

ANALYSIS OF THE SOCIO-ECONOMIC SITUATION IN THE SADC COUNTRIES

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Abstract

This article examines the current social and economic performance of South African national integral grouping SADC (Southern African Development Community). It analyzes the latest economic development in the SADC countries by looking at the GDP development and the development of several fundamental socio-political indicators that have an important impact on the stability and sustainable development of the countries. The countries are compared on the basis of indices such as HDI, Gini index, the share of population living in absolute poverty or the level of education and health sectors. In addition, they are assessed in terms of ease of doing business as well as reforms to facilitate the business. As an important determinant of socio-economic environment is considered the political environment quality, which is expressed through an aggregated index. Finally it discusses the relationship between political and socio-economic environment which is tested through statistical methods of regression and correlation. The work also contains of brief history of the SADC.

Key words: SADC, Sub-Saharan Africa, socioeconomic environment, business environment, political quality

INTRODUCTION

Since 2001 the economic growth of developed countries generally remained low and even stagnated but this has not been the case of Sub-Saharan Africa (SSA). The global demand of the primary export commodities traditionally offered by Sub-Saharan countries was kept on a high level and this ensured a stable and high growth of SSA economies – until the year 2008, when the world was hit by the financial crisis. According to the World Bank data, African GDP has increased from 340 to 840 billion U.S. \$ between 2000 and 2007 while maintaining growth rate from 3.5 to more than 6 percent per a year. In terms of African conditions and from purely economic viewpoint these results seem to be quite satisfactory. However completely different situation appears in the social field. At the time when the states of “rich north” are experiencing the unprecedented wealth and standard of living reaching the highest historical level, about 40 percent of African population live below the poverty line. Moreover, unlike with other geographical regions, there is only a minimal or even no improvement in the situation. Sub-Saharan Africa is one of the most affected areas in terms of poverty, low education level and low social development in general. These critical results are reflected also in Millennium Development Goals.

Political leaders from African countries, as well as the representatives of international organizations and development agencies have recognized these facts and seek appropriate solution to this problem.

The purpose of this paper is to present the comparative analysis of the socio-economic results of SADC (Southern African Development Community) countries over last years. In particular we are interested in the relationship between the quality of its political and governance environment and socio-economic development. We do hope to prove such hypothesis by the available and statistically reliable data.

Problems and Literature Overview

The circumstances and causes leading to establishing of the integral groups SADCC (1980–1993) and SADC (since 1993) as well as its political and economic consequences for the Southern African region presents Schoeman in his work “*From SADCC to SADC and Beyond: The Politics of Economic Integration*” (Shoeman). The author targets the different approach applied in the formation of SADC and its objectives. In contrast to the other integral efforts in Africa, the SADC focused only on the current challenges of development – especially transport and communication. A similar focus but with greater emphasis on the ideological aspects of the integratio can be found in the work “*The SADCC Experience*” by Goodison and Nee (2003). The impact of global trade liberalization (EPAs – Economic Partnership Agreement) on the SADC states describes Keck and Piermartini in “*The Economic Impact of EPAs in SADC Countries*” (Keck, Piermartini, 2005). Quite a number of authors conversant with socio-economic development in Africa publish under the aegis of the World Bank and the International Monetary Fund. This includes reports Human Development Report (HDR) (HDR, 2007/2008) or the Global Monitoring Report (GDR) (GDR, 2008) focusing on economic growth, international development assistance and political environment in the Southern African region. The “*Country Assistance Strategy*” (The WB/Country Assistance Strategies) published every three years contains the development priorities and the conditions for development assistance in each country. Strategic document “*Poverty Reduction Strategy Papers*” (PRSPs) (The IMF/PRSPs) describes the countries’ macroeconomic situation as well as structural and social policy to eradicate poverty. Furthermore some economic, social, political and historical information can be found in the reports of NEPAD (New Partnership for African Development). At the main socio-economic and institu-

tional features of the SADC countries aim Kritzinger-van Niekerk and Moreira Pinto in the report about the South African region integration “*Regional integration in Southern Africa: overview of recent developments*” (Kritzinger-van Niekerk and Moreira, 2002) where heterogeneity of socio-economic environment in the relevant states as well as problems and challenges of their common policy and analysis of regional economic integration state is analyzed. An in-depth methodological analysis could be found also in Kabát’s “*Regional Groupings in Developing World*” (Kabát, 2000). The specific topic are discussed by the same author in “*Agrárny sektor v globálnom priestore – zdroj potravín i konfliktov*” (*Agrarian sector in global environment – source of food and conflicts*) (Kabát, 2007).

