seychelles, and Tanzania are expected to register growth above 4 percent in 2022.

SADC's combined GDP stood at an estimated US$ 766.8 billion in 2021. South Africa is the largest economy in the region, accounting for 54.5 percent of the region's GDP in 2021, followed by Angola (9.7 percent), Tanzania (9.2 percent), and DR Congo (7.4 percent). In 2021, average inflation in the region moderated to 11.3 percent as compared to 49 percent in 2020 with relative decline in inflation in Zimbabwe. The SADC economies with double digit inflation during the same year included Angola, Zambia and Zimbabwe. Annual inflation rate in the SADC region is projected to increase by 14 percent in 2022 on account of the elevated global oil prices and geo-political conflicts leading to food price and fuel price shocks.

International Trade of SADC Countries

During 2012-2021, SADC's trade has had a wavering trend as the region's trade is significantly influenced by international commodity prices. SADC's global exports growth during the last decade has been sluggish, growing at an annual average growth rate (AAGR) of 1.6 percent, with exports reaching the highest level in 2021 at US$ 219.5 billion. Imports have declined in 2021 when compared to 2012 and stood at US$ 175.8 billion. Trade surplus has widened in 2021 resulting from higher exports growth. SADC's share in global trade has contracted from 1.1 percent in 2012 to 0.9 percent in 2021, but remained as an average at 1 percent.

SADC- Merchandise Exports

SADC's share in Africa's exports stood at 42 percent in 2021. South Africa and Angola are the largest exporters among SADC countries, together accounting for 71.8 percent of the region's total exports in 2021. Other major exporters from SADC include DR Congo, Zambia, and Tanzania.

Pearls, precious stones, and metals were the largest category of products exported from SADC in 2021. This mainly includes platinum, including palladium, rhodium, iridium, osmium, and ruthenium (HS-7110); gold, including gold plated with platinum (HS-7108) and diamonds, whether or not worked (HS-7102). The second most exported commodities were mineral fuels and oils, mainly composed of petroleum oil (crude) (HS-2709), coal (HS-2701), and petroleum gas and gaseous hydrocarbons (HS-2711).

While developed countries such as the US 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 2021, China and the US were the largest export destinations for the region, accounting for 22.9 percent and 7.1 percent of SADC's global exports, respectively. India's share in SADC's exports has decreased from 6.3 percent in 2017 to 4.6 percent in 2021. India is currently the fourth largest export destination for SADC.

SADC – Merchandise Imports

As regards imports, South Africa dominates imports of the SADC region, accounting for more than half of the region's imports. Other major importers in the region include Angola, Tanzania, Mozambique, and DR Congo.

China is the largest supplier for South Africa, accounting for 20.6 percent of the country's imports in 2021, followed by Germany (8.1 percent), the US (7.1 percent), and India (5.8 percent). In contrast to SADC's export basket, SADC's imports are relatively diversified. Mineral fuels and machinery are the two largest import items, followed by electrical equipment, vehicles other than railway or tramway, pharmaceutical products, and plastics and its articles.

As regards SADC's global imports, China has emerged as the leading supplier to SADC, accounting for as much as 18.4 percent of SADC's total imports in 2021, followed by South Africa (12.6 percent). India is the third-largest source for SADC's imports, accounting for 6.3 percent share in 2021.

SADC - Intra-regional Trade

According to the United Nations Conference on Trade and Development (UNCTAD), the share of SADC's intra-regional trade was the highest among all the African regional economic communities (RECs) at 20.3 percent in 2020, followed by East African Community (EAC) accounting for 15.1 percent of intra-regional trade. SADC is found to be among the most integrated trade blocs among the African RECs, however, it trades less with the rest of Africa compared to rest of world. In 2020, 75.8 percent of Eswatini's exports are to SADC countries, particularly South Africa. Among the larger exporters of SADC, the share of SADC countries in South Africa's global exports was 20.4 percent in 2020, while for Angola it was a marginal 1.2 percent. Most of the SADC countries have undergone a decline in share of their intra-regional exports during 2020 as compared to 2019.

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. Africa, as a continent, remains heavily commodity dependent. During 2018-19, mineral fuels and oils (majorly crude petroleum) accounted for 96 percent of Angola's total merchandise exports. Similarly, countries like Seychelles and Comoros, being small island economies, are highly dependent on fishery products. DR Congo and Zambia are heavily dependent on copper exports. On the other hand, countries like Eswatini, Lesotho, Mauritius, and South Africa are commodity independent.

Foreign Investment in SADC Countries

FDI inflows to the SADC region stood at US$ 45.7 billion in 2021, as compared to US$ 7.3 billion in 2020. The year 2021 witnessed one of the highest ever levels of FDI inflows to the region. South Africa accounted for the highest FDI inflows within Africa. Mozambique and DR Congo were also among the top recipients of FDI within the continent as well as the SADC region. FDI flows to Angola remained negative in the last six years as a result of the decline in oil production and profit repatriations by foreign parent companies, thus weighing on new investments. Zambia also witnessed negative FDI flows in 2021. During 2012-2021, global envisaged capital investments in SADC have mainly been in coal, oil and gas, renewable energy, communications, metals, and real estate sectors, among others. China was the largest investor in the SADC region during 2012-2021, followed by France, the US, and UK. As regards, FDI outflows from the SADC region, major source countries were Mozambique, DR Congo, Madagascar, Mauritius, and Eswatini in 2021.

India's Trade with SADC Countries

With the increasing diversification of India's global trade towards other developing countries, SADC has emerged as important partner for India, both as an export destination and an import source. During the last ten years, India's total trade with the SADC countries has increased from US$ 27.1 billion in 2012 to US$ 30.8 billion in 2021. While India's total exports to SADC have risen from US$ 9.7 billion in 2012 to US$ 12.7 billion in 2021, India's total imports from SADC increased from US$ 17.5 billion in 2012 to US$ 18.1 billion in 2021. India's trade balance with SADC has been in favour of SADC, with India's trade deficit with SADC recording US$ 5.4 billion in 2021.

Mineral fuels and pharmaceutical products dominate India's export basket to SADC, together accounting for 38.2 percent of India's total exports to SADC in 2021. Other major items of India's exports to SADC include vehicles other than railway or tramway, ships, boats, and floating structures, machinery and mechanical appliances, cereals, and electrical and electronic equipment. South Africa is India's largest export destination in SADC, accounting for around 47.2 percent of India's total exports to the region in 2021, followed by Mozambique, Tanzania, and Mauritius.

India's imports from SADC were largely dominated by pearls, precious stones, and metals, followed by mineral fuels, oils and its products, together accounting for 72 percent of imports from the region in 2021. Copper and articles are the third-largest items in India's import basket from the region. South Africa is India's largest import source in SADC, followed by Angola, Tanzania, Mozambique, Botswana, Eswatini, and Zambia.

India's Investments in SADC

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 August 2022 amounted to US$ 69.9 billion. India's investments in the SADC region accounted for nearly 94.2 percent of Indian investments in Africa during April 1996 to August 2022. Mauritius, Mozambique, and South Africa were the top destinations of India's investments in the region. India was the seventh largest investor in the SADC region during 2012-2021, with major investments in the region in coal, oil, and gas, followed by metals, communications, renewable energy, transportation & warehousing, chemicals, and automotive OEMs. According to data published by the Government of India, FDI inflows to India from SADC region have been dominated by investments from Mauritius. Other major countries from the region investing in India include South Africa and Seychelles.

Potential for Increasing India's Trade with the Southern African Customs Union

The Southern African Customs Union (SACU) is a customs union among 5 Southern African countries, Botswana, Eswatini, Lesotho, Namibia, and South Africa. Established in 1910, SACU is the world's oldest customs union. Over the past decade, there has been a considerable rise in trade between India and SACU (South Africa in particular). India is an important trading partner for SACU, accounting for 8.9 percent of total exports of SACU and supplying 5.9 percent of total imports of SACU in 2021.

India's exports to SACU increased from US$ 5.1 billion in 2012 to US$ 6.4 billion in 2021, while India's imports from SACU increased from US$ 8.2 billion in 2012 to US$ 12 billion in 2021. India had a trade deficit of US$ 5.6 billion in 2021 with SACU, mainly in commodities including pearls, precious stones and metals, mineral fuels and oils, copper and articles, and ores, slag, and ash, among others. Within SACU, India had trade deficit with South Africa (US$ 5.1 billion), Botswana (US$ 332.7 million), and Eswatini (US$ 260.3 million) in 2021. 93.4 percent of India's exports to SACU is destined to South Africa, while 92.2 percent of India's imports from the region originated from South Africa.

According to various reports, discussions between SACU and India to achieve a preferential trade agreement (PTA) have been revived in July 2020. The ongoing talks for PTA between the countries have set the stage for enhancing future bilateral partnership. However, a PTA/FTA will only be beneficial if there exists complementarity between the export supply of one country and the import demand of the other country. During the period 2013-2021, the complementarity index for profile of Indian exports to SACU's imports ranges from 64.5 to 66.6. This indicates a substantial complementarity in India's exports and SACU's imports. Over the years, the value of the index is rising which shows that India's export profile is converging towards SACU's import profile.

Further, using the revealed comparative advantage analysis, India's exports to SACU has been classified into 4 groups based upon its competitiveness.

Product Champions: Out of the 636 items at the HS 6-digit level, 242 items fell into the category of the product champions. The combined exports of these items from India to SACU were US$ 4.2 billion in 2021, representing approximately 65.7 percent of India's exports to SACU in 2021. Major product champions include motor cars, unmounted diamonds, flat-rolled products of iron or non-alloy steel, and automotive parts, among others.

Growing in Declining Sectors: The total number of products in growing in declining sectors category is 138, with India's exports amounting to US$ 1.3 billion and constitute a share of 20.6 percent of India's exports to SACU in 2021. These are the product items in which India has attained a significant share in SACU's import basket, however, SACU's import demand for these products has been falling in the last five years. Top items include medicaments, telephones for cellular network, and semi-milled/wholly milled rice, among others.

Underachievers: There exist 156 items in this category with India's exports worth US$ 358.1 million to SACU. These products constitute a share of 5.6 percent in India's total exports to SACU. These are the product items in which import demand in SACU is rising, but India does not have the required competitiveness in the export of these items. These include lights oils and preparations, static converters, and self-propelled mechanical shovels, excavators, and shovel loaders, among others.

Lagging in Declining Sectors: The high range of exports under the category of lagging in declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future.

Further, the analysis suggests strengthening the existing products in the category of product champions to exploit the full potential of these products which are already showing a robust growth in SACU, whilst India's exports also hold a comparative advantage in them. While in the long run, India needs to develop capabilities in the export of items in the underachievers category as import demand for these products in SACU is rising, but India does not have the required competitiveness in the exports of these items.

India's Tariff on Imports from SACU

The study has considered the tariff at 6-digit HS code using Trade Analysis Information Systems (TRAINS) based WITS data. The year considered is 2021. Since there is no preferential agreement currently between India and SACU, the effectively applied tariff on SACU is the same as the MFN tariffs. The exception remains Lesotho. Lesotho is a beneficiary under India's Duty- Free Tariff Preference (DFTP) Scheme for Least Developed Countries (LDCs), which provides market access on 95.5 percent of the lines on which LDCs have made to exports to India over the last two financial years. India's majority of imports from SACU have tariffs between 10.1-15 percent (37.4 percent of total imports), followed by 0.1 percent to 5 percent (37.1 percent). 134 tariff lines are duty-free. Highest import tariffs are on beverages, spirit, and vinegar, followed by miscellaneous edible preparations; coffee, tea and spices; sugar and sugar confectionery; and preparations of vegetable, fruits, and nuts, among others.

SACU's Tariff on Imports from India

More than half of SACU's imports from India are duty free. These are mainly agricultural products, organic and inorganic chemicals, pharmaceutical products, iron and steel articles, machinery and electrical equipment, among others. Highest import tariffs are on tobacco and manufactured tobacco substitutes; articles of apparel and clothing accessories and textiles; umbrellas, sun umbrellas, walking sticks; and carpets and other textile floor coverings, among others.

The proposed PTA is expected to ease the trade hurdles between India and SACU, leading to overall increase in India's trade and investment with SACU and with the broader SADC region.

Strategies to Enhance India's Engagements with SADC

India and SADC share strong and deep ties of cooperation. India's engagement with SADC has been, in many areas, private sector driven resulting in greater integration with the domestic market. As new trade partnerships are forming across the world, India and Southern African countries can forge mutually useful collaborations in the following areas.

Developing Manufacturing Value Chains

SADC's participation in global value chains remain modest, with the exceptions of apparel and in South Africa's case, automobiles. SADC's value chain participation is mainly upstream - the export of primary commodities, minerals, tobacco, sugar, and beef - with limited local value addition. The region is involved at the lower segment of value chains while focus should be on enhancing participation at the upper end and diversification into new high-productivity activities. Regional value chains are primarily hub-and-spoke in structure with South African corporates as the lead firms with relatively few linkages to GVCs. SADC has secured resources and support to identify potential projects in the minerals sector (copper, mining inputs, batteries/energy storage), pharmaceuticals (ARVs, anti–malaria medicines, malaria rapid test kits, malaria bed nets, and latex consumables), and agro-processing projects. Additionally, sectors such as textiles and clothing, cosmetics, and essential oils as well as products such as leather and leather products, meat and meat products, and fruits and vegetables offer extensive opportunities for the development of regional value chains across SADC.

Given the potential of economies in the region, the governments are working on initiatives to improve the manufacturing sector's global competitiveness and increase its participation in regional and global markets. Many SADC countries already have well-established manufacturing apparatus but are looking for latest technologies and finance to further move up the value chain. Increased FDI in the manufacturing sector by Indian companies could catalyze the development of value chains by providing foreign capital and technical know-how.

Strategic Alliance for Sourcing Other Critical Minerals for EV Value Chain

India is one of the largest Electric Vehicle (EV) markets in Asia after China. However, India lags behind developed countries in terms of EV adoption, due to price difference compared to traditional internal combustion engine (ICE) vehicles and dearth of charging infrastructure. At present penetration of charging stations as a percentage of EVs stood at 6 percent in India as compared to 18 percent in China. Given recent policy steps announced by the government (e.g., the draft battery swapping policy) and partnerships announced by original equipment manufacturers (OEMs), the growth of the charging infrastructure is expected to pick up.

The growing demand for electric vehicle component will create demand for various electronics and battery-related items, including controllers, and capacitors. Thus, component makers are recognizing the importance of investing in EV component technology and capacity. Demand for required minerals such as lithium, cobalt, copper, and nickel will increase with changes in component requirements. A challenge here is the reliance on limited geographical areas for the extraction of such metals. To tackle this, India needs to form strategic alliances with countries where these critical minerals are produced.

Southern Africa region is richly endowed in lithium, graphite, cobalt, nickel, copper, and rare earth minerals. For instance, DR Congo controls more than 60 percent of the world's cobalt supply, mostly exported to China. All of these are essential for building the global green economy of the future and they also comprise new market opportunities for net-zero transitions. Thus, India could play a significant role in the African mining value chain to optimize benefits from the demand for battery and electric value chain. India could set up joint exploration activities for securing critical mineral assets. Indian state-run companies can form joint venture to secure minor mineral assets such as lithium and cobalt that could fuel India's plan for mass adoption of electric vehicles by 2030. Strategic investment funds or import credit lines could be set with respective countries by signing MOUs to ensure India's import requirements for cobalt and lithium.

Leveraging Southern Africa's Minerals for Energy Transition for India and SADC Countries

Rare Earth Elements (REE) have unique physical and chemical properties which make them indispensable in the manufacture of high-technology products and has prompted them to be classified as critical metals. Countries like South Africa, Madagascar, Malawi, Namibia, Mozambique, Tanzania, and Zambia have significant quantities of neodymium, praseodymium, and dysprosium. While relatively abundant, these elements are less minable than common ores. They can have direct technical applications or be used to facilitate the production and refinement of common high-technology products. Access to a steady supply of rare earth elements is key to the national security and economic viability of many countries across the world.

The world's REE market is largely controlled by China, however, other major consumers are keen to establish alternative supply chains to ensure reliable and consistent supply at predictable prices. Africa has the potential mineral resource to compete in the global arena. However, the development of mineral resources must be supported by business models that enable maximum benefit to the country or region. The major REE consumers like the US, the EU, Canada, Australia, Japan, and South Korea are exploring options to develop alternative REE supply chains. Africa is one of the regions targeted as an alternative source of REE commodities, which presents African countries with the opportunity to develop their own REE value chains. Development finance institutions from India and the AfDB could work closely with SADC country governments to understand the needs of these commercial REE development attempts and support the companies to develop the value chain from end to end.

Increasing Circularity in Africa's Mining Sector

The mining industry is the second-largest consumer of water after agriculture in Southern Africa. Similarly, mining uses a lot of energy as it is crucial throughout the lifecycle of a mine from exploration to processing the final product. Traditionally the sector has relied on diesel and electricity from the grid to meet these needs. This high energy use comes with an elevated level of carbon emissions. By switching to renewable energy resources such as solar and wind energy to power, mining operations can help to regenerate natural systems. Indian mining companies have been increasingly using high technology for the automation of processes and has started integrating technologies across the value chain to reduce waste, increase resource efficiency, and drive-up productivity, while promoting the harnessing of renewable energy sources. Indian companies investing in African mines could also help using water saving technologies or renewable energy solutions thereby contributing to the economy.

Increasing Role of Development Finance Institutions in Infrastructure Investment

SADC member countries include large economies, small, isolated economies and island countries, and a mix of low- and middle-income countries. Regional infrastructure development creates a larger market and greater economic opportunities, and the development of infrastructure is critical for promoting and sustaining regional economic development, trade, and investment, and contributes to poverty eradication and improved social conditions. SADC has made significant progress in regional infrastructure development. Infrastructure includes regional transport and communications systems, which are fundamental to cooperation in the SADC region. SADC requires US$ 52 billion on investment to attain complete access to electricity as well as meet at least 53 percent of renewable energy capacity by 2040.

Public-private partnerships offer an alternative approach to public investment and thereby help in increased private sector investments and higher levels of efficiency in the development and operation of infrastructure assets in Africa. The current African public debt scenario, widening infrastructure gap and limited fiscal space, due to the COVID-19 pandemic, among other factors, build a strong case for development finance institutions to scale up their support for public-private partnerships, to crowd in more private sector investment in both economic and social infrastructure. Scaling up private sector investment in transport, energy, ICT, healthcare, and education would also ensure better debt sustainability and management, innovation, and efficiency, and enhance the competitiveness of their economies.

Access to Trade Finance in Southern Africa

Financial markets continue to evolve due to the emerging country risks, uncertain economic outlooks and changing regulatory environments. Trade finance is a critical element for cross border trade, and in many cases the movement of goods across borders, particularly in emerging markets, cannot occur without it. According to the estimates from the AfDB and Afreximbank, the trade finance gap in Africa was US$ 81.8 billion in 2019 and has averaged US$ 91 billion over the past decade. This is evident from the fact that 40 percent of Africa's trade remains bank intermediated as compared to 80 percent globally. Challenges with confirming banks remain one of the major constraints for domestic banks engaged in trade finance in Africa.

In order to fill this gap in trade finance, development finance institutions (DFIs) could develop financial instruments like risk participation and transaction guarantee agreements to support non-traditional confirming banks from emerging markets, including Africa. Here, the role of DFIs like Export-Import Bank of India (India Exim Bank) becomes relevant.

To address the widening global trade finance gap, India Exim Bank initiated a new trade finance product - Trade Assistance Programme (TAP), under the aegis of which the Bank will provide support by way of various trade instruments to Indian banks engaged in international trade, by offering transaction-specific partial or full guarantees to cover payment risks on banks in least developed/developing countries. This programme envisages to augment India's exports whilst also helping importers abroad to engage in international trade whilst mitigating the risks involved and expanding their market/buyers for their products which were hitherto not addressed. Thus, TAP will provide enabling environment for counterparties in settlement of trade transactions. TAP at its initial stages of operations will be looking at 54 economies across globe including 26 countries from Africa that can seek risk mitigation support under the programme.

Maritime and Defence Cooperation

According to the SIPRI International Arms Transfer Database, India was the 23rd largest defence exporter during the period 2017 to 2021. Within Africa, Mauritius accounted for 6.6 percent of India's arms exports during 2017-2021, followed by Mozambique (5 percent) and Seychelles (2.3 percent). Ministry of Defence has been strengthening cooperation within the framework of Indian Ocean Rim Association (IORA) to undertake specific projects and has formalized frameworks of Defence cooperation with South Africa, Kenya, Tanzania, Mauritius, Seychelles, and Madagascar.

India's defence and security cooperation with Africa and other developing countries remain need based and focuses on empowering through training, capacity building, and humanitarian assistance. Increased cooperation in areas of aerospace, defence, maritime equipment and vessels can ensure security and enhance technological capacity of Africa and at the same time accelerate India's defence export target of achieving US$ 5 billion by 2025.

India and African countries are important stakeholders in ensuring a safe and secure maritime environment, especially in the Indian Ocean Region. Among the Indian Ocean littoral countries (IOLC), 9 are in Africa. These include Comoros, Kenya, Madagascar, Mauritius, Mozambique, Seychelles, Somalia, South Africa, and Tanzania. A major shipping link for India, Indian Ocean remains the common factor for these countries and is pivotal in terms of both security and commerce for India and Africa. India and Africa share a robust maritime partnership, which is based on the cooperative framework of 'SAGAR' (Security and Growth for All in the Region).

India has emerged as a leading defence exporter in recent years and could fulfill Africa's maritime, aerospace and defence requirements. Indian military vehicle manufacturers such as Tata Motors and Ashok Leyland are already part of the network. Going forward, indigenously developed new age technologies in the maritime segment including unmanned underwater systems, unmanned aerial systems and drones could also be exported to Africa. Cyber security also remains another potential area for cooperation. With exponential growth in mobile smart device ownership and increased use of social media, Africa's adoption of new technologies is expanding. India has advanced cyber security infrastructure, a dedicated National Cyber Security and a functional nodal agency, Computer Emergency Response Team (CERT-In), under the Ministry of Electronics and Information Technology (MeitY).

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 countries 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 Governments. Initially 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 countries, 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 Governments in August 2017. It then became a full member at the 38th SADC Summit of Heads of State and Governments in August 2018. The SADC countries are an integral part of the African region, comprising 35.4 percent of Africa's total land area, 28.4 percent of Africa's GDP, and 28.2 percent of Africa's total population. Among the major regional trading blocs in Africa, SADC is the second largest contributor (in terms of nominal GDP) to the African region in 2021, after COMESA (which has 21 African countries as members). SADC accounted for 0.8 percent of global GDP in 2021 **(Table 1.1)**.

Table 1.1: Nominal GDP of Select Trading Blocs in Africa

(US$ billion)

African Regional Economic Communities	2019	2020	2021[e]	2022[f]
Central African Economic and Monetary Community (CEMAC)	94.0	89.7	104.1	116.0
Common Market for Eastern and Southern Africa (COMESA)	823.2	860.5	958.8	1040.2
East African Community (EAC)	218.1	223.3	242.2	259.8
Economic Community of Central African States (ECCAS)	242.7	210.5	250.7	321.7
Economic Community of West African States (ECOWAS)	677.7	667.5	707.9	784.0
Southern African Customs Union (SACU)	423.8	366.9	455.3	464.8
Southern African Development Community (SADC)	723.3	631.8	766.8	854.1
West African Economic and Monetary Union (WAEMU)	151.2	159.3	178.1	184.7
Africa	**2487.5**	**2403.6**	**2703.2**	**2973.0**
World	**87536.3**	**85238.6**	**96292.6**	**103867.1**

Note: [e]-Estimate; [f]-Forecast

Source: IMF, World Economic Outlook, April 2022; IMF Data Mapper April 2022, and India Exim Bank Research

The economic activity in the SADC region was constrained in 2020 by the restrictions caused by the global pandemic. The SADC region registered an average negative growth rate of 4.8 percent in 2020 compared to a growth of 1.2 percent in 2019 and a 10-year average growth rate of 2.9 percent[1]. According to the African Development Bank (AfDB)[2], the Southern African region[3] was the hardest hit African region by the pandemic. The SADC region has undergone higher contraction in real GDP as compared to the African continent which contracted by 1.6 percent in 2020 compared to a growth of 3.3 percent in 2019 **(Table 1.2)**.[4] Contraction in growth in South Africa during 2020, the largest economy in the region, had led to moderation in growth in other countries within the region which supply inputs to the industrialized economy of South Africa. Pandemic-induced effects on output have been more pronounced in countries that strongly depend on tourism (Botswana, Mauritius, Namibia, and Zimbabwe) and commodity exports. The SADC region witnessed an estimated GDP growth of 4 percent in 2021, as South Africa's economy posted strong growth of nearly 5 percent, the highest since 2007, reflecting large fiscal stimuli. Growth in the region is projected to moderate in 2022 as the effects of these stimuli fade out, especially in South Africa, which is projected to post 2.3 percent growth. Botswana, with 12.5 percent growth, was the top-performing economy in 2021. The recovery of growth in the region was driven largely by rising prices and global demand for metals and non-metals and by vaccination rollouts, which aided some recovery in tourism. Botswana, DR Congo, Madagascar, Mauritius, Seychelles, and Tanzania are expected to register growth above 4 percent in 2022.

