Economic and Environmental Trends affecting the participation of SADC countries in the International Market

By:

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Introduction

The last few decades have been a time of dynamic changes worldwide. With the current environmental crisis, the rapid advance of technology, and the demographic changes, the behaviour of the international market demands a new attitude. To reduce the emission of carbon gases and build more environmentally friendly industries, new environmental policies accompanied by technological developments have led to changes in production methods[1]. With these changes, which have been mainly marked by tendencies to reduce the exploitation of mineral resources and the search for alternatives that can lead to primary products being artificially produced, most African countries' economies which thrive on the exploitation of non-manufactured products, are

threatened.

The paper reflects on how current economic and environmental trends are impacting the trading capacity and overall economic performance of the Southern African Development Community (SADC) countries.

An overview of economic performance in the SADC Region.

The SADC comprises sixteen Member States at different stages of development but is predominantly underdeveloped. As a result, social and economic growth and development across the region are heterogeneous, with some countries attaining high growth rates and others achieving very low growth rates[2]. South Africa is the region's largest and most important economy, accounting for more than 60% of the total SADC GDP in 2007. The smallest countries by size in the SADC region (Swaziland and Lesotho) are often considered "islands" in the area of South Africa and are directly dependent on its economy. On average, most SADC countries have over 50% of their Gross Domestic Product (GDP) originating from the production of primary products, e.g. agriculture and mining[3].

The SADC region has historically experienced low economic growth, high unemployment, and a lack of capacity to compete effectively in a global marketplace. Some of the factors contributing to the current level of development include distorted and underdeveloped structures of production, poor economic performance, problems in macro-economic management and an unfavourable international economic environment[4]. More so, the SADC region's reliance on external assistance from Western industrialised countries has left it vulnerable to shocks and downturns in the global economy[5].

In many SADC countries, agriculture plays a significant role in the economy, employing almost half of the total population in the region. However, much of this agriculture is subsistence farming which does not "finance" the internal needs of the states. In much of the SADC region, there is limited large-scale production of high-value crops for export. Meanwhile, mining employs just 5% of the population but contributes approximately 60% to the foreign exchange earnings and 10% of the GDP for the SADC region[6]. Furthermore, tourism is a rapidly growing industry that SADC recognises could greatly benefit the region[7].

The general decline in exports and increase in imports, a situation that has weakened the commercial capacity in the SADC region, has also gradually transformed its economy into a primarily consumerist and less productive one. The rising foreign debt stocks and declining inward foreign direct investment have also contributed to most SADC countries' weak economic performance[8]. Furthermore, SADC region annual inflation increased to an average of 49.6% in 2020 from 16.6% in 2019[9].

Analysis of the trading capacity of the SADC countries

Most SADC countries have high imports in the international market that often exceed exports. For example, in 2020, Mozambique had exported products valued at USD3,460,033 and imported products estimated to be valued at USD6,437,597; Malawi exported products estimated to be valued at USD761,408 and imported products estimated to be valued at USD1,208,198, while Zimbabwe exported products estimated to be valued at USD4, 394, 837 and imported those valued at USD5, 047, 869. Several factors are responsible for the above situation, one of which is the weak production capacity of SADC countries. Producers in SADC countries also struggle to meet the technical standards and regulations for exports.

The SADC has promoted some initiatives to help address the abovementioned problem. These initiatives are mainly marked by the ratification of declarations and protocols that approve strategies to ensure the industrialisation and ways for the SADC countries to meet the international market standards for all internally produced products. On 18 August 1999, SADC launched the Declaration on Productivity, which set out mandates and strategies for boosting the regional industrial output. In addition, SADC approved the Regional Indicative Strategic Development Plan that aims to increase the productivity and competitiveness of industries in the SADC region. The "Trade Capacity Building Program" also focuses on the supply side of trade. It aims to support SADC state enterprises in their efforts to offer competitive, safe, reliable and cost-effective products in world markets. Although these initiatives can improve the SADC countries' trading capacity, they do not have significant outcomes. This is because states do not take the programmes seriously. It is important to ensure that these programs have real outcomes for the transformation of the economy of the SADC countries[10]. Despite all the instruments that have been

approved, little has been done in reality, and countries in the SADC are still far from the benchmark expected to compete in the international market at the same level as Western countries.

Economic trends

Intermediate products[11] represent almost half of the world's trade in goods which was close to US$ 8 trillion in 2019, with consumer products amounting to about a quarter, about US$ 4.8 trillion in 2019. While trade volume in each category has grown substantially since 2005, the relative importance of goods at different processing stages remained relatively stable. In 2019, trade in all categories except consumer products decreased, with the strongest fall in primary products. Differentiated by broad category, world trade in goods comprises mainly manufacturing products (about US$ 14.1 trillion in 2019)[12].

Trade in primary products was greatly affected by the 2015 trade downturn, and while it sizably gained in 2018, it declined significantly again in 2019. That was also the case with the trade of natural resources and, to some extent, manufacturing. According to the World Investment Report 2021, the importance of the primary sector continues to decrease. Considering the impact of the COVID-19 pandemic, foreign investment in Africa for 2020 was severely curtailed, mirroring the global business environment. The downturn will be further exacerbated by the extremely low oil prices, considering the resource-oriented investment profile of the continent. Foreign Direct Investment (FDI) flows are expected to decline between 25 and 40%[13]. The energy price shock early in 2020 also affected resource-based processing industries, halving the number of investment announcements in coke and refined petroleum and reducing the value of announced projects by a third to $30 billion.

Given the dependency of African products on inward FDI and trade in primary resources, the implications of these economic trends for the SADC region cannot be overestimated. It perhaps presents an opportunity for the region to make drastic policy changes that position countries to pivot to other sectors and products that form the foundations of the evolving global market.

The environmental crisis and its impact on trade

The Paris Agreement is a global commitment to adopt climate policies to reduce greenhouse gas emissions from 2020, replacing the Kyoto Protocol. The signatory states have committed to keeping global temperatures below 2°C, limiting it to 1.5°C. To do so, it would be necessary to implement unprecedented reductions in greenhouse gas emissions and end global dependence on fossil fuels[14]. Together, governments in the West are sending a decisive market signal (at least on paper) that the transition to a thriving clean economy is inevitable, irreversible and irresistible[15]. The energy crisis sparked by the ongoing war in Ukraine may lead to a reversal or a rethink of the policy stance of the West on this issue. The manufacturing industry, which accounts for 15% of direct energy-related CO2 emissions, is expected to change its production methods, increase research and development for new technologies and disruptive innovation, and partner with others in industry initiatives. If this is achieved, the reality is that environmentally driven supply and demand trends in the international market will be unfavourable to SADC countries in the foreseeable future.

Conclusion

It remains to be seen how countries in the SADC will position themselves to mitigate the impact of these trends on their economies. The economic trends and environmental crises discussed above highlight the vulnerability and fragility of the economies of SADC countries. To change the tide, countries in the SADC region must start investing in structured economic programs to meet the changing demands of the international market. SADC countries must rethink their economic programs and switch their focus to policies that enable enterprises to manufacture products with high-export potential in the quantities and at the level of quality required by the global market. Such a venture will require evidence of market conformity to enable its products to conform to the relevant international standards, in particular private buyer requirements and technical requirements.

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in the production of other goods.

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