MATERIALS AND METHODS

When getting information and data for the SADC countries socioeconomic analysis, the most important sources were the World Bank (WB), The International Monetary Fund (IMF) The CIA World Factbook, and The Human Development Report (HDR). There were used both general and specialized full-text resources, as well as sources of factual – the database systems. In the case of bibliographical sources, the work mostly relies on scientific publications on the server ISI Web of Knowledge available, The World Bank publications, scientific papers, journals, books and other publications. To set indicators of economic development as the guidance was used the methodology applied in the sources mentioned above (mainly WB and IMF). Besides the traditionally used indicators like GDP per capita and GDP growth rate there is used, as an indicator of socio-economic situation, the Human Development Index (HDI). This index reflects, together with economic output, also health and education development aspects. Its basic form is defined as:

$$\text{HDI} = 1/3(\text{I-GDP}) + 1/3(\text{I-LE}) + 1/3(\text{I-EDU})$$

where I-GDP, I-LE, and I-EDU represent the indexes representing economic growth, health situation of the population and the extent of education in the country as they ordered. The HDI is further modified to be more representative in terms of the South African region specificities. Specifically, when constructing the HDI there is taken into account income inequality through integration of the Gini index values. For more information on the HDI methodology of calculating see the Human Development Report 2006.

The last issue analyzed in this paper is quality of governance environment, based on the work done by D. Kaufmann et al. and their concept “Governance Matters” (Kaufmann et al., 2008). According this methodology there are six basic indicators reflecting the political and governance frame of the particular country

taken into account. They are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. These phenomena are quantitatively measured on the –2.5 to +2.5 scale. For purpose of our overall evaluation of the governance environment we are proposing to use the single GI indicator calculated as an average of the above mentioned six partial measures.

History and Presence of the SADC Countries

There were some attempts to integrate the countries of South African region already in the seventies. Those in 1980 resulted in the adoption of the Lusaka Declaration by nine countries (Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe) which joined the regional organization of SADCC (Southern African Development Co-ordination Conference) – sort of preliminary SADC. The organization objective was general economic development of member states in agriculture, industry, transport, commerce, communication networks and other sectors. Later, the community has added South Africa, Mauritius and Namibia. SADC in current form was created in 1992 in Windhoek, Namibia in the course of participation of the twelve states. Further the SADC joined three more countries – the Democratic Republic of Congo, Seychelles and Madagascar. Although the Seychelles left the organization in 2001, it is included in this work for its historical membership.

Despite each country in this region is different according its economic structure and its degree of development, the fact remains that, this area as a whole belongs to the poorest in the world. According to World Bank data there was GDP throughout the SADC about 420 billion U.S. dollars in 2007, which is not even one percent of the world GDP. For more information on the economic results see Table 1.

Looking at the distribution of the economic potential among the SADC states in terms of GDP, we can easily find which country plays the crucial role there. South Africa is the largest and most important economy in the region and almost all of the SADC countries are, more or less, linked by it. The small countries (Swaziland and Lesotho) considered as “islands” in the area of South Africa, are directly dependent on its economy. South African’s GDP accounted for more than 60 percent of the total SADC in 2007. Another country with relatively high GDP is Angola.

Table 2 shows the comparison between the SADC and the other African integration groups in which the SADC holds one of the leading positions. Its area (9 883 thousand km²) and population (234 millions) ranks SADC to third position while GDP value (about U.S. \$ 737 million), together with COMESA, to the second. In the case of per capita GDP the value of \$ 3 152 U.S. ranks it at the top of regional economic performance.