The regional economic growth of SADC is estimated to increase to 3.8 percent in 2022. However, the outlook remains uncertain owing to the reoccurrences of COVID-19 waves, the slower than anticipated vaccine rollout, political unrest within the region and the Ukraine-Russia conflict.

SADC's combined GDP stood at an estimated US$ 766.8 billion in 2021. South Africa is the largest economy in the region, accounting for 54.5 percent of the region's GDP in 2021, followed by Angola (9.7 percent), Tanzania (9.2 percent), and DR Congo (7.4 percent). In 2022, SADC is estimated to contribute to 28.4 percent of Africa's GDP with the earlier mentioned four economies accounting for 81.2 percent of the total nominal GDP of the region.

In 2020, the SADC region faced elevated inflation averaging at 49 percent mainly due to inflation spiking in Zimbabwe because of increase in money supply and exchange rate fluctuations. Inflation moderated to 11.3 percent in 2021 with relative decline in inflation in Zimbabwe. The economies with double digit inflation during the same year included Angola, Zambia and Zimbabwe. Annual inflation rate in the SADC region is projected to increase by 14 percent in 2022 on account of the elevated global oil prices and geo-political conflicts leading to food price and fuel price shocks.

Average per capita GDP, at current prices, of the region increased to US$ 2,056.3 in 2021, compared to US$ 1,733.4 in 2021. DR Congo, South Africa, and Tanzania account for more than half of the total population of the SADC region.

[1] SADC Macroeconomic Statistics Bulletin November 2021 and SADC Annual Report 2021-22
[2] African Economic Outlook 2022, African Development Bank, May 2022
[3] Angola, Botswana, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, São Tomé and Príncipe, South Africa, Zambia, and Zimbabwe
[4] Africa (region) average sourced from IMF Data Mapper April 2022

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		
	2020	2021[e]	2022[f]	2020	2021[e]	2022[f]	2020	2021[e]	2022[f]	2020	2021[e]	2022[f]	2020	2021[e]	2022[f]
Angola	58.3	74.5	124.9	-5.6	0.7	3.0	22.3	25.8	23.9	1,877.3	2,330.7	3,792.8	31.0	32.0	32.9
Botswana	14.9	17.8	18.4	-8.7	12.5	4.3	1.9	6.7	8.9	6,348.8	7,416.7	7,519.2	2.4	2.4	2.5
Comoros	1.2	1.3	1.3	-0.3	2.2	3.5	0.8	1.5	5.0	1,357.3	1,405.7	1,371.0	0.9	0.9	1.0
DR Congo	48.7	57.1	64.8	1.7	5.7	6.4	11.4	9.0	6.4	536.5	609.0	669.4	90.8	93.8	96.8
Eswatini	4.0	4.7	4.6	-1.9	3.1	2.1	3.9	3.7	4.8	3,526.7	4,109.4	4,035.5	1.1	1.1	1.2
Lesotho	2.1	2.5	2.6	-6.0	2.1	3.1	5.0	6.0	6.1	999.3	1,180.5	1,212.6	2.1	2.1	2.1
Madagascar	13.1	14.2	14.6	-7.1	3.5	5.1	4.2	5.8	8.8	457.5	501.6	504.3	28.5	28.3	29.0
Malawi	11.8	12.2	12.0	0.9	2.2	2.7	8.6	9.3	10.7	567.6	567.0	545.1	20.9	21.5	22.1
Mauritius	10.9	11.1	11.3	-14.9	3.9	6.1	2.5	4.0	8.4	8,618.6	8,744.3	8,892.1	1.3	1.3	1.3
Mozambique	14.0	16.1	18.1	-1.2	2.2	3.8	3.1	5.7	8.5	448.8	500.7	546.7	31.3	32.2	33.1
Namibia	10.6	12.3	13.0	-8.5	0.9	2.8	2.2	3.6	5.5	4,239.9	4,842.2	5,016.2	2.5	2.6	2.6
Seychelles	1.2	1.5	1.8	-7.7	8.0	4.6	1.2	9.8	5.6	12,362.3	14,931.1	17,693.0	0.1	0.1	0.1
South Africa	335.3	418.0	426.2	-6.3	4.9	2.3	3.3	4.5	5.7	5,624.5	6,950.4	6,979.4	59.6	60.1	61.1
Tanzania	64.4	70.3	77.5	4.8	4.9	4.8	3.3	3.7	4.4	1,110.4	1,176.6	1,260.1	58.0	59.7	61.5
Zambia	18.1	20.8	26.7	-2.8	4.3	3.1	15.7	20.5	15.7	959.1	1,066.7	1,330.4	18.9	19.5	20.0
Zimbabwe	23.1	32.6	36.4	-5.3	6.3	3.5	557.2	98.5	86.7	1,523.8	2,102.2	2,300.6	15.2	15.5	15.8
SADC	**631.8**	**766.8**	**854.1**	**-4.8**	**4.0**	**3.8**	**49.0**	**11.3**	**14.0**	**1,733.4**	**2,056.3**	**2,230.6**	**364.5**	**372.9**	**382.9**

Note: [e]-Estimates; [f]-Forecast

Source: IMF, World Economic Outlook, April 2022, and July 2022 Update; SADC Annual Report, and India Exim Bank Research

The SADC region has great economic potential, both in terms of domestic production and regional and international trade. It is one of the world's most mineral-rich regions, endowed with numerous non-renewable resources such as coal, crude oil, natural gas and minerals. Southern Africa also 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.[5] South Africa accounts for approximately 30 percent of the world's manganese reserves and is also the largest producer of manganese globally.[6]

South Africa remains a major source of critical minerals including chromium, palladium, and platinum, whereas DR Congo has the largest reserves of cobalt and tantalum.[7] Chromium is consumed in the form of ferrochromium to produce stainless steel. South Africa is the leading chromite ore producer. Large graphite deposits are available in Madagascar, northern Mozambique, Namibia, and south-central Tanzania. Botswana is the largest producer of diamonds globally. The relocation of Diamond Trading Company from London to Botswana has facilitated opportunities along the diamond value chain.

Lithium consumption for batteries has increased significantly in recent years (74 percent of total usage). Rechargeable lithium batteries are used extensively in the growing market for electric vehicles and portable electronic devices, and are increasingly being used in electric tools, and grid storage applications (14 percent). Lithium minerals are used directly as ore concentrates in ceramics and glass applications. Mineral-based lithium sources are found in various stages of development in DR Congo, Namibia, and Zimbabwe. Angola is the third-largest crude oil exporter in Africa and the eleventh largest in the world. Namibia has significant

[5] United States Geological Survey (USGS) (2022). U.S. Geological Survey, Mineral Commodity Summaries 2022, Reston, Virginia
[6] Mineral Council, South Africa (2018). Facts and Figures 2018, Johannesburg, South Africa
[7] Mineral Commodities Summary 2022, U.S. Geological Survey

uranium mines capable of providing over 10 percent of world mining output. Namibia is ranked as the 3rd largest uranium producer in the world in 2021 (**Table 1.3**).[8]

Table 1.3: Major Mineral Resources of SADC Countries

Country	Mineral Resources
Angola	Petroleum, Diamonds (Industrial) and Gemstones
Botswana	Diamonds (Industrial), Gemstones and Soda Ash
Comoros	-
DR Congo	Petroleum, Diamond (Industrial), Cobalt, Copper, Gemstones, Lithium, Niobium, Tantalum and Tin
Eswatini	-
Lesotho	Gemstones
Madagascar	Beryllium, Cobalt, Graphite, Mica, Rare Earths, Scandium, Titanium, Thorium, Zirconium and Hafnium
Malawi	Titanium
Mauritius	-
Mozambique	Natural Gas, Beryllium, Graphite, Niobium, Tantalum, Thorium, Titanium Mineral Concentrates, Zirconium and Hafnium
Namibia	Cesium, Gemstones, Graphite, Lithium, Rubidium, Uranium and Wollastonite
Seychelles	-
South Africa	Abrasives, Antimony, Chromium, Diamond (Industrial), Fluorspar, Garnet (Industrial), Gemstones, Gold, Iron Ore, Iron Oxide Pigments, Kyanite and Related Minerals, Lime, Manganese, Phosphate, Platinum Group Metals, Rare Earths, Sand and Gravel, Scandium, Sulfur, Talc and Pyrophyllite, Tellurium, Thorium, Titanium, Vanadium, Vermiculite, Wollastonite, Zirconium and Hafnium
Tanzania	Gemstones, Gold, Graphite, Pumice and Pumicite, Rare Earths, Titanium, Zirconium, and Hafnium
Zambia	Cobalt, Copper, and Rubidium
Zimbabwe	Asbestos, Cesium, Diamond (Industrial), Gemstones, Lithium, Platinum Group Metals, Rubidium and Vermiculite

Source: U.S. Geological Survey and India Exim Bank Research

Service sector (including construction, wholesale & retail trade, restaurants, and hotels along with other services) represented more than half of SADC's gross value added (GVA) in 2020 and is the main driver of the region's growth (**Table 1.4**). In countries such as Comoros, Mozambique, Tanzania, Madagascar, and Malawi, agriculture accounted for more than 20 percent of the GVA, while mining and utilities account for a major share of economic value added in countries like Angola, DR Congo, Lesotho, and Zambia. Eswatini and DR Congo have a strong manufacturing sector. Eswatini is one of the world's 'top 5' low cost sugar producers.

[8] Data for 2021, sourced from ITC Trademap, derived from UN Comtrade

Table 1.4: Value Added by Economic Activity (Percentage Distribution)

SADC Countries	Agriculture*	Mining, Manufacturing, Utilities		Construction	Wholesale & retail trade, restaurants, and hotels	Transport, storage, and communication	Other Activities
		Mining & Utilities	Manufacturing				
Angola	9.9	26.9	6.8	13.1	20.4	3.7	19.3
Botswana	2.4	14.2	6.0	7.5	20.7	6.4	42.7
Comoros	38.1	1.2	6.7	0.9	19.8	6.5	26.9
DR Congo	21.6	19.7	19.6	1.4	14.1	9.3	14.4
Eswatini	8.9	1.5	31.0	3.0	15.9	4.9	34.7
Lesotho	5.2	20.9	16.3	2.0	7.7	5.2	42.7
Madagascar	26.8	3.0	10.4	7.6	12.8	8.6	30.9
Malawi	26.7	4.1	12.8	3.3	13.7	10.5	28.9
Mauritius	3.9	2.3	12.1	4.4	15.9	10.8	50.7
Mozambique	28.8	14.0	9.1	1.3	13.4	9.9	23.4
Namibia	9.7	14.7	11.8	2.0	11.9	4.4	45.7
Seychelles	2.2	3.2	10.9	2.3	10.7	18.6	52.0
South Africa	2.7	12.2	12.9	3.2	14.8	9.0	45.3
Tanzania	28.5	7.9	9.0	15.2	10.3	9.5	19.6
Zambia	3.1	18.4	8.0	15.2	18.4	12.9	24.0
Zimbabwe	9.2	8.8	12.1	2.5	22.6	11.4	33.4

Note: Data pertain to 2020; *includes hunting, forestry, and fishing

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

Major industries in SADC countries are presented in **Table 1.5**.

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, and ship repair
Botswana	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver, livestock processing and textiles
Comoros	Fishing, tourism, and 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, and commercial ship repair
Eswatini	Coal, forestry, sugar processing, soft drink concentrates, textiles, and apparel
Lesotho	Food, beverages, textiles, apparel assembly, handicrafts, construction, and tourism
Madagascar	Meat processing, seafood, soap, beer, leather, sugar, textiles, glassware, cement, automobile assembly plant, paper, petroleum, tourism, and mining

Country	Major Industries
Malawi	Tobacco, tea, sugar, sawmill products, cement, and consumer goods
Mauritius	Food processing (largely sugar milling), textiles, clothing, mining, chemicals, metal products, transport equipment, non-electrical machinery, and tourism
Mozambique	Aluminum, petroleum products, chemicals (fertilizer, soap, paints), textiles, cement, glass, asbestos, tobacco, food, and beverages
Namibia	Meatpacking, fish processing, dairy products, pasta, beverages, and mining (diamonds, lead, zinc, tin, silver, tungsten, uranium, copper)
Seychelles	Fishing, tourism, and beverages
South Africa	Mining (world's largest producer of platinum, gold, chromium), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs, and 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, and fertilizer
Zambia	Copper mining and processing, emerald mining, construction, foodstuffs, beverages, chemicals, textiles, fertilizer, and 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, and beverages

Source: Central Intelligence Agency (CIA) and India Exim Bank Research

SADC aims to build on a strong industrialized and integrated region, with increased intraregional trade and greater interlinkages between the markets of the 16 SADC member countries. In this regard, Pillar I of the Regional Indicative Strategic Development Plan (RISDP) 2020-2030 on Industrial Development and Market Integration is directed towards realizing an industrialized regional economy that utilizes its natural resources sustainably. Industrial development focusing on the priority sectors of agro-processing, mineral beneficiation and pharmaceuticals is prioritized, alongside enhancing regional technological capability and capacity through science, technology, and innovation. As part of the industrialization agenda, SADC has begun the process of identifying potential value chains in the region, focusing on leveraging individual and regional strengths for optimal benefits from both regional and global value chains perspectives. To encourage the creation of regional value chains and participation in global processes, SADC has identified six priority areas where the value chains are being established. These areas include agro-processing, minerals beneficiation, pharmaceuticals, consumer goods, capital goods, and services.

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 by the participating member countries (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-members.[9] While the minimum conditions were met, maximum tariff liberalisation was only attained by January 2012, when the tariff phase down process for sensitive products was completed. 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 Communities (REC) recognized by the African Union (AU) for continental economic integration.[10] SADC has taken an important step towards enhancing seamless flow of intra-regional trade following the launch of the electronic Certificate of Origin (e-CoO) on September 7, 2022, under the theme, enhancing trade facilitation through the SADC Electronic Certificate of Origin. The recently launched e-CoO is intended to address the challenges encountered with the use of manual Certificate of Origin by simplifying customs procedures, enhancing e-commerce, eliminating fraud, improving record management and statistical data, reducing cross-border certificate verification time as well as reducing the cost of doing business.

The member countries of Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and SADC agreed to negotiate a Tripartite Free Trade Area (TFTA) in October 2008. The Tripartite FTA was launched on June 10, 2015, and brings together 29 countries that are members of COMESA, EAC and SADC. These countries represent 53 percent of the African Union membership and over 60 percent of Africa's GDP. The objective of the COMESA-EAC-SADC Tripartite group is to strengthen economic integration of the southern and eastern Africa region through joint planning, design, coordination, and implementation of policies and programmes across the three blocs. The focus areas are trade, customs and infrastructure development, and industrialisation. It also provides a platform to address the overlapping memberships of

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

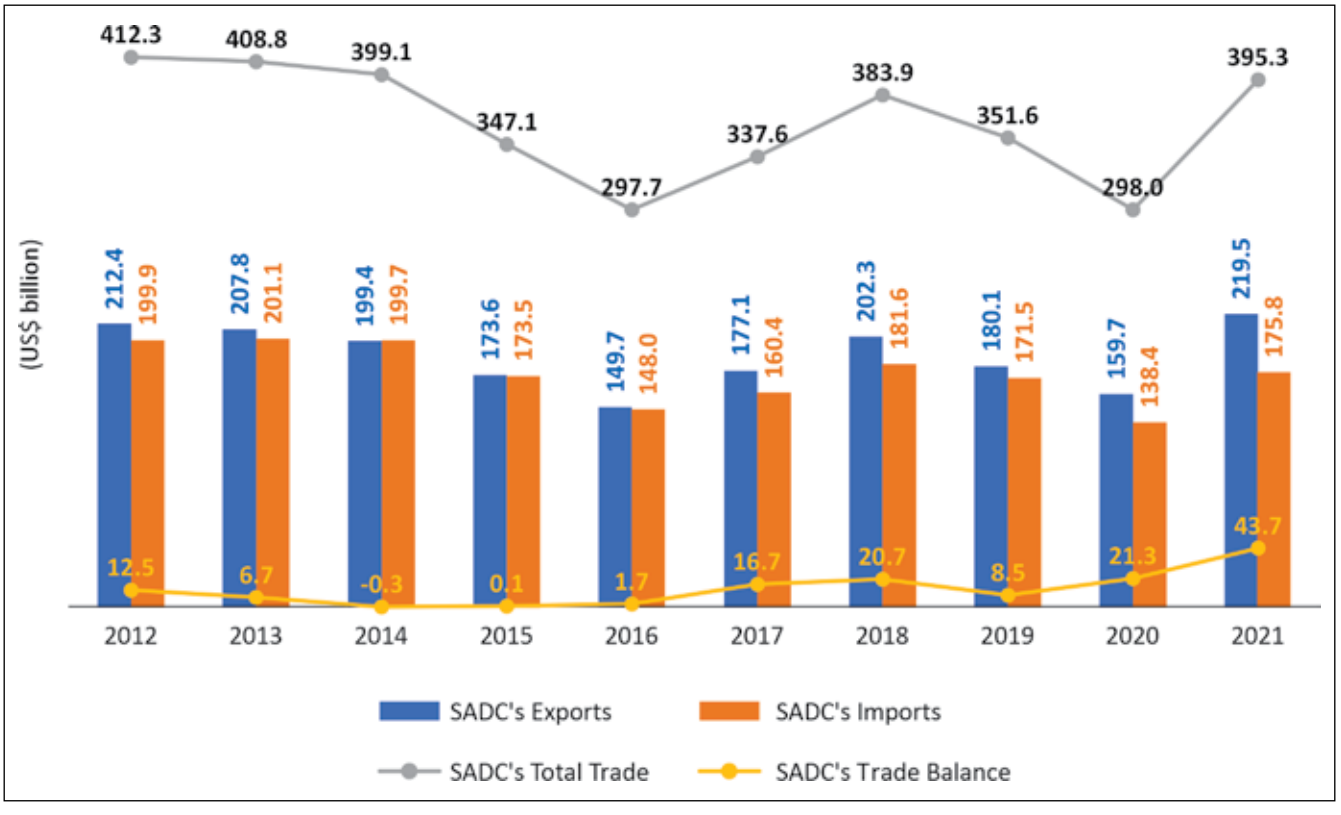
[10] Other RECs recognized by AU include Arab Maghreb Union (UMA); Common Market for Eastern and Southern Africa (COMESA); Community of Sahel–Saharan States (CEN–SAD); East African Community (EAC); Economic Community of Central African States (ECCAS); Economic Community of West African States (ECOWAS); 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

countries to the three organizations. The TFTA is yet to come in force as the process of ratification is still in progress.

Merchandise Trade of SADC

During 2012-2021, SADC's trade has had a wavering trend as the region's trade is significantly influenced by international commodity prices. SADC's global exports growth during the last decade has been sluggish, growing at an annual average growth rate (AAGR) of 1.6 percent, with exports reaching the highest level in 2021 at US$ 219.5 billion **(Chart 2.1).** Imports have declined in 2021 when compared to 2012 and stood at US$ 175.8 billion. Trade surplus has widened in 2021 resulting from higher exports growth. SADC's share in global trade has contracted from 1.1 percent in 2012 to 0.9 percent in 2021, but remained as an average at 1 percent.

Chart 2.1: SADC's Foreign Trade



Source: ITC Trademap, derived from UN Comtrade and India Exim Bank Research

SADC - Exports

Major Exporters

SADC's share in Africa's exports stood at 42 percent in 2021 and 1 percent in world exports. South Africa and Angola are the largest exporters among SADC countries, together accounting for 71.8 percent of the region's total exports in 2021. Other major exporters from SADC include DR Congo, Zambia, and Tanzania **(Table 2.1)**.

Table 2.1: SADC - Major Exporters

	2019 (US$ billion)	2020 (US$ billion)	2021 (US$ billion)	Share in SADC's Global Exports in 2021	Share in Africa's Exports in 2021	Share in Global Exports in 2021
SADC	**180.1**	**159.7**	**219.5**	**100.0%**	**42.0%**	**1.0%**
South Africa	90.4	85.7	123.7	56.4%	23.7%	0.6%
Angola	34.8	21.0	33.7	15.4%	6.5%	0.2%
DR Congo	13.4	14.1	16.1	7.3%	3.1%	0.1%
Zambia	7.0	8.1	11.2	5.1%	2.1%	0.1%
Tanzania	4.9	6.0	6.4	2.9%	1.2%	-
Zimbabwe	4.3	4.4	6.0	2.7%	1.2%	-
Mozambique	4.7	3.5	5.1	2.3%	1.0%	-
Namibia	6.4	5.4	4.2	1.9%	0.8%	-
Botswana	5.2	4.3	3.8	1.7%	0.7%	-
Madagascar	2.6	2.0	2.7	1.2%	0.5%	-
Eswatini	2.0	1.8	2.1	0.9%	0.4%	-
Mauritius	1.9	1.5	1.7	0.8%	0.3%	-
Lesotho	0.6	0.8	1.0	0.5%	0.2%	-
Malawi	0.9	0.8	1.0	0.4%	0.2%	-
Seychelles	0.8	0.3	0.7	0.3%	0.1%	-
Comoros	0.1	0.02	0.03	-	-	-

Note: "- " Nil/Negligible; Total exports by Africa in 2021 was US$ 522.0 billion.

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

Export Items

Pearls, precious stones, and metals were the largest category of products exported from SADC in 2021. This mainly includes platinum, including palladium, rhodium, iridium, osmium, and ruthenium (HS-7110); gold, including gold plated with platinum (HS-7108) and diamonds, whether or not worked (HS-7102). South Africa accounted for 75.2 percent of SADC's exports of pearls, precious stones and metals, followed by Botswana (7.1 percent). The region accounted for 5.7 percent of the world exports of pearls, precious stones, and metals in 2021.

The second most exported commodities were mineral fuels and oils, mainly composed of petroleum oil (crude) (HS-2709), coal (HS-2701), and petroleum gas and gaseous hydrocarbons (HS-2711). Within the region, major exporters of mineral fuels include Angola (69.7 percent), South Africa (22.6 percent) and Mozambique (4.8 percent). SADC accounted for 1.9 percent of the world exports of mineral fuels in 2021.

As evident from **Table 2.2**, SADC accounts for a major share of Africa's mineral and metal exports. The region also accounts for considerable manufacturing exports of the continent like machinery, electrical equipment, and vehicles, mainly due to the industrial base of South Africa.