Tab. 1: Economic results of the SADC countries

	Population (mil.)	GDP growth (% p.a.)		GDP (mld USD)		GDP per capita (US\$)		Capital formation (% of GDP)	
	2007	2000	2007	2000	2007	1999	2008	2000	2007
Angola	17.0	3.0	23.4	9.1	58.6	1030.0	9 100	15	14
Botswana	1.9	8.2	3.8	6.2	11.8	3 900.0	15 800	35	22
D. R. of the Congo	62.4	-6.9	6.5	4.3	9.0	710.0	300	3	18
South Africa	47.6	4.2	4.8	132.9	277.6	6 900.0	10 400	16	20
Lesotho	2.0	2.6	4.9	0.9	1.6	2 240.0	1 600	43	36
Madagascar	19.7	4.8	6.5	3.9	7.3	780.0	1 100	15	29
Malawi	13.9	1.6	7.4	1.7	3.6	940.0	800	14	28
Mauritius	1.3	4.0	4.7	4.5	6.4	10 400.0	12 400	26	26
Mozambique	21.4	1.1	7.0	4.3	7.8	1 000.0	900	31	24
Namibia	2.1	3.5	5.9	3.4	6.7	4 300.0	5 500	20	30
Seychelles	0.1	0.61	0.73	0.6	0.7	7 500.0	18 700	25	42
Swaziland	1.1	2.6	2.4	1.4	2.9	4 200.0	5 100	19	16
Tanzania	40.4	5.1	7.1	9.1	16.2	550.0	1 400	NA	NA
Zambia	11.9	3.6	6.0	3.2	11.4	880.0	1 500	17	24
Zimbabwe	13.4	-7.9	NA	7.4	2.6	2 400.0	200	14	NA
SADC average	...	2.0	6.5	12.9	30.3	3 182.0	5 653.3	20.9	25.3
SADC in sum	256.2	...	...	192.8	424.0	...	...	...	...
Sub-Sah. Africa	799.8	3.5	6.2	341.4	842.9	...	...	...	...
World	6 612	4.1	3.8	31 949	54 347	...	...	...	...

Sources: The World Bank, CIA World Book

Tab. 2: SADC group and its comparison with other regional bloc

Pillars regional blocs (REC)	Area (km ²)	Population	GDP (PPP) (\$US)		Member states
			in millions	per capita	
AEC	29 910 442	853 520 010	2 053 706	2 406	53
ECOWAS	5 112 903	251 646 263	342 519	1 361	15
ECOWAS	6 667 421	121 245 958	175 928	1 451	11
SADC	9 882 959	233 944 179	737 335	3 152	15
EAC	1 817 945	124 858 568	104 239	1 065	5
COMESA	12 873 957	406 102 471	735 599	1 811	20
IGAD	5 233 604	187 969 775	225 049	1 197	7
Western Sahara	266 000	273 008	?	?	N/A
Other African blocs	Area (km ²)	Population	GDP (PPP) (\$US)		Member states
			in millions	per capita	
CEMAC	3 020 142	34 970 529	85 136	2 435	6
SACU	2 693 418	51 055 878	541 433	10 605	5
UEMOA	3 505 375	80 865 222	101 640	1 257	8
UMA	5 782 140	84 185 073	491 276	5 836	5
GAFTA	5 876 960	166 259 603	635 450	3 822	5

Source: CIA World Factbook 2005, IMF WEO Database

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Comparing to the GDP indices, even more visible differences arise among the countries of SADC if measured by HDI (see Table 3). Rather different results are obtained if applied modified HDI (HDI mod) which

is constructed through an integration of Gini index reflecting an income inequality rate in a country. Particularly evident is this in Namibia. In terms of the SADC Namibia has high per capita GDP which means a good position in the HDI ranking. But it is also country with very high income inequality, therefore, after adjusting by Gini index (HDI mod) it falls to the last position. Similar course can be seen in cases of Lesotho and Botswana. The change in opposite direction (from 10th to 1st position) took place in Tanzania as it has the lowest Gini index of all SADC countries. Madagascar together with Malawi reached better positions after the modification as well.