Table 2.2: SADC - Major Export Items

HS Code	Product	Exports in 2021 (US$ billion)	Share in SADC's Exports	Share in Africa's Exports	Share in Global Exports	Major Exporters
	All products	**219.5**	**100.0%**	**42.0%**	**1.0%**	**-**
71	Pearls, precious stones, and metals	46.4	21.2%	73.3%	5.7%	South Africa, Botswana, Tanzania, Zimbabwe, Angola
27	Mineral fuels, mineral oils and products of distillation	45.6	20.8%	24.1%	1.9%	Angola, South Africa, Mozambique, DR Congo, Zambia
26	Ores, slag and ash	21.8	9.9%	66.6%	5.7%	South Africa, DR Congo, Zimbabwe, Mozambique, Madagascar
74	Copper and articles	19.3	8.8%	93.4%	9.0%	DR Congo, Zambia, South Africa, Namibia, Mauritius
87	Vehicles other than railway or tramway	10.8	4.9%	64.2%	0.7%	South Africa, Tanzania, Zambia, Botswana, Mozambique
72	Iron and steel	7.1	3.2%	62.4%	1.3%	South Africa, Zimbabwe, Zambia, DR Congo, Tanzania
84	Machinery and mechanical appliances	7.0	3.2%	77.3%	0.3%	South Africa, Zambia, Angola, Tanzania, Mozambique
08	Edible fruit and nuts	4.9	2.2%	43.1%	3.4%	South Africa, Tanzania, Mozambique, Namibia, Zimbabwe
81	Other base metals	4.7	2.1%	97.0%	20.3%	DR Congo, South Africa, Madagascar, Zambia, Seychelles
76	Aluminium and articles	3.1	1.4%	64.3%	1.3%	South Africa, Mozambique, Mauritius, Tanzania, Angola
38	Miscellaneous chemical products	2.5	1.1%	84.8%	0.9%	South Africa, Eswatini, Zambia, Tanzania, Seychelles
75	Nickel and articles	2.4	1.1%	99.7%	8.7%	Zimbabwe, South Africa, Madagascar, Angola, Mozambique
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals	2.2	1.0%	29.9%	1.4%	South Africa, Namibia, Zambia, DR Congo, Botswana
85	Electrical machinery and equipment	2.0	0.9%	14.2%	0.1%	South Africa, Botswana, Lesotho, Zambia, Namibia
24	Tobacco and manufactured tobacco substitutes	2.0	0.9%	76.7%	5.1%	Zimbabwe, Malawi, South Africa, Tanzania, Mozambique

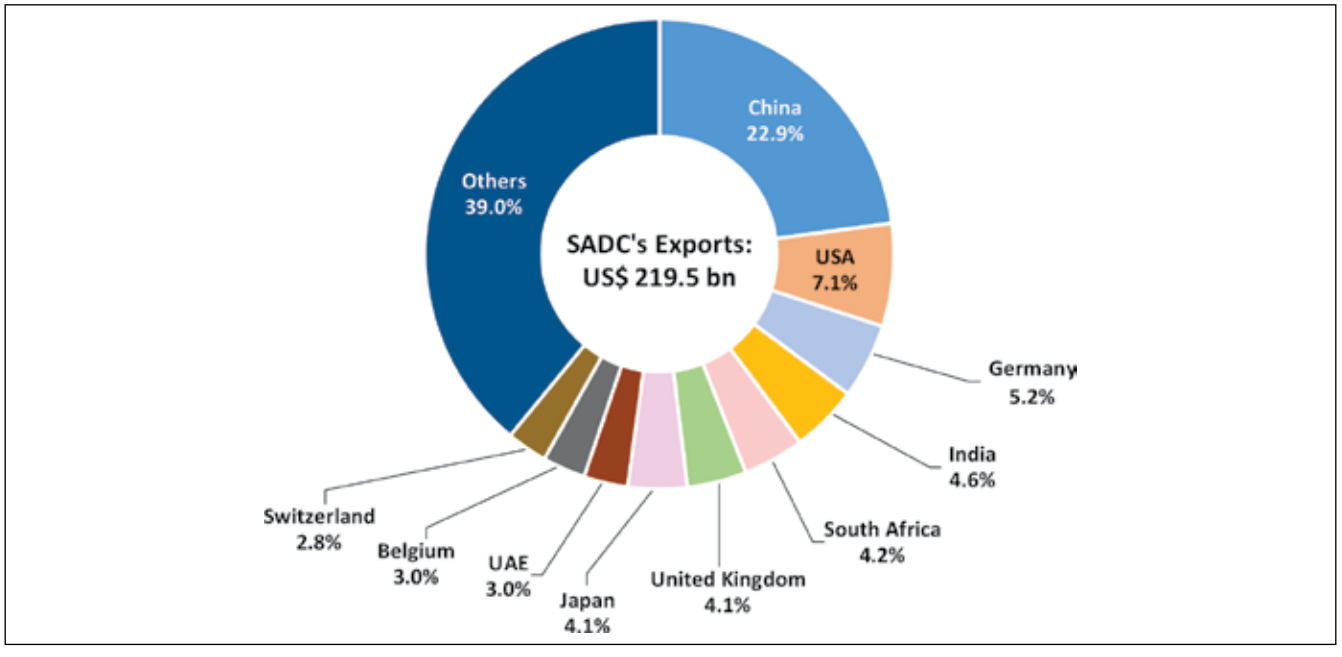
Source: ITC Trademap, derived from UN Comtrade; and India Exim Bank Research

Major Export Markets

While developed countries such as the US 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 2021, China and the US were the largest export destinations for the region, accounting for 22.9 percent and 7.1 percent of SADC's global exports, respectively. India's share in SADC's exports has decreased from 6.3 percent in 2017 to 4.6 percent in 2021. India is currently the fourth largest export destination for SADC **(Chart 2.2).**

Major suppliers to China from the SADC region include South Africa, Angola, DR Congo, Zambia, Mozambique, and Zimbabwe, while major suppliers to the US in 2021 were South Africa, Angola, and Madagascar. India's major suppliers from the region include South Africa, Angola, Tanzania, Mozambique, and Botswana.

Chart 2.2: SADC's Major Export Destinations, 2021



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

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 2.3).** Other major importers in the region include Angola, Tanzania, Mozambique, and DR Congo.

China is the largest supplier for South Africa, accounting for 20.6 percent of the country's imports in 2021, followed by Germany (8.1 percent), the US (7.1 percent), and India (5.8 percent). South Africa's imports from China mainly included electrical equipment and machinery and mechanical appliances, accounting for 24.4 percent and 21.8 percent of South Africa's imports from China, respectively in 2021. Angola's main sources of imports include China (15.1 percent of Angola's imports in 2021), Portugal (12.1 percent), and India (6.7 percent).

Table 2.3: SADC - Major Importers

	2019 (US$ billion)	2020 (US$ billion)	2021 (US$ billion)	Share in SADC's Global Imports in 2021	Share in Africa's Imports in 2021	Share in Global Imports in 2021
SADC	**171.5**	**138.4**	**175.8**	**100.0%**	**29.5%**	**0.8%**
South Africa	88.2	68.7	93.6	53.3%	15.7%	0.4%
Angola	14.2	9.3	11.4	6.5%	1.9%	0.1%
Tanzania	9.1	8.5	10.9	6.2%	1.8%	-
Mozambique	7.6	6.4	8.6	4.9%	1.4%	-
DR Congo	8.8	6.7	8.6	4.9%	1.4%	-
Zimbabwe	4.8	5.6	7.6	4.3%	1.3%	-
Zambia	7.2	5.4	7.1	4.0%	1.2%	-
Botswana	6.6	6.5	6.2	3.5%	1.0%	-
Namibia	7.7	6.6	5.9	3.3%	1.0%	-
Mauritius	5.6	4.2	5.2	2.9%	0.9%	-
Madagascar	3.9	3.2	4.4	2.5%	0.7%	-
Eswatini	1.8	1.6	2.1	1.2%	0.4%	-
Lesotho	1.4	1.5	1.6	0.9%	0.3%	-
Malawi	2.9	2.7	1.6	0.9%	0.3%	-
Seychelles	1.5	1.1	0.6	0.4%	0.1%	-
Comoros	0.2	0.3	0.4	0.3%	0.1%	-

Note: "- " Nil/Negligible

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

Major Import Items

In contrast to SADC's export basket, which is largely dominated by precious stones and metals and crude oil, SADC's imports are relatively diversified. Mineral fuels and machinery are the two largest import items, followed by electrical equipment, vehicles other than railway or tramway, pharmaceutical products, and plastics and its articles **(Table 2.4)**.

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

SADC's import of machinery and equipment, the second-largest import item of the region, were mainly from China, South Africa, the US, Germany, 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 DR Congo.

Table 2.4: SADC - Major Import Items

HS Code	Product	Imports in 2021 (US$ billion)	Share in SADC's Imports	Share in Africa's Imports	Share in Global Imports	Major Importers
	All products	**175.8**	**100.0%**	**29.5%**	**0.8%**	**-**
27	Mineral fuels, mineral oils and products of distillation	27.2	15.5%	31.2%	1.0%	South Africa, Tanzania, Angola, Mozambique, Zimbabwe
84	Machinery and mechanical appliances	20.4	11.6%	33.7%	0.8%	South Africa, Angola, DR Congo, Tanzania, Zambia
85	Electrical machinery and equipment	13.6	7.7%	31.8%	0.4%	South Africa, Angola, DR Congo, Tanzania, Mozambique
87	Vehicles other than railway or tramway	12.5	7.1%	29.8%	0.8%	South Africa, Tanzania, Angola, Zambia, DR Congo
30	Pharmaceutical products	6.3	3.6%	29.1%	0.7%	South Africa, Tanzania, Zimbabwe, DR Congo, Zambia
39	Plastics and articles	6.1	3.5%	23.8%	0.8%	South Africa, Tanzania, Angola, Zambia, DR Congo
72	Iron and steel	4.2	2.4%	22.6%	0.8%	South Africa, Tanzania, Mozambique, DR Congo, Zambia
10	Cereals	4.0	2.3%	13.7%	2.4%	South Africa, Mozambique, Angola, Madagascar, Zimbabwe
73	Articles of iron or steel	3.9	2.2%	28.8%	1.1%	South Africa, Angola, DR Congo, Mozambique, Tanzania
38	Miscellaneous chemical products	3.8	2.1%	39.4%	1.2%	South Africa, Zambia, Tanzania, Zimbabwe, Angola
90	Optical, photographic, and medical apparatus	3.5	2.0%	35.3%	0.5%	South Africa, Angola, Tanzania, DR Congo, Zambia
71	Pearls, precious stones, and metals	3.1	1.8%	61.1%	0.4%	Botswana, South Africa, Mauritius, Namibia, Zambia
15	Animal or vegetable fats and oils	2.9	1.6%	22.7%	1.9%	South Africa, Mozambique, Angola, Zimbabwe, Tanzania
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals	2.7	1.6%	45.9%	1.8%	South Africa, Mozambique, Zambia, DR Congo, Tanzania
40	Rubber and articles	2.5	1.4%	37.1%	1.1%	South Africa, Tanzania, Zambia, Angola, Zimbabwe

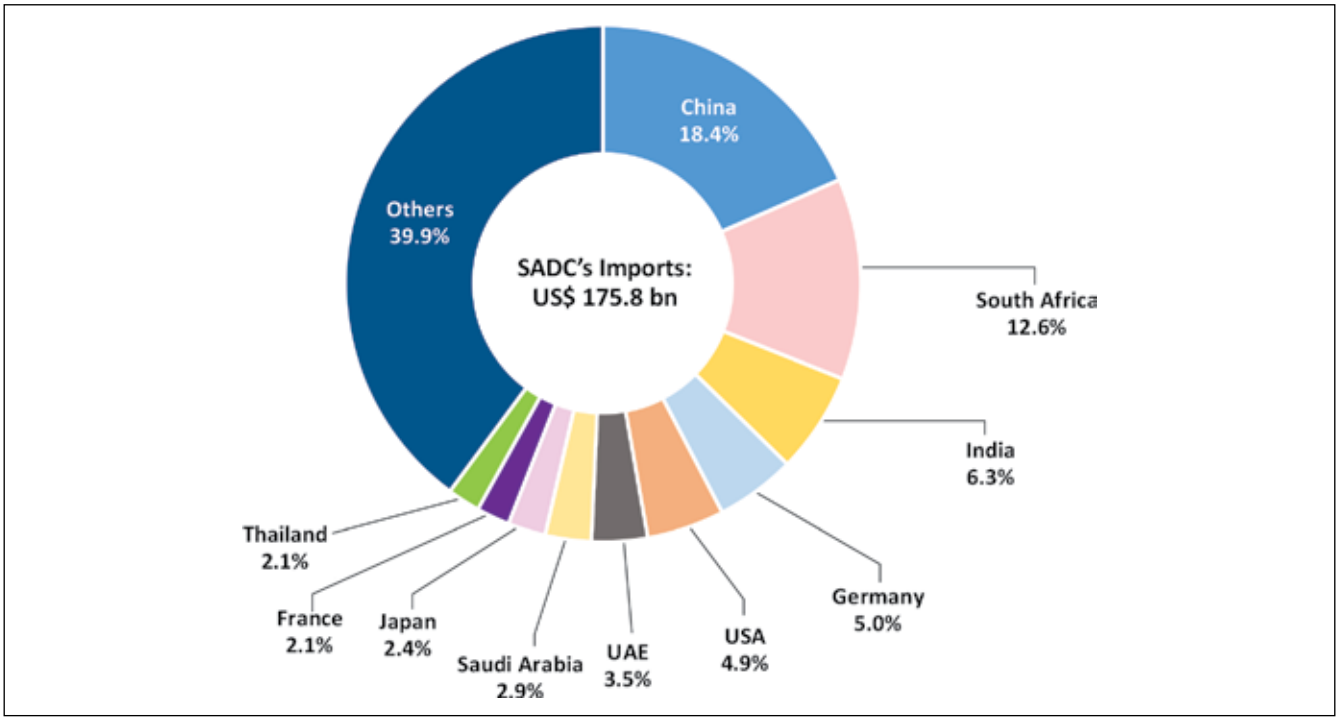
Source: ITC Trademap, derived from UN Comtrade; and India Exim Bank Research

Major Import Sources

As regards SADC's global imports, China has emerged as the leading supplier to SADC, accounting for as much as 18.4 percent of SADC's total imports in 2021, followed by South Africa (12.6 percent). India is the third-largest source for SADC's imports, accounting for 6.3 percent share in 2021 **(Chart 2.3).**

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

Chart 2.3: SADC's Major Import Sources, 2021



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

The global Special Drawing Rights (SDRs) disbursement by the IMF enhanced the stability of the external sector by bolstering foreign reserves of SADC member countries. Member countries experiencing significant current account deficits in 2021 were Malawi, Mauritius, Mozambique, and Seychelles. Forex reserves of the region are estimated at 6.2 months of import cover in 2021, up from 5.7 months of import cover in 2020, largely supported by significant foreign aid flows.

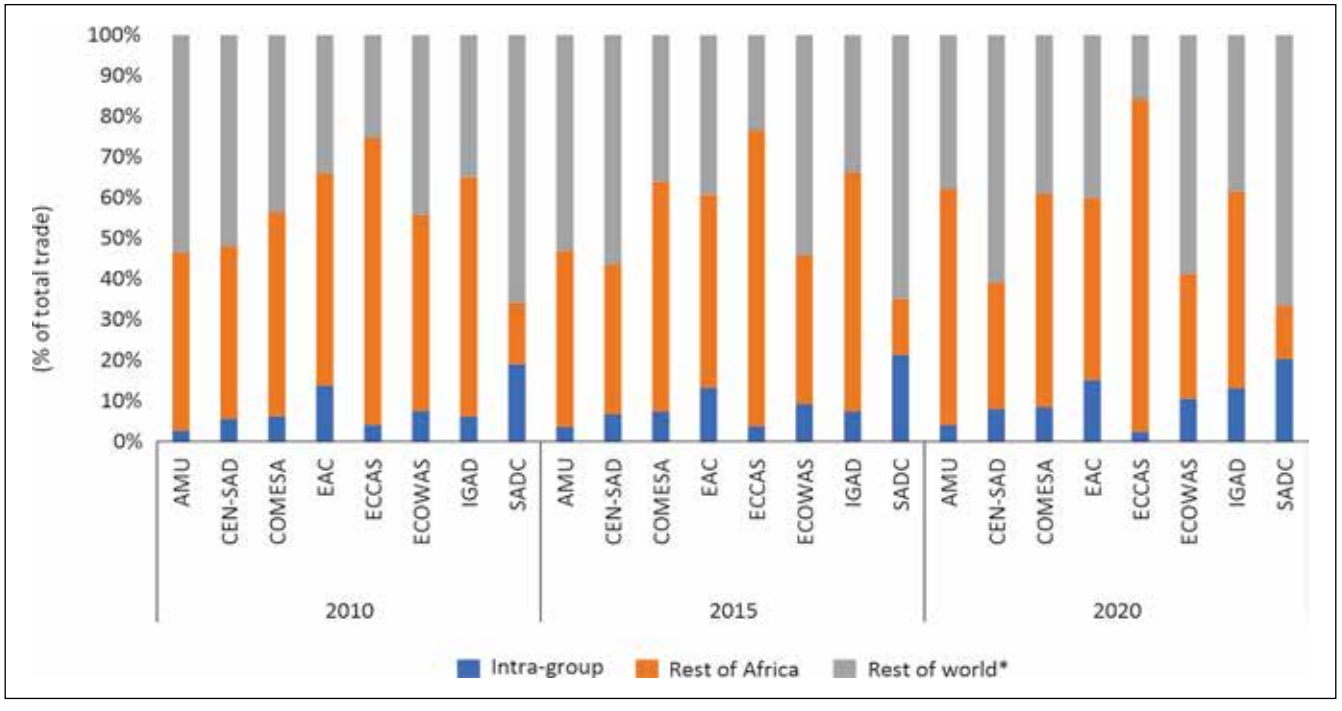
Intra-regional Trade

Despite having eight regional economic communities and four sub-regional groupings, Africa's intra-regional trade continues to remain low. According to the International Trade Centre (ITC), official trade data underestimates intra-African trade as it does not include the large share of informal cross-border trade that takes place in the continent, especially in agricultural goods and household items. Another reason for Africa's trade integration to remain low is the nature of the products traded within the continent. Africa's export

profile does not overlap with its import basket. Increasing complementarity to ensure that a larger share of African supply matches African demand would require product diversification.

According to the United Nations Conference on Trade and Development (UNCTAD), the share of SADC's intra-regional trade was the highest among all the RECs at 20.3 percent in 2020, followed by EAC accounting for 15.1 percent of intra-regional trade. **Chart 2.4** reveals that although SADC is found to be among the most integrated trade blocs among the African RECs, it trades less with the rest of Africa compared to the rest of world.

Chart 2.4: Intra-regional Trade by Select Economic Communities in Africa



Note: *Trade with Rest of world excludes Intra-African trade and Rest of Africa

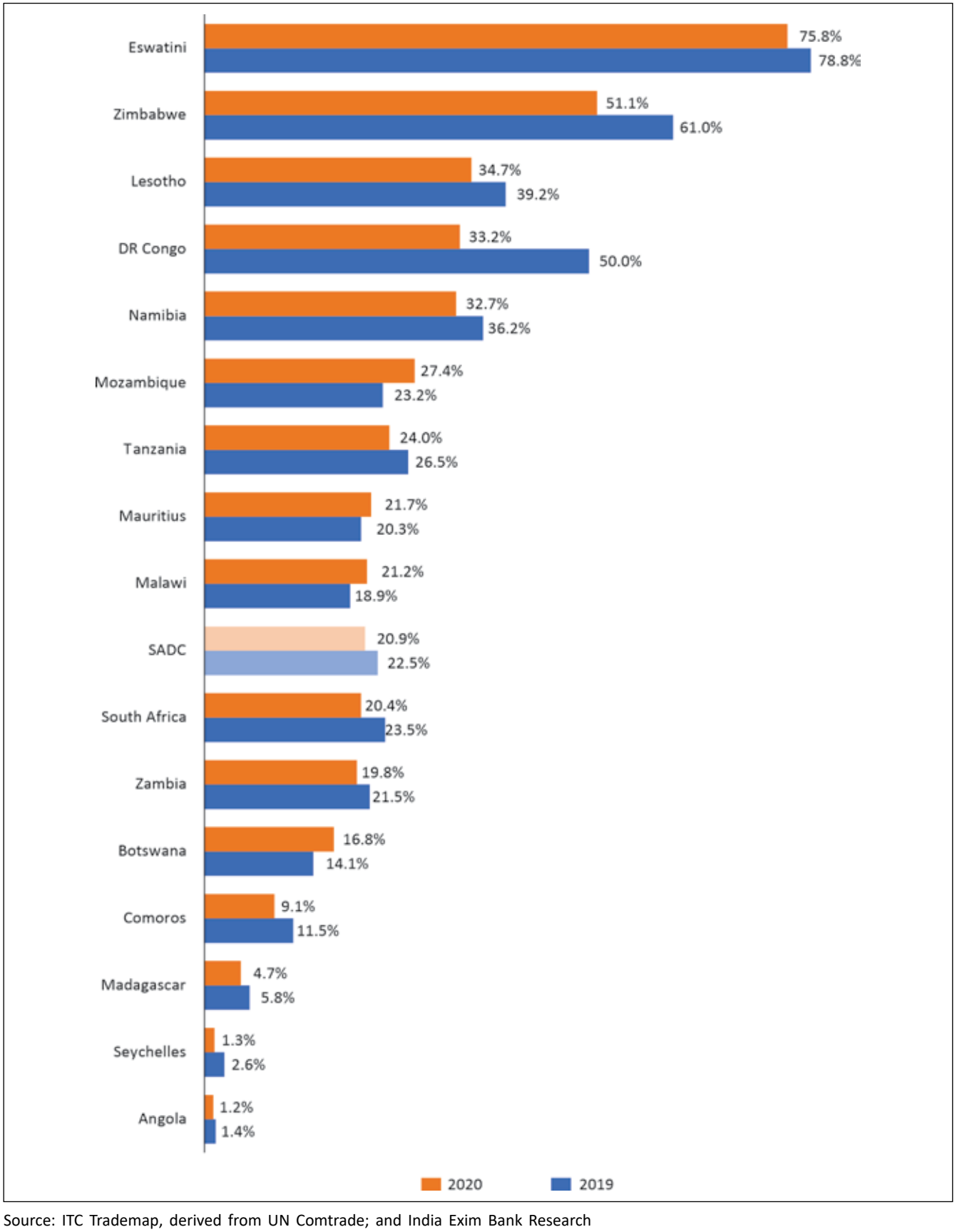
Source: UNCTADStat and India Exim Bank Research

The difference across these trading blocs reflects various economic factors leading to a difference in trade integration. The economic groups as well as the countries are at different stages of economic as well as industrial development, production processes and structures, state of political situations and implementation of agreements. As established in India Exim Bank's study [11] using WTO data, intra-African trade is characterized by trade in manufacturing whereas trade between Africa and the rest of the world is dominated by primary commodities (majority being fuel and mining products).

Chart 2.5 highlights the share of intra-regional exports of SADC countries to their total exports. It may be noted that 75.8 percent of Eswatini's exports are to SADC countries, particularly South Africa. Among the larger exporters of SADC, the share of SADC countries in South Africa's global exports was 20.4 percent in 2020, while for Angola it was a marginal 1.2 percent. Most of the SADC countries have undergone a decline in share of their intra-regional exports during 2020 as compared to 2019.

[11] India Exim Bank (2019), India-SADC Trade and Investment Relations: Harnessing the Potential, March 2019

Chart 2.5: Intra-regional Exports of SADC Countries (% of Total Exports)



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

Except for two member countries currently facing challenges in implementing their tariff commitments, all the other participating member countries are fully meeting their obligations under the SADC Free Trade Area launched in August 2008. Since 2013, intra-regional trade in SADC has been consistently above 20 percent and growing, which can be considered to be a relatively good achievement compared to the pre-FTA era high of around 16 percent. To support the free movement of services in the region, the SADC Protocol on Trade in Services entered into force on January 13, 2022, following the submission of instrument of ratification by Malawi in December 2021. Malawi's submission enabled the threshold of instruments of ratifications by two-thirds of SADC member countries set by the Protocol for its entry into force to be met. To date, eleven (11) member countries, except for Angola, Comoros, DR Congo, Madagascar, and Tanzania, have ratified the Protocol on Trade in Services. The implementation of the Protocol by all the member countries would accelerate and consolidate the achievement of a liberal trading framework for trade in services and creation of a single market for services in the SADC region.

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. Africa, as a continent, remains heavily commodity dependent. According to the latest UNCTAD report[13], commodity exports accounted for more than 75 percent of the region's merchandise exports and out of the 54 countries, 45 were commodity dependent countries. Among these 45 countries, 17 countries relied on agricultural and allied products exports, 16 on mining exports and 12 on fuel exports.

During 2018-19[14], mineral fuels and oils (majorly crude petroleum) accounted for 96 percent of Angola's total merchandise exports. Similarly, countries like Seychelles and Comoros, being small island economies, are highly dependent on fishery products. DR Congo and Zambia are heavily dependent on copper exports as revealed by **Table 2.5**. On the other hand, 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 increase economic uncertainty, while also affecting the domestic demand of the economy due to reduced income, thereby leading the country to debt distress and poverty, which is typically more observed in case of the Least Developed Countries (LDC).

[12] UNCTAD (2019). The Sate of Commodity Dependence 2019, Geneva: UN
[13] UNCTAD State of Commodity Dependence 2021
[14] Latest Data on Commodity Dependence provided by UNCTAD's State of Commodity Dependence Report 2021 is as of 2018-19

Table 2.5: Level of Commodity Dependence of SADC Countries

Development Status of the Country								
Commodity Dependent Countries	LDC	Landlocked	Country Classification on Income level				Overall Commodity Dependence	Major Commodity
			Low	Lower middle	Upper Middle	High		
Angola	■			■			96.4%	Fuels (92.7%)
Botswana		■			■		93.6%	Precious stones (91.5%)
Comoros	■			■			58.4%	Agri products (66%)
DR Congo	■		■				95.2%	Ores and metals (85.4%)
Eswatini		■		■			34.5%	Agri products (31.9%)
Lesotho	■	■		■			33.0%	Pearls & precious stones (22%)
Madagascar	■		■				73.0%	Agri products (42.4%)
Malawi	■	■	■				92.3%	Agri products (89.6%)
Mauritius					■		37.2%	Fishery products (31.4%)
Mozambique	■		■				95%	Fuels (42.6%), Ores & metals (34.5%)
Namibia					■		81.8%	Agri products (22.4%), Ores and metals (58.8%)
Seychelles						■	75.9%	Agri products (53.8%), Fuels (21.8%)
South Africa					■		57.3%	Ores and metals (34.1%)
Tanzania	■		■				73.7%	Agri products (42.4%)
Zambia	■	■		■			86.6%	Ores and metals (75.6%)
Zimbabwe		■	■				83.7%	Agri products (36%), Ores and metals (47.2%)

Note: Data for commodities pertain to 2018-2019; Agri products include fisheries; Colour Coding: Dependence on exports agricultural products (Green), dependence on fuel exports (Yellow), dependence on exports of minerals, ores and metals (Orange) and no colour implies no/less dependence.

Source: State of Commodity Dependence Report 2021, UNCTAD

Under one of the flagship projects of African Union's Agenda 2063, 'African Commodities Strategy', SADC has started initiatives to develop regional value chains in the three prioritized sectors mainly focusing on identification of potential investments projects. SADC has secured resources and support to identify potential projects in the minerals sector (copper, mining inputs, batteries/energy storage), pharmaceuticals (ARVs, anti-malaria medicines, malaria rapid test kits, malaria bed nets, hygiene products and latex consumables), and agro-processing projects.