Tab. 3: HDI, Gini index and modified HDI in the SADC countries

	Life expectancy index	Education index	GDP index	HDI				Gini index	HDI model	
	2005			2000	2005	Rank/world	Rank/SADC	2005	2005	Rank/SADC
Angola	0.279	0.535	0.526	NA	0.447	162.	11.	NA	NA	NA
Botswana	0.385	0.773	0.804	0.631	0.654	124.	4.	0.605	0.258	6.
D. R. of the Congo	0.346	0.560	0.328	0.375	0.411	168.	14.	NA	NA	NA
South Africa	0.430	0.806	0.786	0.707	0.674	138.	3.	0.632	0.284	2.
Lesotho	0.293	0.768	0.585	0.581	0.549	143.	6.	0.475	0.202	10.
Madagascar	0.557	0.670	0.371	0.493	0.533	164.	8.	0.390	0.280	3.
Malawi	0.355	0.638	0.317	0.431	0.437	65.	12.	NA	0.266	5.
Mauritius	0.790	0.813	0.809	0.781	0.804	172.	2.	NA	NA	NA
Mozambique	0.296	0.435	0.421	0.375	0.384	125.	15.	0.473	0.202	9.
Namibia	0.444	0.783	0.723	0.657	0.650	50.	5.	0.743	0.167	11.
Seychelles	0.795	0.886	0.848	NA	0.843	141.	1.	NA	NA	NA
Swaziland	0.265	0.730	0.647	0.592	0.547	159.	7.	0.504	0.271	4.
Tanzania	0.434	0.631	0.335	0.433	0.467	165.	10.	0.346	0.271	1.
Zambia	0.259	0.655	0.388	0.420	0.434	151.	13.	0.508	0.305	8.
Zimbabwe	0.265	0.770	0.503	0.541	0.513	121.	9.	0.501	0.214	7.
SADC average	0.184	0.326	0.258	0.540	0.556	...	...	0.520	0.265	...

Source: UNDP, Human Development Report 2007/2008 / Statistics

Analysis of the relationship between economic performance and quality of governance environment

It is generally assumed that the precondition for a country's satisfactory economic performance is a good quality of its political and governance environment. It results also from Table 4, in which the SADC states are ranked according to these two aspects.

The quality of governance environment is represented by governance indicator (GI), while the level of economic performance is represented by GDP per capita. Three of the four states with the highest GDP per capita – Botswana, Mauritius and South Africa – reached also the highest values of GI. In Botswana it is result of policy supporting economy diversification and reducing unemployment as well as the fight against HIV/AIDS. The government reformed to facilitate starting a business as well as to ensure greater protection of investors. On the other hand, paying taxes has become more complicated. Similarly Mauritius facilitated registering property and

getting credit. South African economic policy is fiscally conservative but pragmatic, focusing on controlling inflation, maintaining a budget surplus, and using state-owned enterprises to deliver basic services to low-income areas as a means to increase job growth and household income. The outlined relationship between economy and political environment is not so well followed in cases of Seychelles and Angola yet. Seychelles as a country with the highest per capita GDP reached only to 5th GI position (but still in positive numbers). Partly it could be caused by stagnant implementation of government policies to promote private sector development. In contrast, Angola as a country with the third lowest value of GI has the fifth highest per capita GDP. However, the economic performance was achieved using a somewhat short-sighted economic policy that benefits mainly just from rich oil deposits. Other problems such corruption, especially in the extractive sectors, and the negative effects of large inflows of foreign exchange, are major

challenges facing Angola. Another quite well performed country (in relation to its low value of GI) is Swaziland. However, the country is heavily dependent on South Africa, needs to reduce the size of the civil service and control costs at public enterprises as well as to improve the atmosphere for foreign investment. Zimbabwe and D.R. of Congo, potentially rich countries with large natural assets, are in terms of per capita GDP on the bottom of the world rankings (250 U.S. \$ GDP per capita on the average).

Despite long-term problems the government tries to solve the situation.

For the more detailed study on the overall quality of the governance environment we are taking into account GI

values and GI rankings, GDP pc values and GDP pc rankings as well as sum of the both rankings. Results are shown in Table 5.

In Figure 1 we present the statistical relation between GI and GDP pc rankings, where relationship between these two criteria is shown. Correlation analysis and the determination index $R^2 = 0.102$ do confirm relatively strong causal relationship between these two indicators. Actually, only Angola and Seychelles are showing some kind of outlying positions. Having in mind the past history of Angola such a position is fully understandable.

Tab. 4: The Governance Indicator (GI) and HDP p.c.

	GI	Rank		GDP pc (US \$)	Rank
Botswana	0.68	1.	Seychelles	18 700	1.
Mauritius	0.66	2.	Botswana	15 800	2.
South Africa	0.43	3.	Mauritius	12 400	3.
Namibia	0.33	4.	South Africa	10 400	4.
Seychelles	0.09	5.	Angola	9 100	5.
Madagascar	-0.18	6.	Namibia	5 500	6.
Lesotho	-0.25	7.	Swaziland	5 100	7.
Mozambique	-0.31	8.	Lesotho	1 600	8.
Tanzania	-0.32	9.	Zambia	1 500	9.
Zambia	-0.39	10.	Tanzania	1 400	10.
Malawi	-0.42	11.	Madagascar	1 100	11.
Swaziland	-0.60	12.	Mozambique	900	12.
Angola	-1.03	13.	Malawi	800	13.
D. R. of Congo	-1.38	14.	D. R.of Congo	300	14.
Zimbabwe	-1.58	15.	Zimbabwe	200	15.

Sources: World Governance Indicators VII, CIA World Book 2008

Tab. 5: The SADC countries ranking according to sum of ranks in terms of political and economic environment

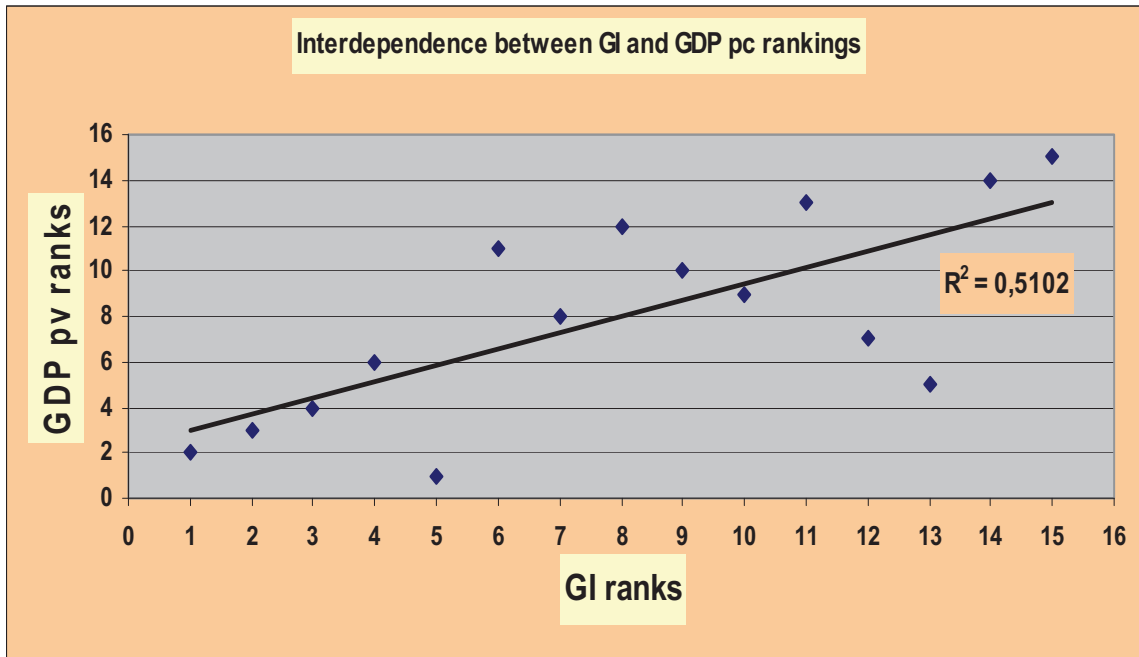
Country	GI	Rank-GI	GDP pc (US \$)	Rank - GDP	Sum of ranks
Angola	-1.03	13.	9 100	5.	18
Botswana	0.68	1.	15 800	2.	3
D. R. Congo	-1.38	14.	300	14.	28
J.A.R.	0.43	3.	10 400	4.	7
Lesotho	-0.25	7.	1 600	8.	15
Madagascar	-0.18	6.	1 100	11.	17
Malawi	-0.42	11.	800	13.	24
Mauritius	0.66	2.	12 400	3.	5
Mozambique	-0.31	8.	900	12.	20
Namibia	0.33	4.	5 500	6.	10
Seychelles	0.09	5.	18 700	1.	6
Swaziland	-0.60	12.	5 100	7.	19
Tanzania	-0.32	9.	1 400	10.	19
Zambia	-0.39	10.	1 500	9.	19
Zimbabwe	-1.58	15.	200	15.	30