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. 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.

FDI inflows to the SADC region stood at US$ 45.7 billion in 2021, as compared to US$ 7.3 billion in 2020 (**Table 2.6**). The year 2021 witnessed one of the highest ever levels of FDI inflows to the region. The total FDI inflows into the region was inflated by a single intra-firm financial transaction in South Africa in the second half of 2021. This involved a large corporate reconfiguration in South Africa – a share exchange between Naspers and Prosus in the third quarter of 2021. New project announcements in South Africa included a US$ 4.6 billion clean energy project finance deal sponsored by UK-based Hive Energy and a US$ 1 billion greenfield project by US-based Vantage Data Centers to build its first African campus. As a result, South Africa accounted for the highest FDI inflows within Africa.

Mozambique and DR Congo were also among the top recipients of FDI within the continent as well as the SADC region. In Mozambique, inflows grew by 68 percent to US$ 5.1 billion, with the country witnessing a jump in greenfield projects. For example, Globeleq Generation (United Kingdom) plans to build power plants for US$ 2 billion in the country. FDI to DR Congo rose by 14 percent US$ 1.9 billion, with investment remaining buoyant because of flows in offshore oil fields and mining. Other projects include a facility for treatment of municipal organic waste by Biocrude Technologies (Canada) for US$ 136 million[15]. SADC accounted for 55.1 percent of Africa's FDI inflows in 2021.

FDI flows to Angola remained negative in the last six years as a result of the decline in oil production and profit repatriations by foreign parent companies, thus weighing on new investments. Zambia also witnessed negative FDI flows in 2021.

As regards, FDI outflows from the SADC region, major source countries were Mozambique, DR Congo, Madagascar, Mauritius, and Eswatini in 2021.

Table 2.6: Country-wise FDI Inflows to the SADC Region

(US$ million)

Country	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Angola	-1464.6	-7120.0	3657.5	10028.2	-179.5	-7397.3	-6456.1	-4098.5	-1866.5	-4150.1
Botswana	146.5	67.1	515.2	378.6	142.5	260.6	286.0	93.6	31.8	55.2
Comoros	10.4	4.2	4.7	4.9	3.6	3.9	5.7	3.7	3.9	4.1
DR Congo	3312.1	2098.2	1843.2	1673.5	1204.7	1340.2	1616.8	1488.1	1646.9	1870.0
Eswatini	31.5	84.7	25.5	41.3	21.4	-56.0	36.5	130.2	40.9	125.9
Lesotho	56.7	50.4	94.5	206.5	159.2	123.1	128.7	35.7	29.6	26.6
Madagascar	777.6	551.3	313.7	435.8	450.6	357.9	352.6	474.3	358.5	300.2
Malawi	80.9	88.5	387.1	509.7	116.1	90.2	959.4	55.3	45.2	50.3

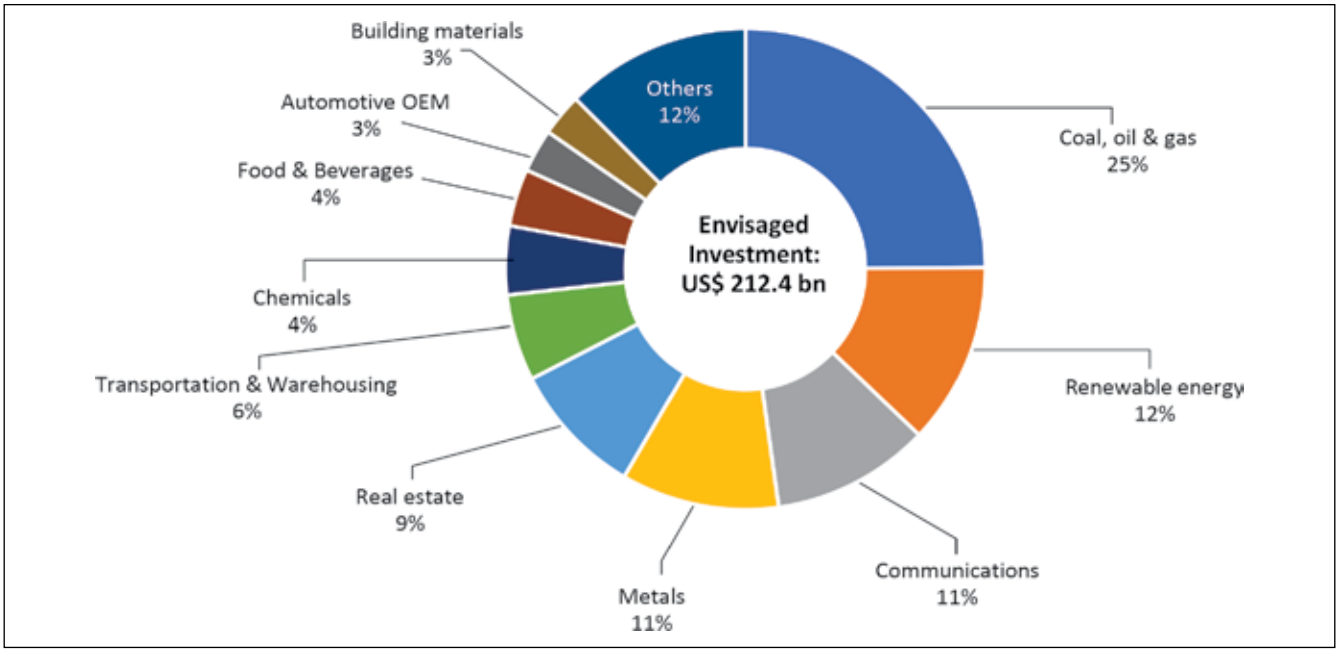
[15] World Investment Report 2022, UNCTAD

Country	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Mauritius	589.0	293.4	455.6	216.5	378.8	480.0	460.5	444.1	224.7	253.2
Mozambique	5629.4	6175.1	4901.8	3866.8	3093.4	2293.1	2703.0	2211.7	3034.6	5101.7
Namibia	1060.8	769.9	441.2	888.0	355.6	279.9	208.6	-178.9	-155.9	411.6
Seychelles	261.4	170.3	230.0	194.5	155.2	191.9	119.5	143.7	122.3	156.9
South Africa	4558.8	8300.1	5770.7	1729.4	2235.0	2008.4	5449.6	5125.0	3062.3	40888.8
Tanzania	1799.6	2087.3	1416.1	1560.8	864.0	937.7	971.6	1217.2	684.9	921.8
Zambia	1731.5	2099.8	1488.7	1304.9	662.9	1107.5	408.4	859.8	-172.8	-456.7
Zimbabwe	399.5	400.0	544.8	421.0	371.8	349.4	744.6	280.0	194.4	166.0
SADC	**18981.3**	**16120.3**	**22090.1**	**23460.4**	**10035.3**	**2370.5**	**7995.3**	**8285.0**	**7284.7**	**45725.4**
Share in Africa's FDI Inflows	*33.2%*	*31.8%*	*40.5%*	*40.5%*	*21.7%*	*5.9%*	*17.6%*	*18.1%*	*18.7%*	*55.1%*

Source: UNCTADstat; and India Exim Bank Research

Data from Financial Times, fDi Markets database has been used to understand the sectoral FDI investments in the SADC region. According to fDi Markets, total envisaged capital investment in the SADC region during 2012 to 2021 was US$ 212.4 billion. During 2012-2021, global envisaged capital investments in SADC have mainly been in coal, oil and gas, renewable energy, communications, metals, and real estate sectors, among others **(Chart 2.6)**

Chart 2.6: Major Sectors Receiving Investment in SADC during 2012-2021

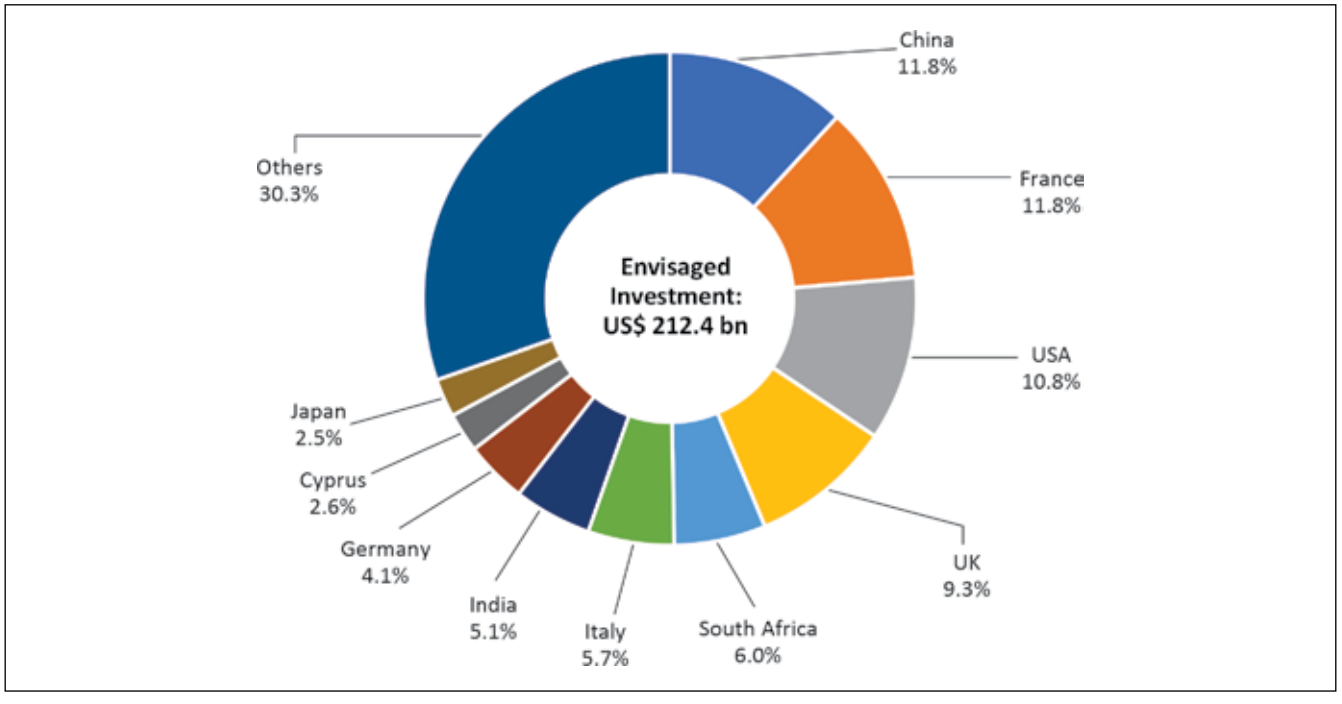


Note: fDi Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can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

Source: fDi Markets online database and India Exim Bank Research

China was the largest investor in the SADC region during 2012-2021, followed by France, the US, and UK (**Chart 2.7**). India was the seventh largest investor in the SADC region during 2012-2021, accounting for an envisaged capital investment of US$ 10.8 billion. India's major investments in the region are into coal, oil and gas which accounts for 51.9 percent of India's envisaged capital expenditure, followed by metals (17.3 percent), communications (8.8 percent), renewable energy (6.6 percent), transportation & warehousing (2.7 percent), chemicals (2.6 percent), and automotive OEMs (1.8 percent), among others.

Chart 2.7: Major Investors in SADC during 2012-2021



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 India Exim Bank Research

Recent Changes in Foreign Investment Policies Undertaken by SADC[16]

During 2021, the region focused on enhancing the business environment using effective programmes within SADC's industrialisation and market integration capacity in order to shape and improve economic activity. Angola amended the Private Investment Law to introduce several facilitation mechanisms. For instance, investors who obtain a Private Investment Registration Certificate are now exempt from obtaining provisional licenses and other authorizations from public administration bodies. Angola also introduced the Free Zones Act focused on developing the agricultural and industrial sectors, labor-intensive industries, and high-tech industries. The Act grants a range of tax incentives to companies established in the free zones.

Botswana announced that in addition to other commercial and fiscal incentives, income accruing to an investor or developer from SEZ-licensed operations is to be taxed at a special rate of 5 percent for the first 10 years of operation in a SEZ and 10 percent thereafter.

[16] World Investment Report 2022, UNCTAD

Mauritius extended the scope of restrictions on the ownership of property by noncitizens. A requirement for prior approval by the Office of the Prime Minister on holding, purchasing, or acquiring property was extended to property disposal, which includes burdening a property with a mortgage or charge.

Mozambique increased the minimum capital requirement for foreign investors to be able to freely repatriate profits and investment capital from US$ 45,000 to US$ 130,000. Namibia amended the rules regarding the transfer, cessation, and assignment of mineral licenses to foreign companies, requiring the local retention of at least 15 percent interest in the company.

South Africa introduced a new requirement under which private security companies must be at least 51 percent owned and controlled by South African citizens. Zambia reduced the general corporate income tax rate from 35 to 30 percent and extended the 15 percent corporate income tax rate for hotel income from lodging and food services through 2022. It also made the mineral royalty levy deductible for corporate income tax purposes.

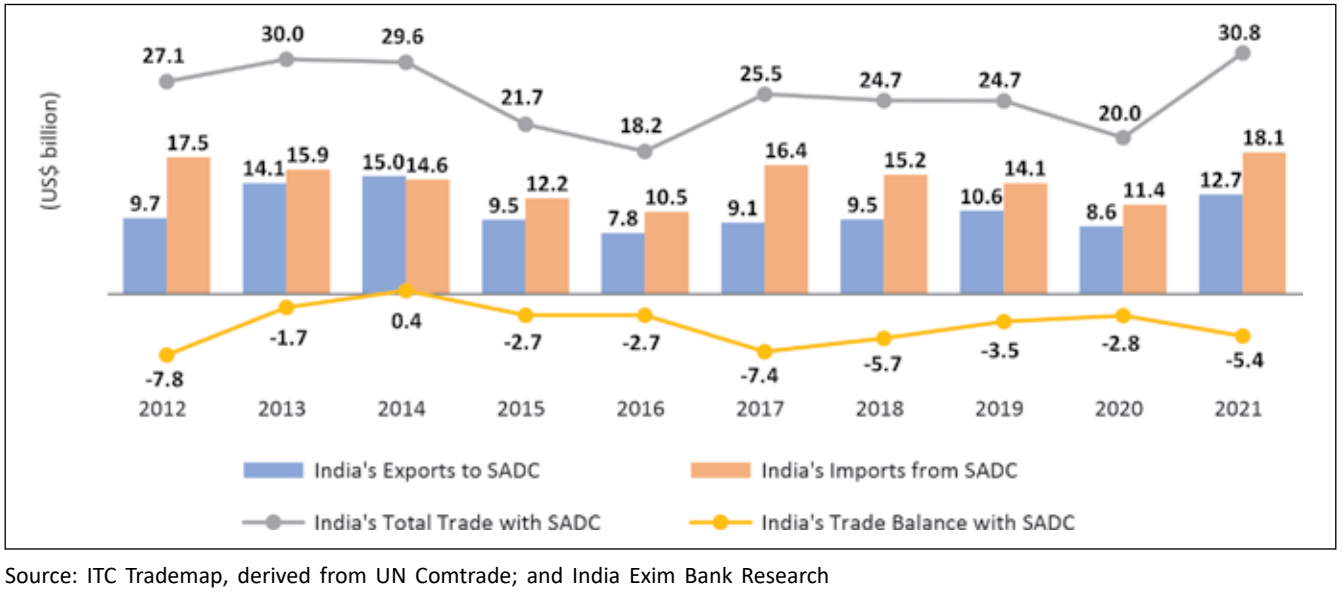
3 India's Bilateral Trade and Investment Relations with SADC Countries

Towards developing extensive economic and strategic relations with SADC member countries, the Government of India signed the Memorandum of Understanding (MOU) on economic cooperation with SADC on October 14, 1997. The broad areas of cooperation include agriculture, water resources management, human resources development, entrepreneurial development, promotion of small and medium scale industries, non-conventional energy sources, communications, commerce, banking, diplomacy, and enterprises development through private sector involvement.

As a follow up to the MOU, the first India-SADC Forum meeting was held in Windhoek, Namibia, on April 28, 2006. The Forum agreed to focus on cooperation in the sectors of trade, industry, finance, and investment; food, agriculture, and pharmaceuticals; water resource management; and information and communications technology.[17]

With the increasing diversification of India's global trade towards other developing countries, SADC has emerged as important partner for India, both as an export destination and an import source. The economic and trade linkages, which saw an expansion of trade volumes, stand testimony to the intensified economic engagement. During the last ten years, India's total trade with the SADC countries has increased from US$ 27.1 billion in 2012 to US$ 30.8 billion in 2021 **(Chart 3.1).**

Chart 3.1: India's Merchandise Trade with SADC



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

[17] Ministry of External Affairs, Government of India

While India's total exports to SADC have risen from US$ 9.7 billion in 2012 to US$ 12.7 billion in 2021, India's total imports from SADC increased from US$ 17.5 billion in 2012 to US$ 18.1 billion in 2021. India's trade balance with SADC has been in favour of SADC throughout the decade with an exception in 2014. Over the years, India's trade deficit with SADC has narrowed from US$ 7.8 billion in 2012 to US$ 5.4 billion in 2021.

The increasing importance of India as SADC's trading partner can be assessed from the fact that India accounts for a respectable 7.2 percent of SADC's global imports in 2021, as compared to 4.8 percent recorded in 2012. Further, India accounts for around 8.2 percent of SADC's total exports in 2021, depicting the importance of India as SADC's export destination. However, the share has been lower compared to 2017 when India accounted for share of 9.3 percent of SADC's global exports (**Table 3.1**).

Table 3.1: Pattern of India-SADC Merchandise Trade

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Share of SADC's Imports in India's Global Exports	3.3%	4.2%	4.7%	3.6%	3.0%	3.1%	2.9%	3.3%	3.1%	3.2%
Share of India's Exports in SADC's Global Imports	4.8%	7.0%	7.5%	5.5%	5.2%	5.7%	5.2%	6.2%	6.2%	7.2%
Share of SADC's Exports in India's Global Imports	3.6%	3.4%	3.2%	3.1%	2.9%	3.7%	3.0%	2.9%	3.1%	3.2%
Share of India's Imports in SADC's Global Exports	8.2%	7.6%	7.3%	7.0%	7.0%	9.3%	7.5%	7.8%	7.1%	8.2%

Note: Higher the value of the share, greener the cell

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

India's Major Export Items to SADC

Table 3.2 presents commodity-wise India's exports to SADC. Mineral fuels and pharmaceutical products dominate India's export basket to SADC, together accounting for 38.2 percent of India's total exports to SADC in 2021. Exports of mineral fuels witnessed a fall in 2021 as compared to 2019 while that of pharmaceutical products has increased as compared to the pre-pandemic levels. Other major items of India's exports to SADC include vehicles other than railway or tramway, ships, boats, and floating structures, machinery and mechanical appliances, cereals, and electrical and electronic equipment.

Table 3.2: India's Major Export Items to SADC

HS Code	Product	2019 (US$ billion)	2020 (US$ billion)	2021 (US$ billion)	Share in India's Exports to SADC in 2021 (%)	Share of India in SADC's Global Imports in 2021 (%)	Share of SADC in India's Global Exports in 2021 (%)
	All products	**10.6**	**8.6**	**12.7**	**100.0**	**7.2**	**3.2**
27	Mineral fuels, mineral oils, and products of distillation	3.4	2.3	3.1	24.6	11.5	5.5
30	Pharmaceutical products	1.4	1.7	1.7	13.6	27.3	8.9
87	Vehicles other than railway or tramway	1.3	0.9	1.6	12.4	12.6	8.3
89	Ships, boats, and floating structures	-	-	0.8	6.3	67.2	18.7
84	Machinery and mechanical appliances	0.5	0.4	0.6	5.0	3.1	2.6
10	Cereals	0.2	0.4	0.5	4.0	12.7	4.1
85	Electrical machinery and equipment	0.5	0.3	0.4	3.3	3.1	2.2
72	Iron and steel	0.1	0.1	0.4	3.0	9.1	1.8
39	Plastics and articles	0.3	0.3	0.3	2.7	5.5	4.0
71	Pearls, precious stones, and metals	0.2	0.1	0.3	2.6	10.5	0.9

Note: - Negligible or not available

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

The importance of India as a source for SADC's imports of pharmaceutical products can be gauged from the fact that India accounts for 27.3 percent of SADC's global imports of pharmaceutical products in 2021. There has been a tremendous increase in demand of pharmaceutical products in the region in recent times. Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic use (HS-3004) are the main items in India's export basket of pharmaceuticals to SADC. The largest markets in the region are South Africa, Tanzania, Malawi, and Zimbabwe. Likewise, India has also emerged as an important source for SADC's imports of cotton, accounting for 22.8 percent of SADC's global imports in 2021.

India's Major Export Destinations in SADC

South Africa is India's largest export destination in SADC, accounting for around 47.2 percent of India's total exports to the region in 2021 **(Table 3.3)**. Other major export markets in SADC include Mozambique, Tanzania, and Mauritius.

South Africa is the leading market in Africa and SADC for India's exports of vehicles, mineral fuels, oils and its products, ships, boats and floating structures, and pharmaceutical products.

Mozambique is the second largest export destination for India within SADC, however, exports to the country has decreased as compared to pre-pandemic levels. India's exports to Mozambique mainly include refined petroleum, pharmaceutical products, and cereals.

Tanzania is India's third-largest export market in SADC, with a share of 13.3 percent in India's total exports to SADC in 2021, with major exports being mineral fuels, pharmaceutical products, machinery, and vehicles. The above mentioned three countries accounted for 75 percent of India's exports to the SADC region in 2021. Mauritius, despite signing an CEPA with India, accounted for 5.9 percent of India's exports to the SADC region in 2021.

Table 3.3: Destination-wise Indian Exports to SADC

Importers	2019 (US$ billion)	2020 (US$ billion)	2021 (US$ billion)	Share in India's Exports to SADC in 2021 (%)	Share in India's Global Exports in 2021 (%)	Share of India in SADC's Global Imports in 2021 (%)
SADC	**10.6**	**8.6**	**12.7**	**100.0**	**3.2**	**7.2**
South Africa	4.0	3.5	6.0	47.2	1.5	3.4
Mozambique	2.1	1.4	1.8	14.5	0.5	1.0
Tanzania	1.7	1.4	1.7	13.3	0.4	1.0
Mauritius	0.8	0.4	0.7	5.9	0.2	0.4
DR Congo	0.4	0.4	0.6	4.5	0.1	0.3
Angola	0.3	0.2	0.4	3.2	0.1	0.2
Zambia	0.3	0.3	0.3	2.6	0.1	0.2
Madagascar	0.3	0.3	0.3	2.3	0.1	0.2
Botswana	0.2	0.1	0.3	2.1	0.1	0.2
Zimbabwe	0.2	0.2	0.2	1.5	-	0.1
Malawi	0.2	0.2	0.2	1.2	-	0.1
Namibia	0.1	-	0.1	0.9	-	0.1
Seychelles	0.1	0.1	-	0.3	-	-
Eswatini	-	-	-	0.2	-	-
Comoros	-	-	-	0.2	-	-
Lesotho	-	-	-	0.1	-	-

Note: - Negligible or not available

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

India's Major Import Items from SADC

India's imports from SADC were largely dominated by pearls, precious stones, and metals, followed by mineral fuels, oils and its products, together accounting for 72 percent of imports from the region in 2021 **(Table 3.4)**

Copper and articles are the third-largest items in India's import basket from the region. SADC accounted for 25.8 percent of India's global copper imports as well as imports of edible vegetables and certain roots, and 35.3 percent of India's imports of oil seeds and oleaginous fruits in 2021.

Table 3.4: India's Major Import Items from SADC

HS Code	Product	2019 (US$ billion)	2020 (US$ billion)	2021 (US$ billion)	Share in India's Imports from SADC in 2021 (%)	India's Share in SADC's Global Exports in 2021 (%)	Share of SADC in India's Global Imports in 2021 (%)
	All products	**14.1**	**11.4**	**18.1**	**100.0**	**8.2**	**3.2**
71	Pearls, precious stones, and metals	3.9	2.7	6.7	37.1	14.4	7.6
27	Mineral fuels, mineral oil, and products of distillation	7.2	4.7	6.3	34.9	13.8	3.7
74	Copper and articles	0.7	1.0	1.7	9.6	9.0	25.8
26	Ores, slag, and ash	0.5	0.3	0.7	3.6	3.0	13.1
07	Edible vegetables and certain roots	0.3	0.3	0.5	3.0	66.3	25.8
89	Ships, boats, and floating structures	0.2	0.9	0.4	2.2	79.8	8.4
12	Oil seeds and oleaginous fruits	-	-	0.3	1.6	33.8	35.3
47	Pulp of wood or of other fibrous cellulosic material	0.1	0.1	0.3	1.6	31.6	9.1
72	Iron and steel	0.3	0.2	0.2	0.8	2.2	1.3
08	Edible fruit and nuts	0.1	0.3	0.1	0.7	2.7	3.7

Note: - Negligible or not available

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

Within the pearls, precious stones and metals category, the major imports by India were gold (HS-7108) at US$ 4.9 billion, followed by diamonds (HS-7102) at US$ 1.6 billion. Within the mineral fuels, oil and products of distillation category, highest imports were of coal (HS-2701) at US$ 3.4 billion during 2021, followed by crude petroleum (HS-2709) amounting to US$ 2.3 billion and hydrocarbons (HS-2711) of US$ 630 million. Angola and South Africa were major sources for India's imports of petroleum crude, whereas South Africa and Mozambique were major sources of India's coal imports.