Source: Calculated and presented by authors

Another approach to define the overall ranking of the governance environment among the SADC countries is based on the total sum of rankings for both indicators under consideration (GDP and GI). Figure 2 shows clearly Botswana, Mauritius, Seychelles and J.A.R. as the leaders in the quality of the governance environment as well as in economic performance of these countries. On the opposite site of the hierarchy there are Zimbabwe, D.R. of Congo and Malawi with poor performance in both indicators.

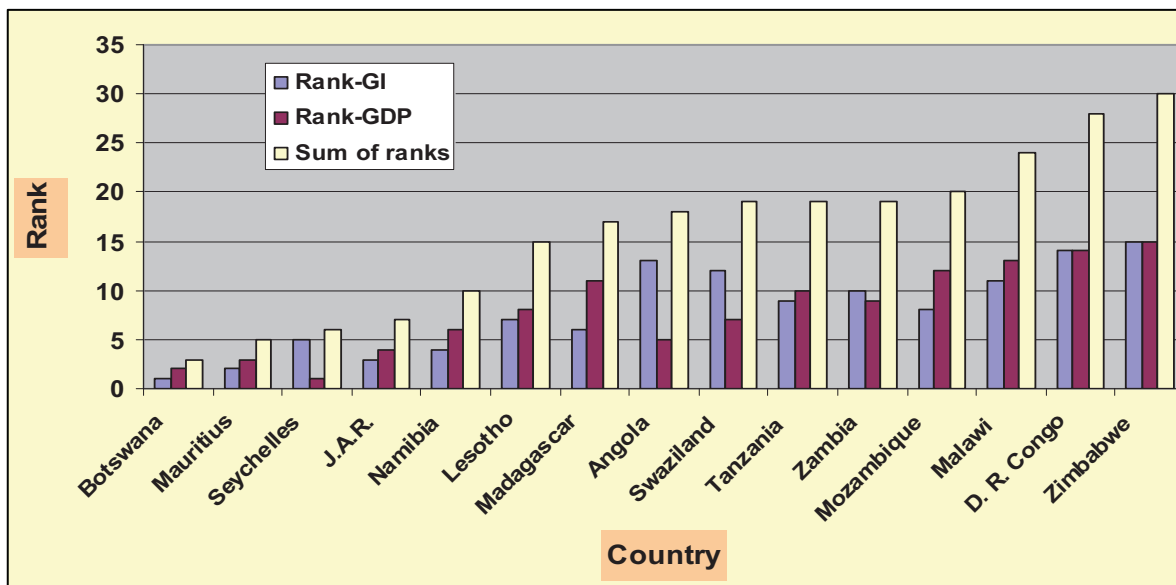
The above presented outcomes could be used as a strong argument for further discussions an analytical work on countries lagging behind with their democratic transformation. The positive impacts of such changes in their political and governance systems are practically inescapable on their path to better economic performance and improving the living standard of their population.

Fig. 1: The relationship between the GI index and the GDP p.c.



Source: Calculated and presented by authors

Fig. 2: Rankings of the SADC countries according to GI, GDP pc and overall rankinks



Source: Calculated and presented by authors

CONCLUSION

Based on the results presented above it is possible to claim that in terms of its basic socio-economic characteristics the SADC countries form a considerably heterogeneous group. Building on the available data analysis, the working hypothesis of the governance environment quality influence on the countries economic and social dynamics has been fully confirmed. The best performing countries in this region are JAR, Botswana, Mauritius and Seychelles, while Zimbabwe, D.R. Congo and Malawi are significantly lagging behind the expected and urgently needed changes in their national political systems as well in their national economies. The further monitoring of the situation in the countries of this region and search for new information sources to verify the applied evaluation methodology as well as the results presented above is necessary.

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*Received for publication on May 26, 2009
Accepted for publication on June 17, 2009*

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