The region is also a major source for India's imports of unwrought gold (HS-7108) and diamonds (HS-7102). South Africa is the largest source for India's imports of pearls and precious stones from SADC as well as Africa, followed by Botswana and Tanzania.

India's Major Import Sources in Africa

South Africa is India's largest import source in SADC, followed by Angola, Tanzania, Mozambique, Botswana, Eswatini, and Zambia **(Table 3.5)**. South Africa is a major supplier of unwrought gold, coal, non-industrial diamonds, copper, and petroleum crude to India. Angola is an important source for India's global imports of crude petroleum, while Tanzania remains an important supplier of copper, gold, and dried and shelled pigeon peas.

Table 3.5: Country-wise India's Imports from SADC

	2019 (US$ million)	2020 (US$ million)	2021 (US$ million)	Share in India's Imports from SADC in 2021 (%)	Share in India's Global Imports in 2021 (%)	Share of India in SADC's Global Exports in 2021 (%)
SADC	**14,109.1**	**11,360.1**	**18,091.1**	**100.0**	**3.2**	**8.2**
South Africa	6634.5	6673.1	11070.7	61.2	1.9	5.0
Angola	3799.6	2022.4	2315.9	12.8	0.4	1.1
Tanzania	859.5	912.7	1885.1	10.4	0.3	0.9
Mozambique	856.7	711.6	1436.7	7.9	0.3	0.7
Botswana	782.2	469.0	601.1	3.3	0.1	0.3
Eswatini	7.7	5.7	284.1	1.6	-	0.1
Zambia	745.9	342.3	130.9	0.7	-	0.1
Madagascar	272.5	109.3	112.3	0.6	-	0.1
Malawi	36.5	4.5	100.7	0.6	-	-
Mauritius	26.7	37.1	66.7	0.4	-	-
Namibia	22.7	32.4	48.2	0.3	-	-
DR Congo	29.0	14.8	15.3	0.1	-	-
Comoros	18.9	19.1	13.7	0.1	-	-
Zimbabwe	12.1	2.5	5.7	-	-	-
Seychelles	4.8	3.5	3.7	-	-	-
Lesotho	-	0.1	0.1	-	-	-

Note: - Negligible or not available

Source: ITC Trademap, derived from UN COMTRADE; and India Exim Bank Research

India's major export destinations and import sources in SADC, with their respective import and export items are represented in **Tables 3.6** and **3.7**.

Table 3.6: India's Export Destinations in SADC with Share in Major Products

Country	Value in 2021 (US$ million)	HS Code	Commodity	Share in Exports to Respective Country (%)
Angola	**408.7**		**All products**	**100.0**
		10	Cereals	20.7
		30	Pharmaceutical products	17.1
		89	Ships, boats, and floating structures	9.6
		39	Plastics and articles	9.0
		84	Machinery and mechanical appliances	7.5
Botswana	**268.4**		**All products**	**100.0**
		71	Pearls, Precious Stones, metals	84.8
		30	Pharmaceutical products	7.2
		84	Machinery and equipment	3.5
		73	Articles of iron or steel	0.5
		39	Plastic and articles	0.5
Comoros	**21.2**		**All products**	**100.0**
		02	Meat and edible meat offal	20.0
		10	Cereals	18.6
		52	Cotton	11.9
		61	Articles of apparel and clothing accessories, knitted or crocheted	8.3
		62	Articles of apparel and clothing not knitted or crocheted	7.6
DR Congo	**574.8**		**All products**	**100.0**
		30	Pharmaceutical products	30.5
		87	Vehicles other than railway or tramway	21.4
		84	Machinery and equipment	6.0
		39	Cereals	5.6
		85	Electrical and electronic equipment	5.4
Eswatini	**23.8**		**All products**	**100.0**
		30	Pharmaceutical products	75.8
		29	Organic chemicals	7.5
		71	Pearls, precious stones, and metals	4.1
		84	Machinery and mechanical appliances	1.5
		90	Optical, photographic, and medical apparatus	1.4

Country	Value in 2021 (US$ million)	HS Code	Commodity	Share in Exports to Respective Country (%)
Lesotho	**16.0**		**All products**	**100.0**
		30	Pharmaceutical products	78.9
		52	Cotton	18.1
		39	Plastic articles	0.8
		90	Optical, photo, technical, medical apparatus	0.6
		24	Tobacco and manufactured tobacco substitutes	0.3
Madagascar	**296.0**		**All products**	**100.0**
		10	Cereals	50.7
		30	Pharmaceutical products	9.8
		52	Cotton	7.9
		39	Plastic and articles	3.5
		87	Vehicles other than railway or tramway	3.1
Malawi	**155.7**		**All products**	**100.0**
		30	Pharmaceutical products	48.7
		84	Machinery and mechanical appliances	13.0
		87	Vehicles other than railway or tramway	6.8
		63	Other made-up textile articles	4.4
		39	Plastic and articles	3.7
Mauritius	**745.5**		**All products**	**100.0**
		27	Mineral fuels, oil, and its products	45.4
		30	Pharmaceutical products	6.9
		52	Cotton	6.9
		87	Vehicles other than railway or tramway	4.1
		10	Cereals	3.9
Mozambique	**1,835.7**		**All products**	**100.0**
		27	Mineral fuels, oils, and its products	67.8
		30	Pharmaceutical products	6.8
		10	Cereals	5.1
		89	Ships, boats, and floating structures	3.4
		87	Vehicles other than railway or tramway	2.6

Country	Value in 2021 (US$ million)	HS Code	Commodity	Share in Exports to Respective Country (%)
Namibia	**111.7**		**All products**	**100.0**
		27	Mineral fuels, oils and its products	48.3
		30	Pharmaceutical products	25.3
		76	Aluminum and articles	3.9
		73	Articles of iron and steel	3.7
		84	Machinery and mechanical appliances	2.6
Seychelles	**40.8**		**All products**	**100.0**
		10	Cereals	13.6
		73	Articles of iron and steel	9.1
		87	Vehicles other than railway or tramway	8.3
		30	Pharmaceutical products	7.1
		85	Electrical machinery and equipment	4.7
South Africa	**5,989.5**		**All products**	**100.0**
		87	Vehicles other than railway or tramway	19.7
		27	Mineral fuels, oil, and product of distillation	19.0
		89	Ships, boats, and floating structures	11.7
		30	Pharmaceutical products	10.7
		72	Iron and steel	4.8
Tanzania	**1,689.0**		**All products**	**100.0**
		27	Mineral fuels, oils, and product of distillation	20.3
		30	Pharmaceutical products	14.3
		84	Machinery and mechanical appliances	8.0
		87	Vehicles other than railway or tramway	7.6
		61	Articles of apparel and clothing, knitted or crocheted	4.7
Zambia	**334.8**		**All products**	**100.0**
		30	Pharmaceutical products	37.7
		84	Machinery and equipment	16.9
		39	Plastic and articles	7.1
		85	Electrical machinery and equipment	5.4
		87	Vehicles other than railway or tramway	4.8
Zimbabwe	**188.9**		**All products**	**100.0**
		30	Pharmaceutical products	61.0
		84	Machinery and mechanical appliances	10.5
		39	Plastic and articles	4.4
		87	Vehicles other than railway or tramway	3.8
		85	Electrical machinery and equipment	2.9

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

Table 3.7: India's Import Sources in SADC with Share in Major Products

Country	Value in 2021 (US$ million)	HS Code	Commodity	Share in Imports from Respective Country (%)
Angola	**2,315.9**		**All products**	**100.0**
		27	Mineral fuels, oils, and its products	96.2
		71	Pearls, precious stones, and metals	3.6
		85	Electrical machinery and equipment	0.1
			All products	100.0
Botswana	**601.1**	71	Pearls, precious stones, and metals	99.95
		76	Aluminium and articles	0.03
Comoros	**13.7**		**All products**	**100.0**
		09	Coffee, tea, and spices	90.4
		72	Iron and steel	6.1
		85	Electrical machinery and equipment	2.4
		74	Copper and articles	1
		76	Aluminium and articles	0.2
DR Congo	**15.3**		**All products**	**100.0**
		18	Cocoa and cocoa preparations	26.3
		76	Aluminium and articles	26.2
		85	Electrical machinery and equipment	20.6
		72	Iron and steel	8.6
		74	Copper and articles	8.4
Eswatini	**284.1**		**All products**	**100.0**
		71	Pearls, precious stones, and metals	98.0
		29	Organic chemicals	0.4
		84	Machinery and mechanical appliances	0.3
		39	Plastic and articles	0.3
		30	Pharmaceutical products	0.2
Lesotho	**0.1**		**All products**	**100.0**
		28	Inorganic chemicals	100.0

Country	Value in 2021 (US$ million)	HS Code	Commodity	Share in Imports from Respective Country (%)
Madagascar	**112.3**		**All products**	**100.0**
		09	Coffee, tea, and spices	46.0
		33	Essential oils and resinoids	12.7
		25	Salt; sulphur; earths and stone	11.5
		07	Edible vegetables and certain roots and tubers	11.0
		18	Cocoa and cocoa preparations	3.8
Malawi	**100.7**		**All products**	**100.0**
		12	Oil seeds and oleaginous fruits	64.4
		07	Edible vegetables and certain roots and tubers	34.9
		09	Coffee, tea, and spices	0.3
		72	Iron and steel	0.1
		41	Raw hides and skins and leather	0.1
Mauritius	**66.7**		**All products**	**100.0**
		72	Iron and steel	30.0
		90	Optical, photographic, and medical apparatus	25.2
		85	Electrical machinery and equipment	9.1
		76	Aluminium and articles	7.9
		74	Copper and articles	6.0
Mozambique	**1436.7**		**All products**	**100.0**
		27	Mineral fuels and oils	50.9
		07	Edible vegetables and certain roots and tubers	14.6
		74	Copper and articles	13.0
		89	Ships, boats, and floating structures	8.9
		12	Oil seeds and oleaginous fruits	7.0
Namibia	**48.2**		**All products**	**100.0**
		74	Copper and articles	48.1
		71	Pearls, precious stones, and metals	17.1
		72	Iron and steel	15.2
		25	Salt; sulphur; earths and stone	6.7
		85	Electrical machinery and equipment	5.9

Country	Value in 2021 (US$ million)	HS Code	Commodity	Share in Imports from Respective Country (%)
Seychelles	**3.7**		**All products**	**100.0**
		72	Iron and steel	33.6
		85	Electrical machinery and equipment	14.8
		29	Organic chemicals	6.9
		26	Ores, slag, and ash	6.4
		23	Residues and waste from the food industries	5.6
South Africa	**11,070.7**		**All products**	**100.0**
		71	Pearls, precious stones, and metals	46.2
		27	Mineral fuels, oils, and products of distillation	30.2
		74	Copper and articles	6.3
		26	Ores, slag, and ash	5.6
		47	Pulp of wood or of other fibrous cellulosic material	2.6
Tanzania	**1885.1**		**All products**	**100.0**
		07	Copper and articles	43.1
		44	Pearls, precious stones, and metals	27.0
		09	Edible vegetables and certain roots and tubers	15.0
			Oil seeds and oleaginous fruits	6.3
			Edible fruit and nuts; peel of citrus fruit or melons	4.0
Zambia	**130.9**		**All products**	**100.0**
		71	Pearls, precious stones, and metals	83.3
		78	Lead and articles	8.6
		23	Residues and waste from the food industries	2.6
		12	Oil seeds and oleaginous fruits	2.2
		26	Ores, slag, and ash	2.0
Zimbabwe	**5.7**		**All products**	**100.0**
		71	Tobacco and manufactured tobacco substitutes	85.7
		24	Coffee, tea, and spices	11.8
		75	Tanning or dyeing extracts	1.9
		09	Optical, photographic, and medical apparatus	0.5
		52	Manufactures of straw, of esparto or of other plaiting materials	0.1

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

India's Investments in SADC

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. They are usually more adaptable and flexible compared to investments from developed economies. They also have 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 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[18] in the SADC region during April 1996 to August 2022 amounted to US$ 69.9 billion **(Table 3.8)**. Mauritius, Mozambique, and South Africa were the top destinations of India's investments in the region. India's investments in Africa have largely been concentrated in Mauritius, mainly due to the Double Taxation Avoidance Convention.[19] Indian investments in Mozambique are mainly in the natural gas and coal industries.

India's investments in the SADC region accounted for nearly 94.2 percent of Indian investments in Africa during April 1996 to August 2022**.** Majority of investments are in wholly owned subsidiaries (WOS) at 82.6 percent, whereas remaining 17.4 percent were in joint ventures (JV).

Indian FDI in Africa has traditionally been concentrated in Mauritius. While 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, the country's offshore financial facilities and favourable tax conditions have made it 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

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

[19] In 2016, the Indian government amended its tax treaty with Mauritius; after which, the preferential tax benefits were removed partially starting in the fiscal year of 2017 and removed completely starting fiscal year 2019

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 3.8: India's Approved Overseas Direct Investment in the SADC Region

(US$ million)

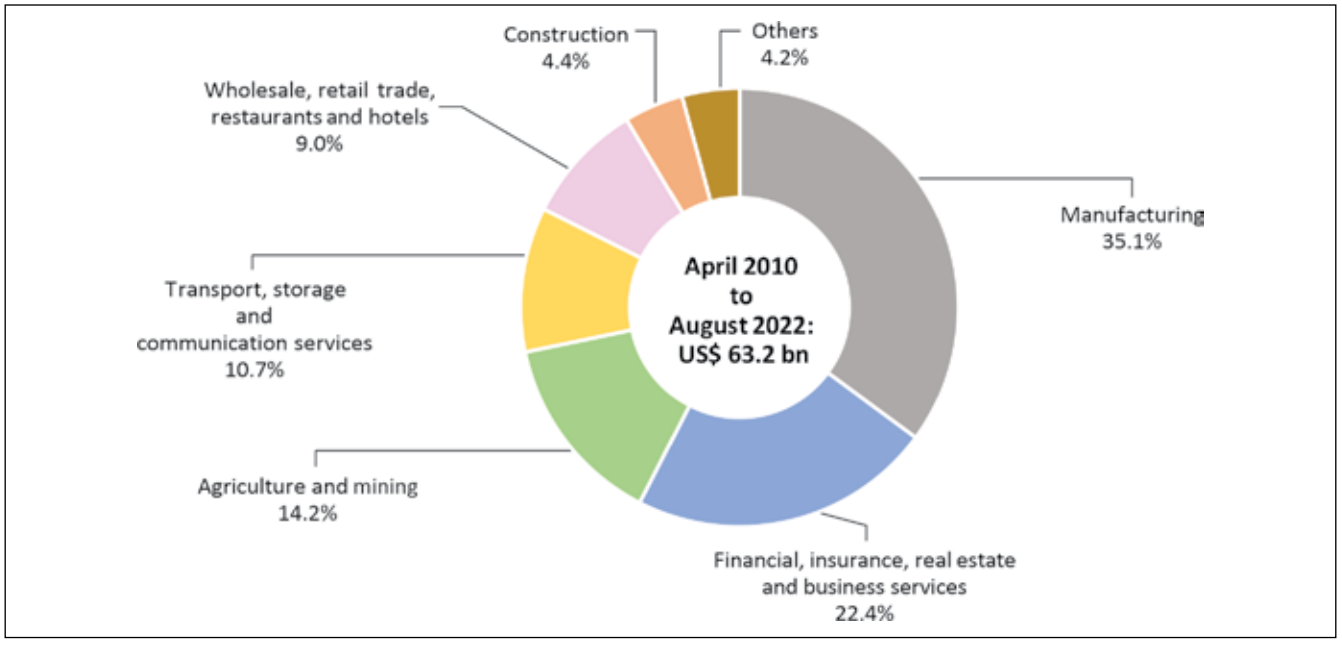
Country	Apr 1996 - Mar 2014	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (Apr-Aug)	Apr 1996 - Aug 2022
Mauritius	38630.2	4580.8	3670.4	5392.7	1387.1	3086.8	2940.0	2496.8	872.2	149.6	63206.8
Mozambique	2665.9	7.7	1.7	8.0	37.3	40.2	150.4	323.1	2261.4	29.1	5524.8
South Africa	408.1	29.5	60.6	32.5	64.9	54.8	12.8	15.1	7.2	5.0	690.5
Zambia	23.2	41.7	79.7	10.8	10.2	2.6	3.6	4.1	4.9	4.9	185.7
Tanzania	61.6	1.6	11.4	0.2	21.8	17.2	2.5	0.7	5.8	1.2	124.1
Botswana	33.0	5.0	-	0.1	9.8	0.5	3.1	0.1	6.8	14.7	73.0
Zimbabwe	2.6	0.2	-	1.7	4.1	4.5	6.0	12.6	4.0	0.1	35.6
Congo	5.1	0.2	-	-	-	1.7	1.5	0.8	2.5	1.8	13.6
Madagascar	2.6	0.3	0.9	0.8	0.1	-	-	-	0.1	-	4.7
Seychelles	3.5	-	-	-	-	0.9	0.1	-	0.2	-	4.7
Namibia	2.3	-	-	-	-	0.5	-	0.3	1.0	0.2	4.3
Malawi	1.3	0.1	0.5	0.9	0.5	0.4	0.4	-	-	-	4.0
Eswatini	0.4	-	-	-	0.1	-	-	-	-	-	0.4
SADC	**41839.6**	**4667.0**	**3825.1**	**5447.8**	**1535.7**	**3210.1**	**3120.3**	**2853.6**	**3166.1**	**206.7**	**69872.3**

Note: - Negligible or not available

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

During April 2010 to August 2022, manufacturing sector accounted for the largest share of approved investments from India to SADC countries (35.1 percent of total investments received by SADC), followed by financial, insurance, real estate, and business services (22.4 percent), agriculture and mining (14.2 percent), transport, storage, and communication services (10.7 percent), and wholesale, retail trade, restaurants, and hotels (9 percent) **(Chart 3.2).** During April 2010 to August 2022, Mauritius received 86.3 percent of India's outward direct investments in the region, followed by Mozambique (12.3 percent), South Africa (0.8 percent), Zambia (0.3 percent), Tanzania, Zimbabwe, and Botswana (0.1 percent each).

Chart 3.2: Sectoral Share of Indian Investments in SADC



Note: Data pertain to April 2010-August 2022. Others include electricity, gas and water, community, social and personal services and miscellaneous activities.

Source: RBI and India Exim Bank Research

SADC's Investments in India

According to data published by the Government of India, FDI inflows to India from SADC region have been dominated by investments from Mauritius. Other major countries from the region investing in India include South Africa and Seychelles **(Table 3.9)**.

Table 3.9: FDI Equity Inflows to India from SADC during April 2000 to June 2022

Country	Value (US$ million)	Share in India's Total FDI Inflows (%)
Mauritius	160110.8	26.5
South Africa	588.7	0.1
Seychelles	217.5	0.04
Mozambique	15.7	0.003
Tanzania	3.6	0.001
Botswana	2.4	-
DR Congo	0.6	-
Malawi	0.5	-
Zambia	0.3	-
Zimbabwe	0.1	-
Angola	0.1	-
Eswatini	0.1	-
SADC	**160940.3**	**26.6**

Note: - Negligible or not available

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, Government of India

4 Potential for Increasing India's Trade with the Southern African Customs Union

The Southern African Customs Union (SACU) is a customs union among 5 Southern African countries, Botswana, Eswatini, Lesotho, Namibia, and South Africa. Established in 1910, SACU is the world's oldest customs union. The SACU Secretariat has its Headquarters in Windhoek, Namibia. SACU members are also members of the larger SADC. With a total population of about 68.3 million, the SACU region offers enormous opportunity for investment in key strategic sectors and enhanced regional industrial synergies through the development of cross-border value chains. The SACU region's geographic location makes it a perfect gateway to SADC. The combined market size of 372.9 million offers a large export market, not only into the SACU region but also into the broader SADC market for the products produced within the Customs Union.

As set out in the SACU Agreement, 2002, the region aims to, among others, substantially increase investment opportunities in the Common Customs Area and promote the integration of the member countries into the global economy through enhanced trade and investment. In order to realise this, the SACU member countries, as a bloc, have signed a number of Preferential Trade Agreements (PTA's) with key trading partners, while the SACU countries are also beneficiaries to a number of non-reciprocal preferential trade arrangements. Most important among them being the African Growth and Opportunity Act (AGOA) provided by the US and the Generalised System of Preferences (GSP) of developed countries.

In addition to the market access opportunities emanating from the trade agreements, the region also offers free and seamless flow of goods without being subjected to customs duties. This offers great opportunity for inputs and finished products to be traded within SACU without any form of restrictive cumbersome administrative and regulatory trade requirements. This is enabled by the Common External Tariff (CET) which creates a Common Customs Area. Currently, the International Trade Administration Commission (ITAC) of South Africa administers the SACU CET.

Additionally, the region's coordinated Trade Facilitation and Logistics Programme is geared to enhance the efficiency of the trading environment in SACU and beyond through: (i) improved administrative efficiencies for the cross-border movement of goods; (ii) reduction of time and cost associated with cross border trade; (iii) improved compliance and security of the supply chain in SACU; and (iv) enhanced competitiveness of the SACU members.

Four of the five member countries of the SACU (except for Botswana) are members of the Common Monetary Area (CMA) with their currencies pegged and freely convertible on a 1:1 basis to the South African Rand. SACU is also an Excise Union and as such applies identical excise duties as well as rebates, refunds, or drawbacks of such duties.

Macroeconomic Profile of SACU

SACU is a single customs territory with a free flow and duty-free intra-SACU trade and a common external tariff applicable to all goods imported from outside the Customs Union. The SACU region has a stable macroeconomic environment which creates a conducive atmosphere for trade and investment. With a GDP of US$ 455.3 billion in 2021, SACU accounted for 59.4 percent of total GDP of SADC and 18.3 percent of population of SADC. With a GDP of US$ 418 billion, South Africa accounts for 91.8 percent of SACU's combined GDP in 2021. The next largest contributor, Botswana, contributed 3.9 percent or US$ 17.8 billion to SACU's collective GDP, while Namibia, at US$ 12.3 billion contributed 2.7 percent.

For the SACU region, the overall weighted growth is estimated to have contracted by 6.5 percent in 2020, from 0.3 percent in 2019. Growth is estimated at 4.9 percent in 2021. Botswana registered the highest real GDP growth of 12.5 percent in 2021, followed by South Africa whose economy grew by 4.9 percent, Eswatini (3.1 percent), Lesotho (2.1 percent), and Namibia (0.9 percent). Average inflation among member countries stayed within the range of 3 to 7 percent during 2021.

On the trade front, SACU made significant improvements in trade efficiency over the last decade. Exports from the region increased to US$ 134.8 billion in 2021, as compared to US$ 98 billion in 2020. Imports also increased significantly to US$ 109.4 billion in 2021 from US$ 84.9 billion in 2020. Most of the member countries of SACU are dependent on South Africa as a port of entry for their imports. SACU accounted for 61.4 percent of total exports of SADC and 62.2 percent of total imports of SADC in 2021.

Market Access for the SACU Countries

Member countries of SACU have signed preferential trade agreements with several trading partners as a bloc. These provide preferential market access for SACU member countries' exports. These countries are also beneficiaries to several non-reciprocal trade arrangements, providing preferential access for SACU's exports. The market access arrangements available to the SACU member countries are outlined in **Table 4.1.**

Table 4.1: Trade Agreements of SACU

Name of the Agreement	Type of Agreement	Parties to the Agreements	Scope and Products Covered
Southern African Development Community (SADC): Protocol on Trade in Goods	Free Trade Agreement: Protocol on Trade in Goods	SACU Members and Madagascar, Malawi, Mauritius Mozambique, Seychelles, Tanzania, Zambia, and Zimbabwe	Tariff liberalisation on goods traded among Members, subject to the Rules of Origin.
EFTA-SACU Free Trade Agreement (FTA)	Free Trade Agreement	SACU Members and Iceland, Liechtenstein, Norway, and Switzerland	Tariff reductions on selected goods, industrial goods (including fish and other marine products) and processed agricultural products. Three Bilateral Agreements between the individual EFTA States and SACU cover basic agricultural products falling in Chapters 1 to 24 of the Harmonised System.

Name of the Agreement	Type of Agreement	Parties to the Agreements	Scope and Products Covered
Economic Partnership Agreement between the SADC EPA States, and the European Union and its Members	Free Trade Agreement	South Africa, Botswana, Eswatini, Namibia, Lesotho, and Mozambique (referred to as the SADC EPA Group), and the EU	Duty-free quota-free market access for Botswana, Eswatini, Lesotho and Namibia into the EU and partial liberalisation for South Africa.
Economic Partnership Agreement between the SACU Members, Mozambique, and UK	Free Trade Agreement	SACU Members, Mozambique (referred to as the SACUM), and UK	Duty-free quota-free market access for Botswana, Eswatini, Lesotho and Namibia into UK and partial liberalisation for South Africa.
SACU-Southern Common Market (MERCOSUR) PTA	Preferential Trade Agreement	SACU Members and Argentina, Brazil, Paraguay, and Uruguay	Limited scope Agreement covering 1000 tariff lines with preference margins ranging between 10 - 100 percent.
Generalised System of Preferences (GSP)	Unilateral preferences granted under the enabling clause of the WTO	Offered to eligible developing countries by developed countries	Products from eligible developing countries qualify for preferential market access into these markets.
Africa Growth and Opportunity Act (AGOA)	Unilateral preferences granted by the US	Granted by the US to 39 eligible Sub-Saharan African countries	Duty free access to the US market under the combined AGOA/GSP programme stands at approximately 7000 product tariff lines.

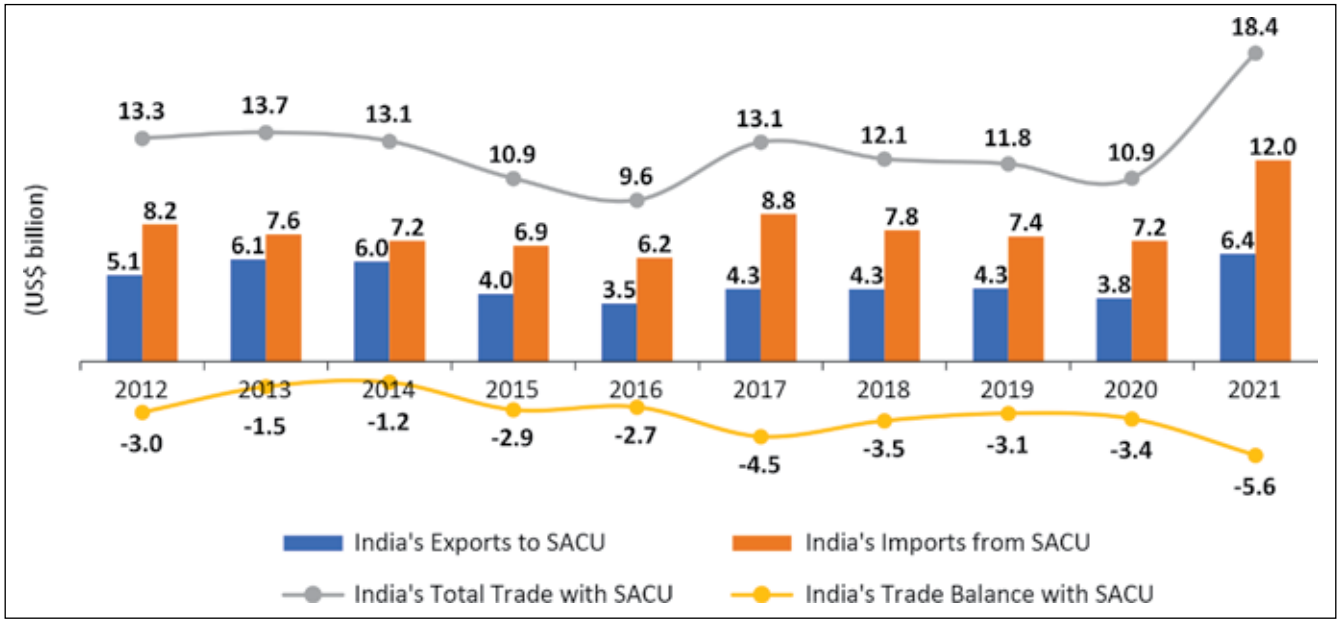
Source: SACU Member States' Country Profiles, SACU, April 2022

India and SACU: Bilateral Trade Relations

Over the past decade, there has been a considerable rise in trade between India and SACU (South Africa in particular). India is an important trading partner for SACU, accounting for 8.9 percent of total exports of SACU and supplying 5.9 percent of total imports of SACU in 2021.

India's exports to SACU increased from US$ 5.1 billion in 2012 to US$ 6.4 billion in 2021 (**Chart 4.1)**. Similarly, India's imports from SACU increased from US$ 8.2 billion in 2012 to US$ 12 billion in 2021. India had a trade deficit of US$ 5.6 billion in 2021 with SACU, mainly in commodities including pearls, precious stones and metals, mineral fuels and oils, copper and articles, and ores, slag, and ash, among others. Within SACU, India had trade deficit with South Africa (US$ 5.1 billion), Botswana (US$ 332.7 million), and Eswatini (US$ 260.3 million) in 2021. 93.4 percent of India's exports to SACU is destined to South Africa, while 92.2 percent of India's imports from the region originated from South Africa.

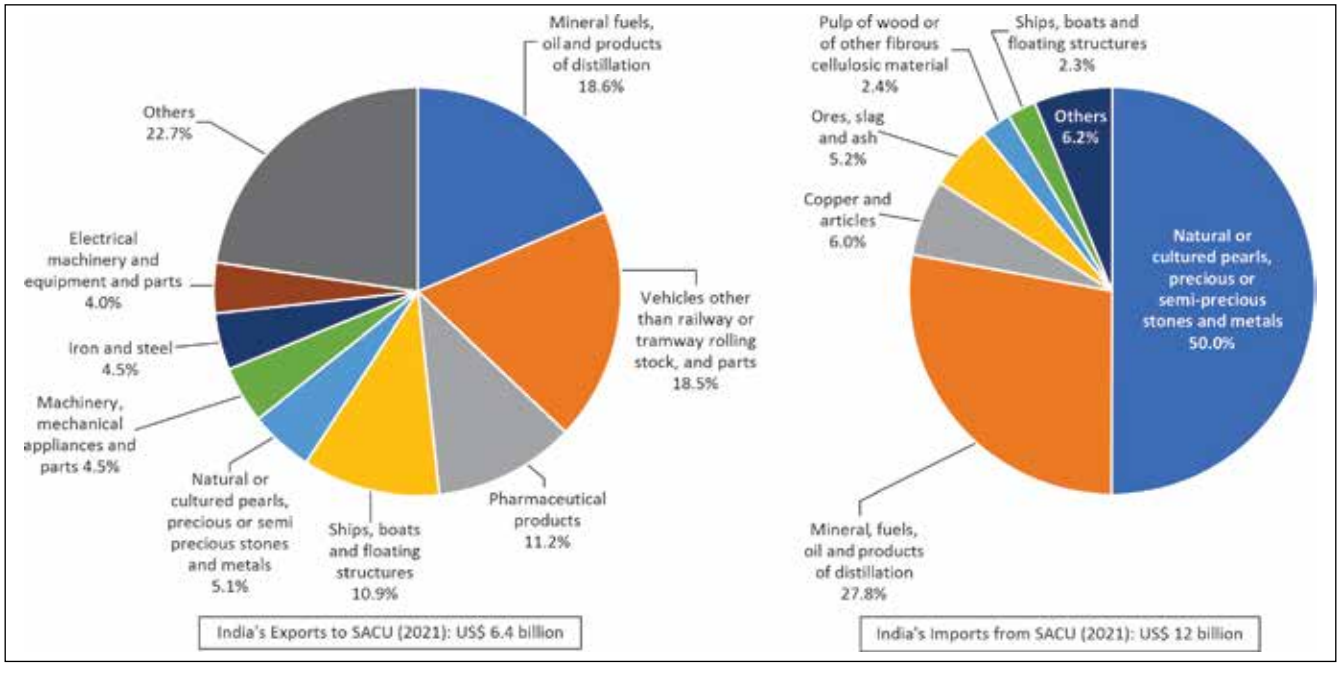
Chart 4.1: India's Merchandise Trade with SACU



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

Furthermore, India's exports to SACU are relatively diversified with refined petroleum, motor vehicles, pharmaceuticals, light-vessels, fire-floats, floating cranes and other vessels, and unmounted diamonds being the biggest exports in 2021. India's imports from SACU are raw primary or semi-processed commodities. Half of Indian imports from SACU consist of natural or cultured pearls, precious or semi-precious stones and metals, with unwrought gold, unworked non-industrial diamonds and platinum including palladium, rhodium, iridium, osmium, and ruthenium, unwrought or in semi-manufactured form, covering most of the precious stones and metal imports **(Chart 4.2).**

Chart 4.2: India's Major Traded Commodities with SACU



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

India and SACU: Towards a PTA

The ongoing talks for Preferential Trade Agreement (PTA) between India and the SACU countries have set the stage for enhancing future partnership between India and SACU. The PTA is aimed at cementing and expanding the burgeoning trade relations between India and the SACU member countries.

The 1st round of technical discussions for India-SACU PTA took place in Pretoria during October 5-6, 2007, followed by the 2nd round in Walvis Bay, Namibia during February 21-22, 2008; and the 3rd round was held at New Delhi during November 25 - 27, 2008. During the 3rd round of negotiations, an MOU was signed on November 26, 2008 by the representatives of India and SACU to facilitate negotiations. The 4th round of negotiations was held at Pretoria during October 7-8, 2009, while the 5th round of negotiations was held during October 7- 8, 2010. During the 5th round of negotiations, SACU has presented a revised text of the PTA as a working document. Further, both sides have agreed on the text on 'Dispute Settlement Procedures'; to use the text proposed by India on 'Customs Cooperation and Trade Facilitation' and TBT as the working text; and to use the text on 'SPS' proposed by SACU as the working text. According to PIB reports[20], discussions between SACU and India to achieve a PTA have been revived in July 2020.

Aligning India's Exports with SACU

A PTA/ FTA will only be beneficial if there exists complementarity between the export supply of one country to the import demand of the other country. In other words, whatever India is exporting, SACU should have a corresponding demand for it and vice-versa. It is generally understood that complementarity in the trade structure of the countries facilitates higher trade between them and there is scope for mutual benefit from this increased trade.

Thus, it is important to assess the level of complementarity between India and SACU while analyzing the feasibility of a prospective PTA/FTA. The trade complementarity index (TCI) is a useful tool, which can provide information on feasibility and prospects for intra-regional trade. A TCI between two countries shows how well the structures of foreign trade of India and SACU countries fit to understand the utility of a PTA/FTA. To sum up, TCI measures the extent to which a country's export profile matches the import profile of the partner country, in the sense that what a country exports overlaps with what the other country imports and provides an indication of the prospects for enhanced trade flows. It is a normalized index, which takes values between 0 and 100, with higher values denoting greater complementarity. TCI was first proposed by Kojima Kiyoshi and perfected by Peter Drysdale in 1967, and the major proponents of the TCI (Michaely, 1996; Yeats, 1998) argue that the higher the value of the trade complementarity index, the more favorable the outcome of a proposed PTA/FTA would be on its potential members.

The TCI between countries 'k' and 'j' is defined as:

$$TCI_{ij} = 100\ (1 - sum\ (|m_{ik} - x_{ij}|\ /\ 2))$$

where,

x_{ij}: Share of Goods 'i' in Global Exports of Country 'j'

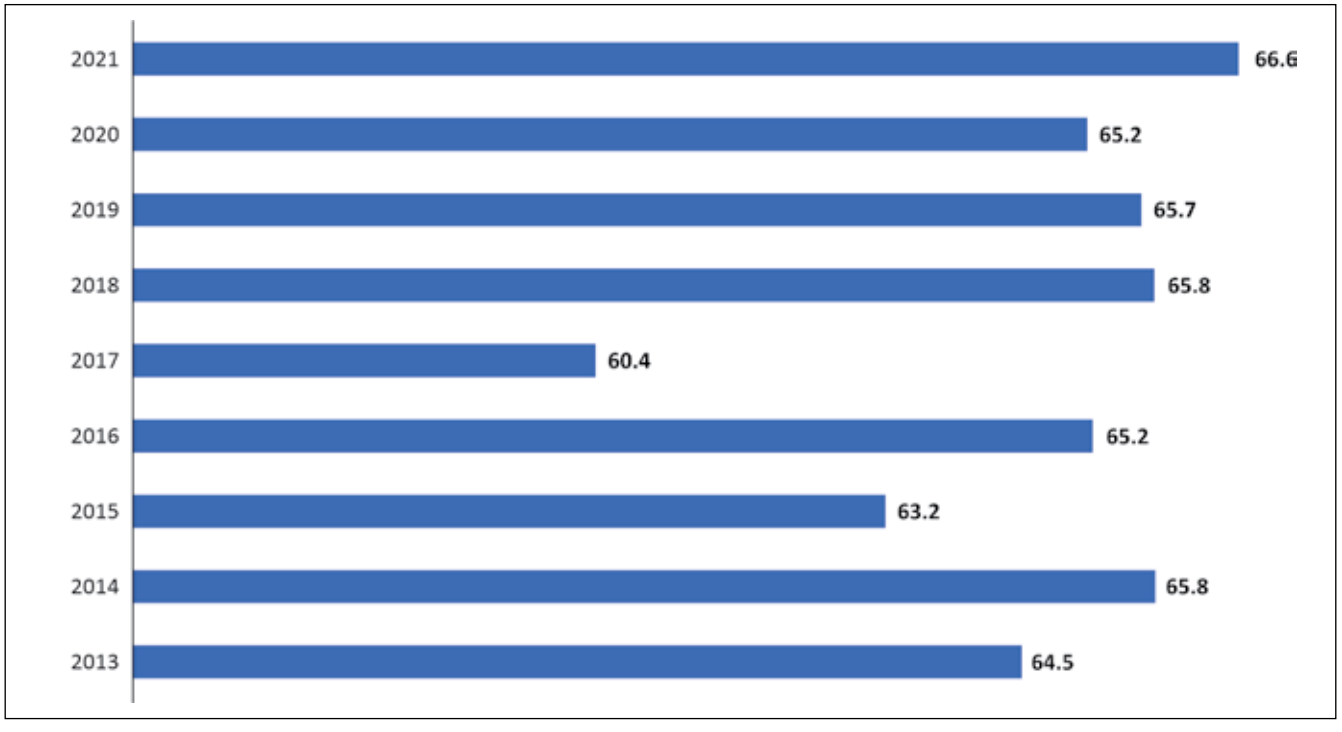
m_{ik}: Share of Good 'i' in all Imports of Country 'k'

[20] https://www.mea.gov.in/Portal/CountryNews/12863_press_release.pdf

The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

During the period 2013-2021, the complementarity index for profile of Indian exports to SACU's imports ranges from 64.5 to 66.6. This indicates a substantial complementarity in India's exports and SACU's imports. Over the years, the value of the index is rising which shows that India's export profile is converging towards SACU's import profile **(Chart 4.3).**

Chart 4.3: India's Trade Complementarity with SACU



Note: Data prior to 2013 not available

Source: WITS Database, World Bank, and India Exim Bank Research

Revealed Comparative Advantage

Analysing the key products where India has comparative advantage and match it with SACU's import demand for these products are necessary while negotiating for an India-SACU PTA. Quantification of comparative advantage helps in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which has been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world trade scenario. It provides useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country i for commodity j is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

where,

x_{ji}: Exports of Commodity 'j' from Country 'i'

X_i: Total Exports from Country 'i'

x_{jw}: Total Exports of Commodity 'j' from World

X_w: Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. An RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with SACU.

$$RCA_{ijc} = (x_{ijc}/X_{ic}) / x_{wjc}/X_{wc})$$

Where,

x_{ijc}: India's Exports of Commodity 'j' to SACU

X_{ic}: India's Total Exports to SACU

x_{wjc}: World's Exports of Commodity 'j' to SACU

X_{wc}: World Total Exports to SACU

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{ijc} = (RCA_{ijc}-1/ RCA_{ijc}+1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to SACU's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing export capabilities to SACU. These products are the potential export growth drivers from India to SACU and could suitably be targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to SACU, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in

demand in SACU, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to SACU.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2017-2021.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US$ 0.5 million from India to SACU is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in SACU, namely, the **NRCA for products**, and **Average Annual Growth Rate (AAGR)** of world exports to SACU.

On the basis of these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of SACU > World Import AAGR of SACU; Positive NRCA): These products have the maximum potential, as SACU's import demand for these products has shown robust AAGR over the period 2017-21, while India's exports of these products to SACU are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to SACU and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in SACU.

Underachievers (Product Import AAGR of SACU > World Import AAGR of SACU; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in SACU significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to SACU and further expand its bilateral ties with the country.

Growing in Declining Sectors (Product Import AAGR of SACU < World Import AAGR of SACU; Positive NRCA): India has competitiveness in these products, even though SACU's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

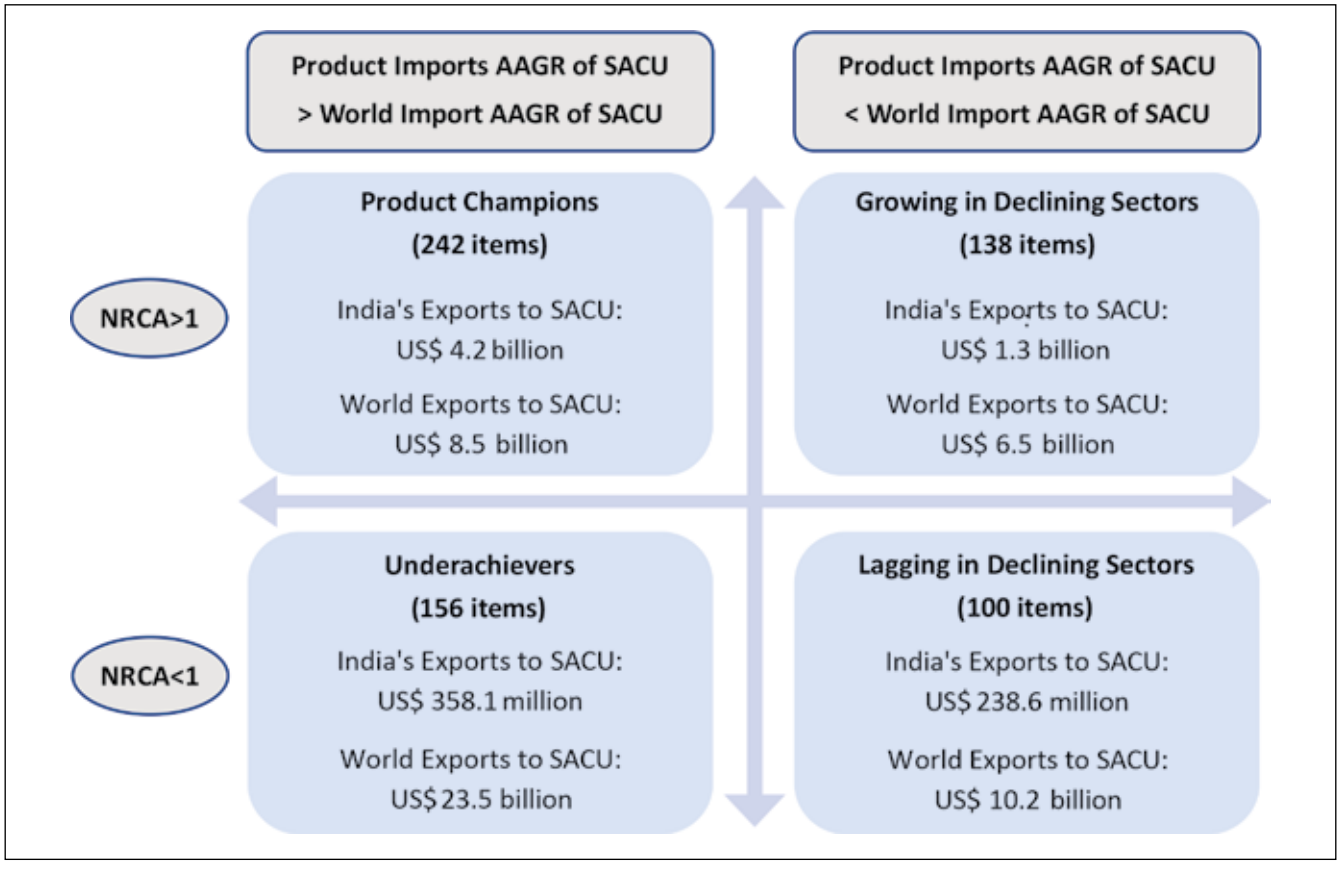
Lagging in Declining Sectors (Product Import AAGR of SACU < World Import AAGR of SACU; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in SACU during the period under consideration.

Product Identification Based on Competitiveness

To identify the products based on their export competitiveness in SACU, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of SACU for all products. The quadrants are drawn by comparing the overall AAGR of global imports of SACU for all products during 2017-2021 (which was 5.1 percent), to the NRCA of India's exports to SACU during the same period. This exercise aims to identify products whose

imports in SACU over the period 2017-2021 have performed better than the overall average of SACU for all products during this period, implying that the share of such products in SACU's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US$ 0.5 million from India to SACU, 636 products have been identified with the total exports from India to SACU, amounting to US$ 6.1 billion while the total world imports by SACU in the same products stood at US$ 48.7 billion in 2021 **(Table 4.2).**

Table 4.2: Product Identification for Exports from India to SACU (2021)



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

Out of the 636 items at the HS 6-digit level, 242 items fell into the category of the product champions. The combined exports of these items from India to SACU were US$ 4.2 billion in 2021, representing approximately 65.7 percent of India's exports to SACU in 2021. Major product champions are provided in **Table 4.3**.

Table 4.3: List of Major Product Champions from India to SACU (HS 6-digit level)

HS Code	Product	India's Exports to SACU (US$ million)	Share in India's Total Exports to SACU	Global Imports of SACU (US$ million)	Share in Global Imports of SACU
870322	Motor cars and other motor vehicles principally designed for the transport of persons	589.7	9.2%	1112.5	0.5%
710239	Diamonds, worked, but not mounted or set	272.2	4.2%	319.3	0.3%
870321	Motor cars and other motor vehicles principally designed for the transport of persons	257.9	4.0%	490.4	0.24%
720839	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils	217.2	3.4%	102.5	0.2%
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	47.7	0.7%	450.7	0.04%
870421	Motor vehicles for the transport of goods, with only compression-ignition internal combustion	47.1	0.7%	583.3	0.04%
870410	Dumpers for off-highway use	40.5	0.6%	337.1	0.04%
330290	Mixtures of odoriferous substances and mixtures, incl. alcoholic solutions	34.5	0.5%	108.8	0.03%
610910	T-shirts, singlets, and other vests of cotton, knitted or crocheted	31.6	0.5%	193.4	0.2%
392190	Plates, sheets, film, foil, and strip, of plastics, reinforced, laminated, supported	29.2	0.5%	123.5	0.1%

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

Two products, medium oils, and preparations, of petroleum or bituminous minerals (HS-271019) and light-vessels, fire-floats, floating cranes, and other vessels (HS-890590) are also falling under the category of top product champions. However, there is a reporting mismatch in data at HS 6-digit level by the respective countries in these products.

The total number of products in growing in declining sectors category is 138, with India's exports amounting to US$ 1.3 billion and constitute a share of 20.6 percent of India's exports to SACU in 2021. These are the product items in which India has attained a significant share in SACU's import basket, however, SACU's import demand for these products has been falling in the last five years **(Table 4.4)**.

Table 4.4: List of Major Products Under Growing in Declining Sectors Category from India to SACU (HS 6-digit level)

HS Code	Product	India's Exports to SACU (US$ million)	Share in India's Total Exports to SACU	Global Imports of SACU (US$ million)	Share in Global Imports of SACU
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	640.5	10.0%	1871.6	1.7%
851712	Telephones for cellular networks	123.9	1.9%	1751.0	1.6%
100630	Semi-milled or wholly milled rice	88.9	1.4%	539.3	0.5%
842959	Self-propelled mechanical shovels, excavators, and shovel loaders	40.5	0.6%	104.6	0.1%
847989	Machines and mechanical appliances	29.1	0.5%	177.9	0.2%
870422	Motor vehicles for the transport of goods, with only compression-ignition internal combustion	29.1	0.5%	91.8	0.1%
300420	Medicaments containing antibiotics, put up in measured doses	22.4	0.3%	95.7	0.1%
870331	Motor cars and other motor vehicles principally designed for the transport of persons	20.4	0.3%	43.1	0.04%
870423	Motor vehicles for the transport of goods, with only compression-ignition internal combustion	16.9	0.3%	29.5	0.03%
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	12.9	0.2%	74.1	0.1%

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

This was followed by underachievers with 156 items, with India's exports worth US$ 358.1 million to SACU. These products constitute a share of 5.6 percent in India's total exports to SACU. These are the product items in which import demand in SACU is rising, but India does not have the required competitiveness in the export of these items **(Table 4.5).**

Table 4.5: List of Major Underachievers from India to SACU (HS 6-digit level)

HS Code	Product	India's Exports to SACU (US$ million)	Share in India's Total Exports to SACU	Global Imports of SACU (US$ million)	Share in Global Imports of SACU
271012	Light oils and preparations, of petroleum or bituminous minerals	87.9	1.4%	9358.5	0.1%
850440	Static converters	12.8	0.2%	371.2	0.01%
842952	Self-propelled mechanical shovels, excavators and shovel loaders	10.0	0.2%	287.1	0.01%
740811	Wire of refined copper, with a maximum cross-sectional dimension of > 6 mm	9.9	0.2%	537.8	0.01%

HS Code	Product	India's Exports to SACU (US$ million)	Share in India's Total Exports to SACU	Global Imports of SACU (US$ million)	Share in Global Imports of SACU
851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks	8.2	0.1%	344.2	0.01%
300220	Vaccines for human medicine	7.4	0.1%	620.0	0.01%
391990	Self-adhesive plates, sheets, film, foil, tape, strip, and other flat shapes of plastics	6.4	0.1%	131.9	0.01%
380891	Insecticides, put up in forms or packings for retail sale or as preparations or articles	6.0	0.1%	181.1	0.01%
481159	Paper and paperboard, surface -coloured, surface -decorated	5.7	0.1%	122.6	0.01%
843143	Parts for boring or sinking machinery	5.7	0.1%	146.9	0.01%

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

Exports from India to SACU under lagging in declining sector category stood at US$ 238.6 million or 3.7 percent of India's total exports to SACU in 2021. The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in SACU would result in further fall in their prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, to make efficient utilization of resources and further enhance exports from India to SACU.

Tariff Analysis of India and SACU

This section elucidates upon the effectively applied tariff[21] imposed by India and SACU. Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported, and they raise revenues for governments. Effectively applied (AHS) tariff is the actual tariff imposed upon the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the most favoured nation (MFN) tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country's rules that determine the product's country of origin.

India's Tariff on Imports from SACU

In the current analysis, the tariff on 6-digit HS code is taken into consideration, using Trade Analysis Information Systems (TRAINS) based WITS data. The year considered is 2021. Since there is no preferential agreement currently between India and SACU, the effectively applied tariff on SACU is the same as the MFN tariffs. The exception remains Lesotho. Lesotho is a beneficiary under India's Duty- Free Tariff Preference (DFTP) Scheme for Least Developed Countries (LDCs), which provides market access on 95.5 percent of the lines on which

[21] Types of Tariffs by WITS, World Bank

LDCs have made to exports to India over the last two financial years. As shown in **Table 4.6,** India's majority of imports from SACU have tariffs between 10.1-15 percent (37.4 percent of total imports), followed by 0.1 percent to 5 percent (37.1 percent). 134 tariff lines are duty-free.

Table 4.6: India's Effectively Applied Tariff on Imports from SACU in 2021

Effectively Applied Tariff Rates (%)	Total Number of Tariff Lines (at 6-digit HS Code)	Total Imports (US$ million)	Share in Total Imports
0.0	134	154.2	1.3%
0.1-5.0	316	4451.1	37.1%
5.1-7.0	73	42.1	0.4%
7.1-8.0	1145	154.9	1.3%
8.1-10.0	1257	1939.4	16.2%
10.1-15.0	317	4485.7	37.4%
15.1-20.0	238	23.1	0.2%
20.1-30.0	111	43.2	0.4%
30.1-50.0	48	9.1	0.1%
Unspecified	91	701.0	5.8%
Total	**3795**	**12004.3**	**100.0%**

Source: WITS Database and India Exim Bank Research

The following table shows at a broad HS 2-digit level, effectively applied tariffs imposed by India on imports from SACU in 2021. As can be seen, highest import tariffs are imposed on beverages, spirit, and vinegar, followed by miscellaneous edible preparations, coffee, tea and spices, sugar and sugar confectionery, and preparations of vegetable, fruits, and nuts, among others **(Table 4.7)**.

Table 4.7: Effectively Applied Tariff on India's Imports from SACU in 2021

(HS 2-digit level)

HS Code	Product	Effectively Applied Tariff Rates (%)
22	Beverages, spirits, and vinegar	144.4
21	Miscellaneous edible preparations	110.0
09	Coffee, tea, and spices	100.0
17	Sugars and sugar confectionery	45.0
20	Preparations of vegetables, fruit, and nuts	40.2
06	Live trees and other plants; bulbs, and roots	40.0
15	Animal or vegetable fats and oils	39.6
10	Cereals	33.3
64	Footwear, gaiters and the like; parts of such articles	32.5
01	Live animals	30.0
03	Fish and crustaceans, molluscs	30.0
05	Products of animal origin	30.0
11	Products of the milling industry; malt; starches	30.0

HS Code	Product	Effectively Applied Tariff Rates (%)
18	Cocoa and cocoa preparations	30.0
19	Preparations of cereals, flour, starch, or milk	30.0
24	Tobacco and manufactured tobacco substitutes	30.0
08	Edible fruit and nuts	26.9
94	Furniture; bedding, mattresses	25.0
57	Carpets and other textile floor coverings	20.0
61	Articles of apparel and clothing accessories, knitted or crocheted	20.0
62	Articles of apparel and clothing accessories, not knitted or crocheted	20.0
95	Toys, games, and sports requisites	20.0
23	Residues and waste from the food industries	17.5
33	Essential oils and resinoids; perfumery, cosmetic	17.5
12	Oil seeds and oleaginous fruits	16.7
13	Lac; gums, resins and other vegetables	15.0
42	Articles of leather; saddlery and harness	15.0
56	Wadding, felt and nonwovens; special yarns	15.0
83	Miscellaneous articles of base metal	15.0
91	Clocks and watches and parts	15.0
70	Glass and glassware	14.3
87	Vehicles other than railway or tramway	14.1
59	Impregnated, coated, covered or laminated textile	14.0
68	Articles of stone, plaster, cement, asbestos, mica	13.8
96	Miscellaneous manufactured articles	12.9
35	Albuminoidal substances; modified starches; glues	11.7
69	Ceramic products	11.3
73	Articles of iron or steel	10.6
39	Plastics and articles	10.2
48	Paper and paperboard; articles of paper pulp	10.0
36	Explosives; pyrotechnic products; matches	10.0
46	Manufactures of straw, of esparto	10.0
52	Cotton	10.0
58	Special woven fabrics; tufted textile fabrics	10.0
63	Other made-up textile articles; sets	10.0
65	Headgear and parts thereof	10.0
66	Umbrellas, sun umbrellas, walking sticks	10.0
82	Tools, implements, cutlery, spoons and forks	10.0
86	Railway or tramway locomotives, rolling stock	10.0
88	Aircraft, spacecraft, and parts	10.0

HS Code	Product	Effectively Applied Tariff Rates (%)
89	Ships, boats and floating structures	10.0
93	Arms and ammunition; parts and accessories	10.0
97	Works of art, collectors' pieces, and antiques	10.0
40	Rubber and articles	9.7
71	Pearls, precious stones and metals	9.7
30	Pharmaceutical products	9.5
34	Soap, organic surface-active agents, washing preparation	9.4
41	Raw hides and skins	8.8
49	Printed books, newspapers, pictures	8.8
85	Electrical machinery and equipment and parts	8.7
32	Tanning or dyeing extracts; tannins	8.6
38	Miscellaneous chemical products	8.6
76	Aluminum and articles	8.4
25	Salt; sulfur; earths and stone; plastering materials	8.1
84	Machinery and mechanical appliances	7.7
29	Organic chemicals	7.6
44	Wood and articles of wood; wood charcoal	7.5
28	Inorganic chemicals; organic or inorganic compound	7.1
90	Optical, photographic, cinematographic, measuring, surgical equipment	7.0
79	Zinc and articles	6.7
81	Other base metals; cements; articles	6.6
51	Wool, fine or coarse animal hair; horsehair	6.1
31	Fertilisers	5.0
55	Man-made staple fibres	5.0
72	Iron and steel	5.0
74	Copper and articles	5.0
78	Lead and articles	5.0
80	Tin and articles	5.0
27	Mineral fuels, mineral oil and products of distillation	4.3
07	Edible vegetables and certain roots and tubers	3.3
26	Ores, slag, and ash	3.2
47	Pulp of wood or of other fibrous cellulosic material	2.2
75	Nickel and articles	0.0
54	Man-made filaments	-

Note: "-"indicates data not available

Source: WITS Database and India Exim Bank Research

SACU's Tariff on Imports from India

The simple average effectively applied tariffs imposed by SACU on India's exports at 6-digit HS code level using TRAINS based WITS data are analyzed in **Table 4.8.** More than half of SACU's imports from India are duty free. These are mainly agricultural products, organic and inorganic chemicals, pharmaceutical products, iron and steel articles, machinery and electrical equipment, among others.

Table 4.8: SACU's Effectively Applied Tariffs on Imports from India in 2021

Effectively Applied Tariff Rates (%)	Total Number of Tariff Lines (at 6-digit HS Code)	Total Imports (US$ million)	Share in Total Imports
0.0	3569	2127.2	50.6%
0.1-5.0	1149	205.1	4.9%
5.1-7.0	490	70.8	1.7%
7.1-8.0	616	42.4	1.0%
8.1-10.0	1225	261.8	6.2%
10.1-15.0	1371	137.2	3.3%
15.1-20.0	1045	88.2	2.1%
20.1-30.0	1088	448.2	10.7%
30.1-50.0	652	65.2	1.6%
Unspecified	162	757.9	18.0%

Source: WITS Database and India Exim Bank Research

Table 4.9 shows the effectively applied tariff by SACU on imports from India at a HS 2-digit level in 2021 across all HS chapters.

Table 4.9: Effectively Applied Tariff on SACU's Imports from India in 2021

(HS 2-digit level)

HS Code	Product	Effectively Applied Tariff Rates (%)
24	Tobacco and manufactured tobacco substitutes	41.9
61	Articles of apparel and clothing accessories, knitted or crocheted	41.7
62	Articles of apparel and clothing accessories, not knitted or crocheted	40.7
66	Umbrellas, sun umbrellas, walking sticks	28.3
57	Carpets and other textile floor coverings	27.3
63	Other made-up textile articles; sets	27.3
42	Articles of leather; saddlery and harness	27.2
64	Footwear, gaiters, and the like	24.9
43	Furskins and artificial fur	21.3
19	Preparations of cereals, flour, starch, or milk	20.7
65	Headgear and parts	20.5

HS Code	Product	Effectively Applied Tariff Rates (%)
60	Knitted or crocheted fabrics	20.2
52	Cotton	19.6
46	Manufactures of straw, of esparto	19.3
58	Special woven fabrics; tufted textile fabrics	18.2
55	Man-made staple fibres	18.0
54	Man-made filaments	17.5
94	Furniture; bedding, mattresses, mattress supports	16.2
93	Arms and ammunition; parts and accessories	15.0
44	Wood and articles of wood; wood charcoal	14.8
34	Soap, organic surface-active agents, washing preparation	14.7
20	Preparations of vegetables, fruit, nuts	14.6
56	Wadding, felt and nonwovens; special yarns	14.4
83	Miscellaneous articles of base metal	13.6
21	Miscellaneous edible preparations	13.6
06	Live trees and other plants; bulbs, roots	13.3
18	Cocoa and cocoa preparations	12.5
51	Wool, fine or coarse animal hair; horsehair yarn	12.3
33	Essential oils and resinoids; perfumery	12.1
67	Prepared feathers and down and articles	12.0
17	Sugars and sugar confectionery	11.6
69	Ceramic products	11.5
96	Miscellaneous manufactured articles	11.5
04	Dairy produce; birds’ eggs; natural honey	11.0
40	Rubber and articles	10.9
73	Articles of iron or steel	10.8
07	Edible vegetables and certain roots and tubers	10.6
22	Beverages, spirits, and vinegar	10.5
87	Vehicles other than railway or tramway	10.4
71	Pearls, precious stones, and metals	10.0
59	Impregnated, coated, covered, or laminated textile	9.6
82	Tools, implements, cutlery, spoons, and forks	9.4
76	Aluminum and articles	9.1
39	Plastics and articles	8.9
70	Glass and glassware	8.7

HS Code	Product	Effectively Applied Tariff Rates (%)
11	Products of the milling industry; malt; starches	7.8
36	Explosives; pyrotechnic products; matches	7.5
15	Animal or vegetable fats and oils	7.5
48	Paper and paperboard; articles of paper pulp	7.3
12	Oil seeds and oleaginous fruits	6.7
08	Edible fruit and nuts	6.7
74	Copper and articles	6.2
41	Raw hides and skins	5.7
72	Iron and steel	5.1
85	Electrical machinery and equipment	5.0
13	Lac; gums, resins, and other vegetable saps	5.0
49	Printed books, newspapers, pictures	4.8
27	Mineral fuels, mineral oils, and products of distillation	4.7
23	Residues and waste from the food industries	4.5
16	Preparations of meat, of fish or of crustaceans	4.5
68	Articles of stone, plaster, cement, asbestos, mica	4.5
53	Other vegetable textile fibres	4.4
37	Photographic or cinematographic goods	4.4
89	Ships, boats, and floating structures	2.5
95	Toys, games, and sports requisites	2.4
09	Coffee, tea, and spices	2.1
32	Tanning or dyeing extracts;	1.7
84	Machinery and mechanical appliances	1.6
14	Vegetable plaiting materials	1.5
38	Miscellaneous chemical products	1.1
28	Inorganic chemicals; organic or inorganic compound	0.9
35	Albuminoidal substances; modified starches; glues	0.9
29	Organic chemicals	0.7
86	Railway or tramway locomotives, rolling stock	0.5
10	Cereals	0.5
30	Pharmaceutical products	0.4
90	Optical, photographic, cinematographic, measuring, surgical equipment	0.4
01	Live animals	0.0
03	Fish and crustaceans, molluscs	0.0

HS Code	Product	Effectively Applied Tariff Rates (%)
05	Products of animal origin, not elsewhere specified	0.0
25	Salt; sulfur; earths and stone; plastering material	0.0
26	Ores, slag, and ash	0.0
31	Fertilisers	0.0
45	Cork and articles of cork	0.0
47	Pulp of wood or of other fibrous cellulosic material	0.0
50	Silk	0.0
75	Nickel and articles	0.0
78	Lead and articles	0.0
79	Zinc and articles	0.0
80	Tin and articles	0.0
81	Other base metals	0.0
88	Aircraft, spacecraft, and parts	0.0
91	Clocks and watches and parts	0.0
92	Musical instruments; parts and accessories	0.0
97	Works of art, collectors' pieces, and antiques	0.0
02	Meat and edible meat offal	-

Note: "-" data not available at HS 2 digit level.

Source: WITS Database and India Exim Bank Research

The proposed PTA is expected to ease the trade hurdles between India and SACU, leading to overall increase in India's trade and investment with SACU and with the broader SADC region.

5 Strategies to Enhance India's Engagements with SADC

India and SADC share strong and deep ties of cooperation. India's engagement with SADC has been, in many areas, private sector driven resulting in greater integration with the domestic market. As new trade and investment partnerships are forming across the world, India and Southern African countries can forge mutually useful collaborations in the following areas.

Developing Manufacturing Value Chains

Despite having high level of commodity dependence, SADC countries have been steadily developing and expanding its manufacturing sector over the last decade. With post-pandemic economic recovery picking pace, Southern African countries are increasingly focusing on bolstering manufacturing and producing value-added goods. However, SADC's participation in global value chains remain modest, with the exceptions of apparel and in South Africa's case, automobiles. SADC's value chain participation is mainly upstream - the export of primary commodities, minerals, tobacco, sugar, and beef - with limited local value addition. The region is involved at the lower segment of value chains while focus should be on enhancing participation at the upper end and diversification into new high-productivity activities. Regional value chains are primarily hub-and-spoke in structure with South African corporates as the lead firms with relatively few linkages to GVCs. Growing South African dominance, most notably in services, favours a hub-and-spoke regional model.

Under one of the flagship projects of Agenda 2063 – African Commodities Strategy, SADC has started initiatives to develop regional value chains in the three prioritized sectors mainly focusing on identification of potential investments projects. SADC has secured resources and support to identify potential projects in the minerals sector (copper, mining inputs, batteries/energy storage), pharmaceuticals (ARVs, anti–malaria medicines, malaria rapid test kits, malaria bed nets, and latex consumables), and agro-processing projects[22]. Additionally, sectors such as textiles and clothing, cosmetics, and essential oils as well as products such as leather and leather products, meat and meat products, and fruits and vegetables offer extensive opportunities for the development of regional value chains across SADC.

The SADC Industrialisation Strategy and Roadmap aims for an increase in manufactured exports to at least 50 percent of total exports of the SADC by 2030, from less than 20 percent at present, and to build market share in the global market for the export of intermediate products of around 60 percent of total manufactured exports. Several of the SADC countries export products such as refined copper, diamonds, and auto components to regional member countries. These countries can play a key role in providing mineral resources for industrial and manufacturing output and development of regional value chains, and also support agricultural and agro-processing value chains, thus emerging as major drivers of intra-African trade in the AfCFTA era.

[22] SADC Website

Given the potential of economies in the region, the governments are working on initiatives to improve the manufacturing sector's global competitiveness and increase its participation in regional and global markets. Many SADC countries already have well-established manufacturing apparatus but are looking for latest technologies and finance to further move up the value chain. Increased FDI in the manufacturing sector by Indian companies could catalyze the development of value chains by providing foreign capital and technical know-how.

Strategic Alliance for Sourcing Other Critical Minerals for EV Value Chain

India is one of the largest Electric Vehicle (EV) markets in Asia after China. The Government of India's goal of 30 percent EV penetration for passenger cars, 70 percent for commercial vehicles, and 80 percent for two- and three-wheelers by 2030 through its flagship FAME Phase II policy will greatly boost EV adoption. Nevertheless, as of now, India lags behind developed countries in terms of EV adoption. Consequently, the EV adoption rate in India, by the end of 2021, stood at merely 2 percent, thus lagging behind large automotive markets like the US and China, which have double adoption rate or European countries which have higher than 10 percent adoption rate[23]. This is due to price difference compared to traditional ICE vehicles and dearth of charging infrastructure. At present penetration of charging stations as a percentage of EVs stood at 6 percent in India as compared to 18 percent in China. India's public EV charging infrastructure is at a nascent stage, compared to its Asian peers like China and Japan, which took significant steps to set up a strong EV ecosystem in their countries. Given recent policy steps announced by the government (e.g., the draft battery swapping policy) and partnerships announced by original equipment manufacturers (OEMs), the growth of the charging infrastructure is expected to pick up.

Li-ion batteries are the future of automobiles owing to their unique properties — lightweight, high charge-holding capacity, and steady output. The increasing use of EVs in India is expected to raise demand for Li-ion batteries. To attain more than 30 percent EV adoption, India will require approximately 800 GWh of batteries by 2030.[24] To meet this rising demand, India is accelerating plans to manufacture Li-ion cells within the country. Li-ion cell manufacturing is expected to evolve in stages, with a concentration on battery pack assembly in the initial phase, and manufacturing becoming more localized eventually.

The growing demand for electric vehicle component will create demand for various electronics and battery-related items, including controllers, and capacitors. Thus, component makers are recognizing the importance of investing in EV component technology and capacity. Demand for required minerals such as lithium, cobalt, copper, and nickel will increase with changes in component requirements. A challenge here is the reliance on limited geographical areas for the extraction of such metals. To tackle this, India needs to form strategic alliances with countries where these critical minerals are produced.

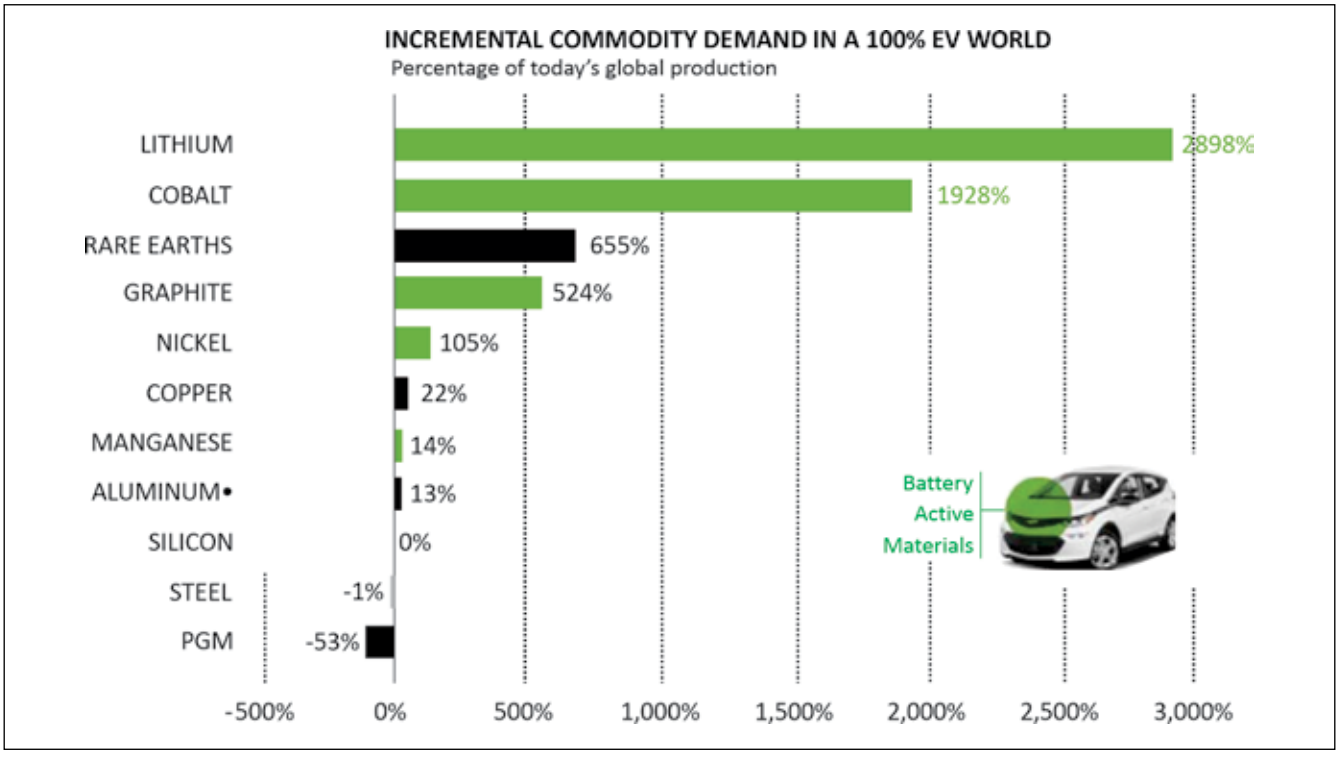
Solar photovoltaic plants, wind farms and electric vehicles generally require more critical minerals to build than their fossil fuel-based counterparts. A typical electric car requires six times the mineral inputs of a conventional car and an offshore wind plant requires thirteen times more mineral resources than a similarly sized gas-fired plant.[25] Lithium, nickel, cobalt, manganese, and graphite are crucial to battery performance. Rare earth elements are essential for permanent magnets that are used in wind turbines and EV motors.

[23] Unlocking India's Electric Mobility Potential, Report by Arthur D Little, August 2022
[24] ibid
[25] International Energy Agency

Similarly, electricity networks need a huge amount of copper and aluminium, with copper being a cornerstone for all electricity-related technologies. Southern Africa region is richly endowed in lithium, graphite, cobalt, nickel, copper, and rare earth minerals. For instance, DR Congo controls more than 60 percent of the world's cobalt supply, mostly exported to China. All of these are essential for building the global green economy of the future and they also comprise new market opportunities for net-zero transitions. Thus, India could play a significant role in the African mining value chain to optimize benefits from the demand for battery and electric value chain.

Automobile companies largely depend on mining companies for inputs. The primary raw materials required for the cathode in cell manufacturing are cobalt, nickel, lithium, and manganese. India has limited reserves of raw materials except graphite, which is used in anode[26]. India could set up joint exploration activities for securing critical mineral assets. Indian state-run companies can form joint ventures to secure critical mineral assets such as lithium and cobalt that could fuel India's plan for mass adoption of electric vehicles by 2030. Strategic investment funds or import credit lines could be set with respective countries by signing MOUs to ensure India's import requirements for cobalt and lithium.

Chart 5.1: Incremental Commodity Demand in a 100 Percent Electric Vehicle World



Source: Adapted from Value Chain Analysis for Mineral Based Industrialisation in Africa 2021, AfDB

[26] A brief look at value chain of Lithium-Ion Battery, Invest India Outlook Editorial, August 2021

Leveraging Southern Africa's Minerals for Energy Transition for India and SADC Countries

Rare Earth Elements (REE)[27] have unique physical and chemical properties which make them indispensable in the manufacture of high-technology products and has prompted them to be classified as critical metals. Global production of REEs for 2019 was 213,000 MT with an estimated global reserve of approximately 120 million MT. Countries like South Africa, Madagascar, Malawi, Namibia, Mozambique, Tanzania, and Zambia have significant quantities of neodymium, praseodymium, and dysprosium.

Whilst significant reserves have been found in Malawi and South Africa, there are also existing projects in several African countries that have delineated some significant resources. These countries include Tanzania, Zambia, Namibia, Madagascar, and Mozambique.

The Steenkampskraal mine in the Western Cape province of South Africa has the highest grade of these REEs in the world. Therefore, South Africa is expected to become a significant supplier in the world market. While relatively abundant, these elements are less minable than common ores. They can have direct technical applications or be used to facilitate the production and refinement of common high-technology products. Access to a steady supply of rare earth elements is key to the national security and economic viability of many countries across the world.

Fourteen major REE deposits are currently undergoing exploration or mine development in Africa. As of 2019, the 14 deposits are estimated to have a combined mineral resource (mainly at inferred category) with potential for a contained Total Rare Earth Oxide (TREO) content of more than four million tonnes[28]. Africa has the potential mineral resource to compete in the global arena. However, the development of mineral resources must be supported by business models that enable maximum benefit to the country or region. For example, smaller deposits can be mined and beneficiated up to mineral concentrate as a business model before selling the concentrate for further processing; and large deposits can be mined and processed to the final product, metals, or alloys as the commercial product.

The high-tech industry is the driver of rare earth industry's future growth, especially technologies linked to the manufacture of products used in green energy production and storage. The main technology is the use of magnets in wind and tidal turbines and other electronics equipment, and batteries for electric energy storage in electric vehicles and solar energy storage facilities.

In fact, REE demand is set to surge 655 percent in a 100 percent EV world, even excluding demand growth from wind turbines, drones, motors, robots and other uses **(Chart 5.1)**. The current world REE reserve stands at 120 million metric tonnes (Mt), with China's reserves representing 44 million tonnes, an equivalent of 37 percent of the world's total reserves. A total of 4 million tonnes has been estimated for Africa. Africa also has some of the high-grade deposits in the world. This has attracted stock market-financed exploration by junior

[27] Rare Earth Elements (REE) are a group of 17 metals typically occurring together in natural geological environment. The suite of rare earths is split into two distinct sub-categories, the light rare earth elements (LREE) including scandium (Sc) and the elements between lanthanum (La) and samarium (Sm), and the heavy rare earth elements (HREE) including yttrium (Y) and the elements between europium (Eu) and lutetium (Lu). Generally, the HREE fetch higher prices than the LREE due to higher market demand. The US further classified five REE as Critical Rare Earth Oxides (CREO in their oxide form) because of their importance to the US economy. These are yttrium, europium, neodymium, terbium, and dysprosium. The main economic minerals are monazite, bastnaesite and xenotime

[28] Rare Earth Elements, Value Chain Analysis for Mineral Based Industrialisation in Africa 2021, Africa Natural Resources Centre, AfDB

companies as the deposits demonstrate quality REE resource availability outside China. Two of the deposits, Lofdal in Namibia and SKK in South Africa have high CREO content, an upside potential for REE value chain development in Africa as the deposits can meet the right quality of REE on the market. **Table 5.1** shows a selection of some of the deposits discovered in Africa.

Table 5.1: Select REE Projects in Southern Africa Region

Country	Company	Projects	Mineral Type
South Africa	SKK Holdings Ltd	SKK Mine	Monazite
South Africa	Frontier Rare Earth Ltd	Zandkopsdrift	Apatite, Monazite
Malawi	Lynas Ltd	Kangankunde	Synchysite, Apatite
Malawi	Mkango Resources	Songwe Hill (Several)	Monazite, Bastnaesite
Angola	Rift Valley Resources Ltd	Longonjo	Monazite, Bastnaesite
Zimbabwe	Premier African Minerals	Several in North Western Zimbabwe	Xenotite, Other minerals
Madagascar	Tantalum Holding Ltd	Tantalus Project	Clay
Mozambique	-	Xiluvo	Carbonatite
Namibia	-	Lofdal	Carbonatite
Tanzania	-	Wigu Hill	Carbonatite
Tanzania	-	Ngualla Hill	Carbonatite
Zambia	-	Nkombwa Hill	Carbonatite

Note: "-"data not available

Source: Rare Earth Elements (REE) - Value Chain Analysis for Mineral Based Industrialization in Africa

Box 5.1: Multilateral Mineral Security Partnership

Recently, the United States has convened the Mineral Security Partnership (MSP) with key minerals-rich countries to discuss priorities, challenges, and opportunities in responsible mining, processing, and recycling of critical minerals. First announced in June 2022, the MSP is a new multilateral initiative to bolster critical mineral supply chains essential for the clean energy transition. The MSP aims to ensure that critical minerals are produced, processed, and recycled in a manner that supports countries in realizing the full economic development potential of their mineral resources. The MSP will attract public and private investment, increase transparency, and promote high Environmental, Social, and Governance (ESG) standards throughout critical minerals supply chains. MSP partners participating in the meeting included: Australia, Canada, Finland, France, Japan, South Korea, Norway, Sweden, the UK, the US, and the EU. Additional minerals-rich countries in attendance included Argentina, Brazil, DR Congo, Mongolia, Mozambique, Namibia, Tanzania, and Zambia. The MSP is currently considering promising critical minerals projects that could be of interest to one or more MSP partners, promoting innovation, developing a joint approach on ESG standards, and engaging both project operators and minerals-producing countries. In this context, the Export-Import Bank of the United States has shared co-financing agreement with Korea Trade Insurance Corporation (KSURE) in September 2022. The new partnership will create a one-stop shop facility that will provide joint support for the US and Korean export projects in new and strategic industries, including critical minerals.

Source: Press Releases, US Department of State and Export-Import Bank of United States

The world's REE market is largely controlled by China, however, other major consumers are keen to establish alternative supply chains to ensure reliable and consistent supply at predictable prices. Whilst demand continues to increase, so does the risk of China forming a monopoly on the industry. In a bid to avoid this risk, major REE consumers like the US, the EU, Canada, Australia, Japan, and South Korea are exploring options to develop alternative REE supply chains. Africa is one of the regions targeted as an alternative source of REE commodities, which presents African countries with the opportunity to develop their own REE

value chains. Development finance institutions (DFIs) from India and the AfDB could work closely with SADC country governments to understand the needs of these commercial REE development attempts and support the companies to develop the value chain from end to end.

Increasing Circularity in Africa's Mining Sector[29]

The mining industry is the second-largest consumer of water after agriculture in Southern Africa. Effective management of clean water and wastewater is key to maintaining supplies of this resource. The use of water can be decreased if the mines' wastewater is recycled, reused, concentrated, and reclaimed. Mining companies can improve wastewater management in three ways: lining waste and tailing dams to avoid water seepage, put wastewater in tanks to prevent evaporation, and filtering water from slurry/sludge/tailings before storing the waste in dams. Other areas of the Circular Economy that fall into this category include recycling and reusing vehicle parts, repurposing waste rock, recycle and reprocess tailings, recycle, and reuse construction materials, rehabilitate mines for economic development and recycle food waste for energy generation.

Mining uses a lot of energy as it is crucial throughout the lifecycle of a mine from exploration to processing the final product. Traditionally the sector has relied on diesel and electricity from the grid to meet these needs. This high energy use comes with an elevated level of carbon emissions. By switching to renewable energy resources such as solar and wind energy to power mining operations can help to regenerate natural systems. Mining remains an important sector in India. Indian mining companies have been increasingly using high technology for the automation of processes and has started integrating technologies across the value chain to reduce waste, increase resource efficiency, and drive-up productivity, while promoting the harnessing of renewable energy sources. Indian companies investing in African mines could also help using water saving technologies or renewable energy solutions thereby contributing to the economy.

Increasing Role of Development Finance Institutions in Infrastructure Investment

SADC member countries include large countries with large economies, small, isolated economies and island economies, and a mix of low- and middle-income countries. Regional infrastructure development creates a larger market and greater economic opportunities, and the development of infrastructure is critical for promoting and sustaining regional economic development, trade, and investment, and contributes to poverty eradication and improved social conditions. SADC has made significant progress in regional infrastructure development. Infrastructure includes regional transport and communications systems, which are fundamental to cooperation in the SADC region. However, the SADC region continues to face several challenges, including[30]:

- Insufficient energy supply to serve increased production and to extend access to electricity.
- Highly priced, unpredictable transport and logistics services, especially for landlocked states.
- Lack of low-cost access to information and communications technologies.
- Inadequate services for efficient planning and management of water resources, energy production, transport services and other climate-sensitive sectors.
- Inadequate access to safe drinking water, inadequate sanitation, and water for irrigation to improve systems for agricultural production which will contribute to food security.
- Slow response to new tourism trends and opportunities.

[29] Investing in African Mining Indaba, May 2022
[30] SADC Website

According to the World Economic Outlook of the IMF, Sub-Saharan Africa's recovery has been abruptly interrupted as a result of the geopolitical crisis in Europe, resulting in sharp slowdown across several economies and tighter financial conditions. Much of the current debt has been contracted during a period of historically low interest rates. Looking ahead, as global policy rates normalize, financial conditions will continue to tighten, adding to external borrowing costs and weighing on Sub-Saharan Africa's debt dynamics. Over the next few years, already-high interest payments are projected to increase as a proportion of revenue, exceeding 50 percent in some cases and far surpassing the burdens seen in other regions. Some SADC countries were already battling with mounting public debt before the pandemic and had already substantially exceeded debt-to-GDP levels of 60 percent.

According to the AfDB, Africa's infrastructure investment gap is estimated at more than US$ 100 billion per year[31], affecting the living conditions of Africans and the continent's global competitiveness. For example, presently less than 50 percent of population are having access to electricity in case of eight out of 16 SADC countries, with Malawi and DR Congo at lower than 20 percent as of 2020. SADC requires US$ 52 billion on investment to attain complete access to electricity as well as meet at least 53 percent of renewable energy capacity by 2040[32].

Public-private partnerships offer an alternative approach to public investment and thereby help in increased private sector investments and higher levels of efficiency in the development and operation of infrastructure assets in Africa. The current African public debt scenario, widening infrastructure gap and limited fiscal space, due to the COVID-19 pandemic, among other factors, build a strong case for development finance institutions to scale up their support for public-private partnerships, to crowd in more private sector investment in both economic and social infrastructure. Scaling up private sector investment in the economic sector, including transport, energy, and ICT, healthcare, and education would also ensure better debt sustainability and management, innovation and efficiency, and enhance the competitiveness of their economies.

Access to Trade Finance in Southern Africa

Financial markets continue to evolve due to the emerging country risks, uncertain economic outlooks and changing regulatory environments. Trade finance is a critical element for cross border trade, and in many cases the movement of goods across borders, particularly in emerging markets, cannot occur without it. As trade finance provides essential short-term liquidity, additional trade finance will be urgently required when demand for traded goods accelerates. According to the estimates from the AfDB and Afreximbank[33], the trade finance gap in Africa was US$ 81.8 billion in 2019 and has averaged US$ 91 billion over the past decade. This is evident from the fact that 40 percent of Africa's trade remains bank intermediated as compared to 80 percent globally. Challenges with confirming banks remain one of the major constraints for domestic banks engaged in trade finance in Africa. According to SWIFT transactions data, Africa has undergone a decline of 18.6 percent in correspondent bank relationship between 2011 and 2017 compared to an average of 17.9 percent for all regions over the same period.

[31] African Development Bank sets course to close infrastructure gap with Board approval of its first public private partnerships strategic framework, AfDB Press Release, February 2022
[32] Renewable Energy Transitions in a Period of Debt Distress in Southern Africa, Global Development Policy Center, June 2022
[33] Confirming Banks and Trade Finance in Africa, Africa Economic Brief, AfDB, 2022

In Africa, about 21 percent of private owned and 19 percent of public owned banks list challenges in building correspondent banking relationship as a major constraint to their trade finance activities, relative to 17 percent of foreign banks. As observed by the AfDB research, during 2011 to 2019, the major correspondent banks in Africa saw significant decline in their trade finance confirmation activities in Africa. Regulatory restrictions and higher compliance costs have been the major constraints cited for the retreat of international confirming banks from Africa. Increased tightening of global financial conditions in the aftermath of the COVID-19 has resulted in central banks across the world consolidating their balance sheet. As a result, Africa might see capital outflows which in turn will lead to exacerbated liquidity constraints and undermine the capacity of banks to finance African trade, especially for SMEs.

In order to fill this gap, development finance institutions could develop financial instruments like risk participation and transaction guarantee agreements to support non-traditional confirming banks from emerging markets, including Africa. Here, the role of DFIs like Export-Import Bank of India (India Exim Bank) becomes relevant.

To address the widening global trade finance gap, India Exim Bank initiated a new trade finance product - Trade Assistance Programme (TAP), under the aegis of which the Bank will provide support by way of various trade instruments to Indian banks engaged in international trade, by offering transaction-specific partial or full guarantees to cover payment risks on banks in least developed/developing countries. This programme envisages to augment India's exports whilst also helping importers abroad to engage in international trade whilst mitigating the risks involved and expanding their market/buyers for their products which were hitherto not addressed. Thus, TAP will provide enabling environment for counterparties in settlement of trade transactions. TAP at its initial stages of operations will be looking at 54 economies across globe including 26 countries from Africa that can seek risk mitigation support under the programme.

Box 5.2: India Exim Bank's Engagements in Africa

The countries in the African continent have always been a focus region for Export-Import Bank of India (India Exim Bank), 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 Africa, the commitment towards building relationships with Africa is reflected in the various activities and programmes, which India Exim Bank has set in place.

India Exim Bank, as a policy Institution wholly owned by the Government of India (GOI), has been entrusted with the responsibility of extending Lines of Credits (LOCs) on behalf of, and with the support of the GOI. These LOCs are extended on a bilateral basis to several Low and Lower Middle Income (L&MI) countries/overseas agencies/ multilaterals on concessional credit terms for undertaking various development projects. India Exim Bank has extended several GOI-supported LOCs to African countries. The projects financed under the LOCs cover a variety of sectors including infrastructure, ranging from energy - water sanitation - connectivity - digital infrastructure, thereby imparting a fresh resonance to development in many countries in the African region. As on September 30, 2022, the total number of operative GOI-supported LOCs to Africa stood at 180, which were extended to 40 countries and the ECOWAS Bank for Investment and Development (EBID) amounting to US$ 11.0 billion.

India Exim Bank also works very closely with development banks in the region, including the AfDB. India Exim Bank has extended its own commercial Lines of Credits to various regional financial institutions and parastatal entities in Africa, such as, PTA Bank (Eastern and Southern African Trade and Development Bank, covering 17 countries in the eastern and southern African region), Banque Ouest Africaine De Development (West African Development Bank, covering 8 countries in the west African region), Indo-Zambia Bank, Central Bank of Djibouti, Nigerian Exim Bank, East African Development Bank, Afreximbank and EBID. Presently, India Exim Bank has extended two commercial LOCs amounting to US$ 104 million to EBID.

The Bank's strong emphasis on increasing project exports from India has been enhanced with the introduction of the of the Buyer's Credit under GOI's National Export Insurance Account (BC-NEIA) Programme. The BC-NEIA is a unique financing mechanism that not only provides a safe mode of non-recourse financing option to Indian exporters, but also serves as an effective mechanism to augment both physical and social infrastructure in host countries, thereby fostering the partner countries' developmental objectives. As on September 30, 2022, India Exim Bank has sanctioned an aggregate amount of US$ 2.4 billion under BC-NEIA for 23 projects in Africa valued at US$ 2.6 billion.

India Exim Bank 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). India Exim Bank 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. India Exim Bank also extends Credit Lines to overseas banks and institutions to facilitate export of goods and services from India. At pan-African level, the Bank has recently extended credit lines to Afreximbank and Africa Finance Corporation.

In Africa, India Exim Bank has supported several such ventures in countries such as Egypt, Ethiopia, Ghana, Kenya, Mauritius, Morocco, Nigeria, Senegal, South Africa, Sudan, Tanzania, Uganda, 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 and rubber products, packaging, pharmaceuticals, 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 September 30, 2022, India Exim Bank through its overseas investment finance programme has supported 48 Indian companies in 13 countries in Africa with an aggregate sanction amount of ₹ 60.5 billion.

Further, to address the limited institutional capacity in Africa on conceptualisation, management, execution and imparting project development initiatives, India Exim Bank along with other Indian institutions have 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, which 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.

India Exim Bank has also been consciously forging a network of alliances and institutional linkages to help further economic co-operation with the Africa region. Towards this end, India Exim Bank has taken up equity in Afreximbank, West African Development Bank (BOAD), and Development Bank of Zambia. These endeavours are supplemented by the various Memoranda of Cooperation/ Memoranda of Understanding, the Bank has in place, with key institutions in the Africa region.

Maritime and Defence Cooperation

According to the SIPRI International Arms Transfer Database[34], India was the 23rd largest defence exporter during the period 2017 to 2021. Within Africa, Mauritius accounted for 6.6 percent of India's arms exports during 2017-2021, followed by Mozambique (5 percent) and Seychelles (2.3 percent). Ministry of Defence has been strengthening cooperation within the framework of Indian Ocean Rim Association (IORA) to undertake

[34] Major weapons are classified as per SIPRI statistical data on arms transfer, which relates to the actual deliveries of major conventional weapons. To permit comparison between the data on such deliveries of different weapons and to identify general trends, SIPRI has developed a system to measure the volume of international transfers of major conventional weapons using a common unit, the trend-indicator value (TIV). TIV figures do not represent sales prices for arms transfers. Nonetheless, they can be used for calculating trends in international arms transfers over periods of time, and global percentages for suppliers and recipients

specific projects and has formalized frameworks of Defence cooperation with South Africa, Kenya, Tanzania, Mauritius, Seychelles, and Madagascar. Defence Research and Development Organisation (DRDO) has been exploring cooperation in Defence R&D with African nations and an MOU concerning cooperation in Defence R&D was signed with Nigeria.[35]

India's defence and security cooperation with Africa and other developing countries remains need based and focuses on empowering through training, capacity building, and humanitarian assistance. Some of the significant export items by the defence public sector units (DPSU's) include the export of an offshore patrol vessel (OPV) to Mauritius in 2014 by the Garden Reach Shipbuilders and Engineers Ltd (GRSE Ltd.).[36] The Hindustan Aeronautics Limited (HAL) has exported helicopters to Mauritius, Seychelles, and Namibia.[37] Increased cooperation in areas of aerospace, defence, maritime equipment and vessels can ensure security and enhance technological capacity of Africa and at the same time accelerate India's defence export target of achieving US$ 5 billion by 2025.

The India-Africa Defence Dialogue (IADD) was held on the sidelines of DefExpo 2022 in Gandhinagar, Gujarat on October 18, 2022, based on the theme 'Adopting Strategy for Synergizing and Strengthening Defence and Security Cooperation'. The IADD was institutionalized in 2020 to be held biennially during successive DefExpos. It seeks to build on the existing defence partnerships between African countries and India and to explore new areas of convergence for mutual engagements including in areas such as capacity building, training, cyber security, maritime security and counterterrorism.[38]

India and African countries are important stakeholders in ensuring a safe and secure maritime environment, especially in the Indian Ocean Region. Among the Indian Ocean littoral countries (IOLC), 9 are in Africa. These include Comoros, Kenya, Madagascar, Mauritius, Mozambique, Seychelles, Somalia, South Africa, and Tanzania. The presence of large coastlines in the Eastern and Southern African countries underlines the potential for cooperation in the maritime domain. A major shipping link for India, Indian Ocean remains the common factor for these countries and is pivotal in terms of both security and commerce for India and Africa. India and Africa share a robust maritime partnership, which is based on the cooperative framework of 'SAGAR' (Security and Growth for All in the Region).

India has emerged as a leading defence exporter in recent years and could fulfill Africa's maritime, aerospace and defence requirements. Indian military vehicle manufacturers such as Tata Motors and Ashok Leyland are already part of the network. Between February and July 2015, Ashok Leyland supplied 1200 vehicles to six African countries: Zimbabwe, Tanzania, Kenya, Djibouti, Seychelles, and Botswana. In July 2015, Ashok Leyland delivered 633 of 670 troop carriers, buses, transport trucks, water tankers, fuel tankers, fire-tenders, ambulances, and light commercial vehicles to the Zimbabwe Defence Forces. In addition to Zimbabwe, Ashok Leyland also supplied 679 vehicles to the Tanzanian defence force. On the other hand, Tata Motors has delivered 520 military vehicles ordered for at least four African armies taking part in the UN Multidimensional Integrated Stabilization Mission in Mali (MINUSMA), including ambulances, jeeps, water and fuel tankers, recovery and refrigeration trucks and buses.[39]

[35] Ministry of Defense, Annual Report 2018-19, Government of India
[36] ibid
[37] Promoting Defence Exports, Manohar Parikar Institute for Defence Studies and Analyses, March 31, 2021
[38] Ministry of Defence, Press Release, PIB, October 18, 2022
[39] Tracing the Future of India-Africa Defence Cooperation, Vivekananda International Foundation, August 6, 2022

Going forward, indigenously developed new age technologies in the maritime segment including unmanned underwater systems, unmanned aerial systems and drones could also be exported to Africa. Cyber security also remains another potential area for cooperation. With exponential growth in mobile smart device ownership and increased use of social media, Africa's adoption of new technologies is expanding. While this technological advancement is expected to contribute to the continent's development, it will also expose the population to associated hazards and vulnerabilities. India has advanced cyber security infrastructure, a dedicated National Cyber Security and a functional nodal agency, Computer Emergency Response Team (CERT-In), under the Ministry of Electronics and Information Technology (MeitY). Egypt, Kenya, Mauritius, Morocco, Seychelles, and South Africa already have a cyber security cooperation framework with India.

About India Exim Bank's Working Paper Series

As part of its endeavour in enriching the knowledge of Indian exporters and thereby to enhance their competitiveness, India Exim Bank periodically conducts research studies. These research studies are broadly categorized into three segments, viz. sector studies, country studies and macro-economic related analysis. These studies are published in the form of Occasional Papers, Working Papers and Special Publications. The research papers that are brought out in the form of Working Papers are done with swift analysis and data collation from various sources. The research papers under the series provide an analytical overview on various trade and investment related issues.

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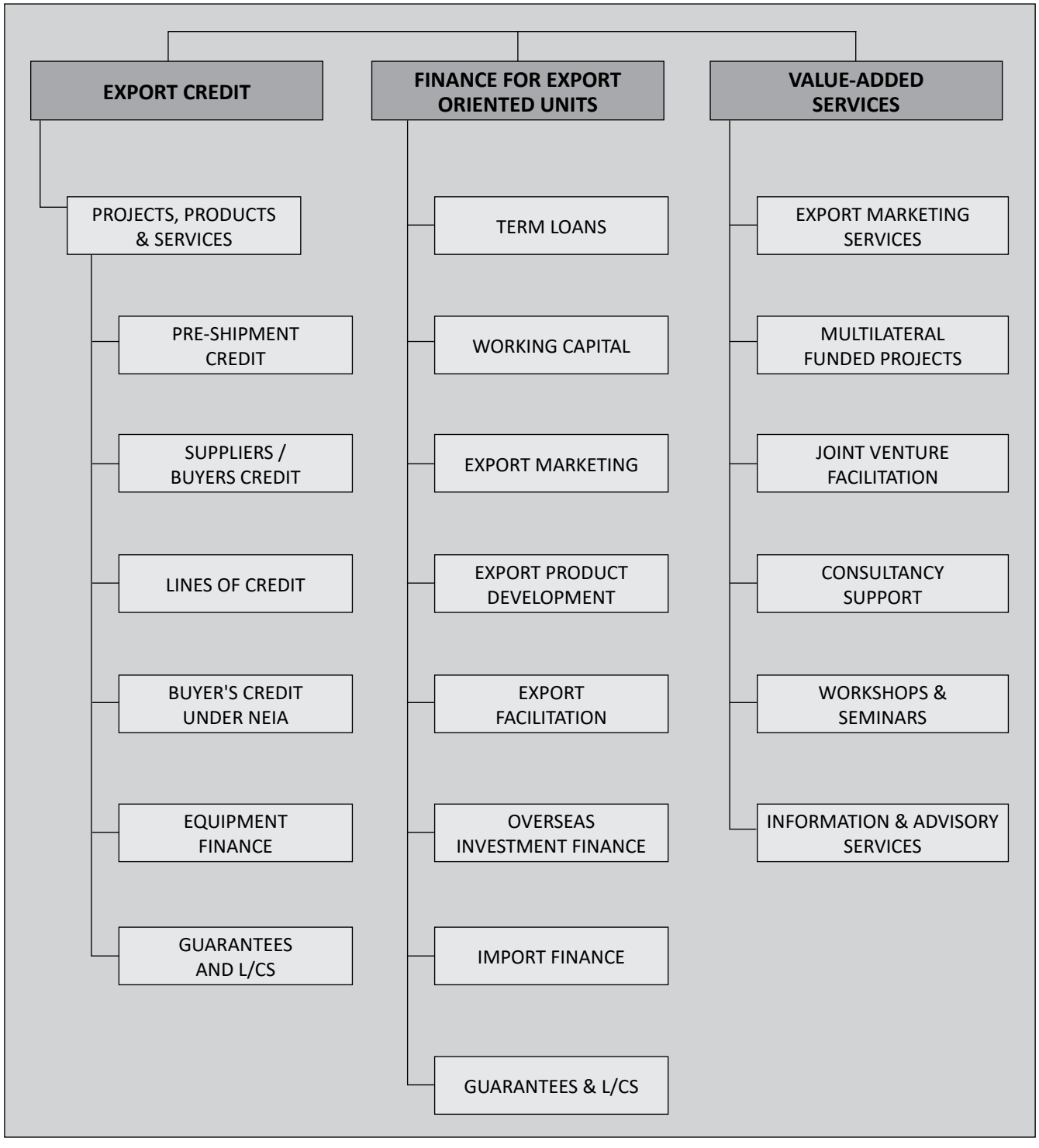

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