

DISCUSSION PAPER:

**THE SOUTHERN AFRICAN CUSTOMS UNION'S POSITION ON
THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)
AND GEARING THE NAMIBIAN PRIVATE SECTOR FOR THE
OPPORTUNITIES OFFERED BY THE AfCFTA**

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1. INTRODUCTION

- 1.1 For many small economies, regional integration has become an important policy consideration and national strategy for expanding export market and to enhance economic development. The Member States of the Southern African Customs Union (SACU), namely Botswana, Eswatini, Lesotho, Namibia, and South Africa, have also embraced this strategy. One of SACU's aspirations is to serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intra-regional trade and investment, and global competitiveness. In pursuance of this vision, SACU has concluded negotiations on a number of Preferential and Regional Trade Agreements (RTAs) through its unified and coordinated approach in an effort to integrate the SACU economies into the global market and ultimately achieve economic development.
- 1.2 The most recent and by far the most important trade negotiations that the SACU Member States have been pre-occupied with relates to the African Continental Free Trade Area (AfCFTA). The AfCFTA aims to boost trade among the African countries, which has for many years remained below 20 percent. At the same time, trade between African countries and the rest of the world accounted for over 50 percent of the Continent's total trade (African Development bank, 2018). The AfCFTA will not only integrate and enhance trade relations among the African economies, it will also provide an opportunity for the Continent to expand markets, modernize its productive capacity to effectively supply the African market, comprising 55 countries with its estimated 1.3 billion consumers and a combined GDP of around \$3.4 trillion
- 1.3 For these Continental objectives to deliver any impactful benefits to the respective African countries, individual Member States will have to take steps to explore ways of leveraging on the opportunities that the AfCFTA will bring about. This Paper is therefore prepared with a view to contribute to the discussions under the Theme "*Positioning Namibia to Reap the Benefits of the African Continental Free Trade Area*". The Paper provides an update on the progress made thus far in the AfCFTA negotiations; and provides suggestions on how the SACU Member States, specifically Namibia and its private sector, can leverage on the AfCFTA to enhance trade and ultimately achieve economic growth, industrialisation and diversification of products and markets.
- 1.4 The Paper is structured as follows: this introductory **Section** is followed by a brief background on the AfCFTA negotiation process in **Section 2**. **Section 3** highlights the structure/ architecture of the AfCFTA, while the liberalisation modalities on Trade in Goods and Trade in Services are presented in **Section 4**. **Section 5** highlights the potential benefits, threats, and remedial measures available to mitigate potential risks that may arise from the AfCFTA, and **Section 6** provides a review of the overall SACU trade performance with the rest of Africa followed by the analysis of Namibia's trade performance with the rest of Africa in **Section 7**. Finally, **Section 8** highlights SACU's Position and Policy Interventions in response to the AfCFTA while **Section 9** provides policy recommendations for Namibia to maximize the benefits from the AfCFTA. The conclusion is provided for under **Section 10**.

2. BACKGROUND ON AfCFTA

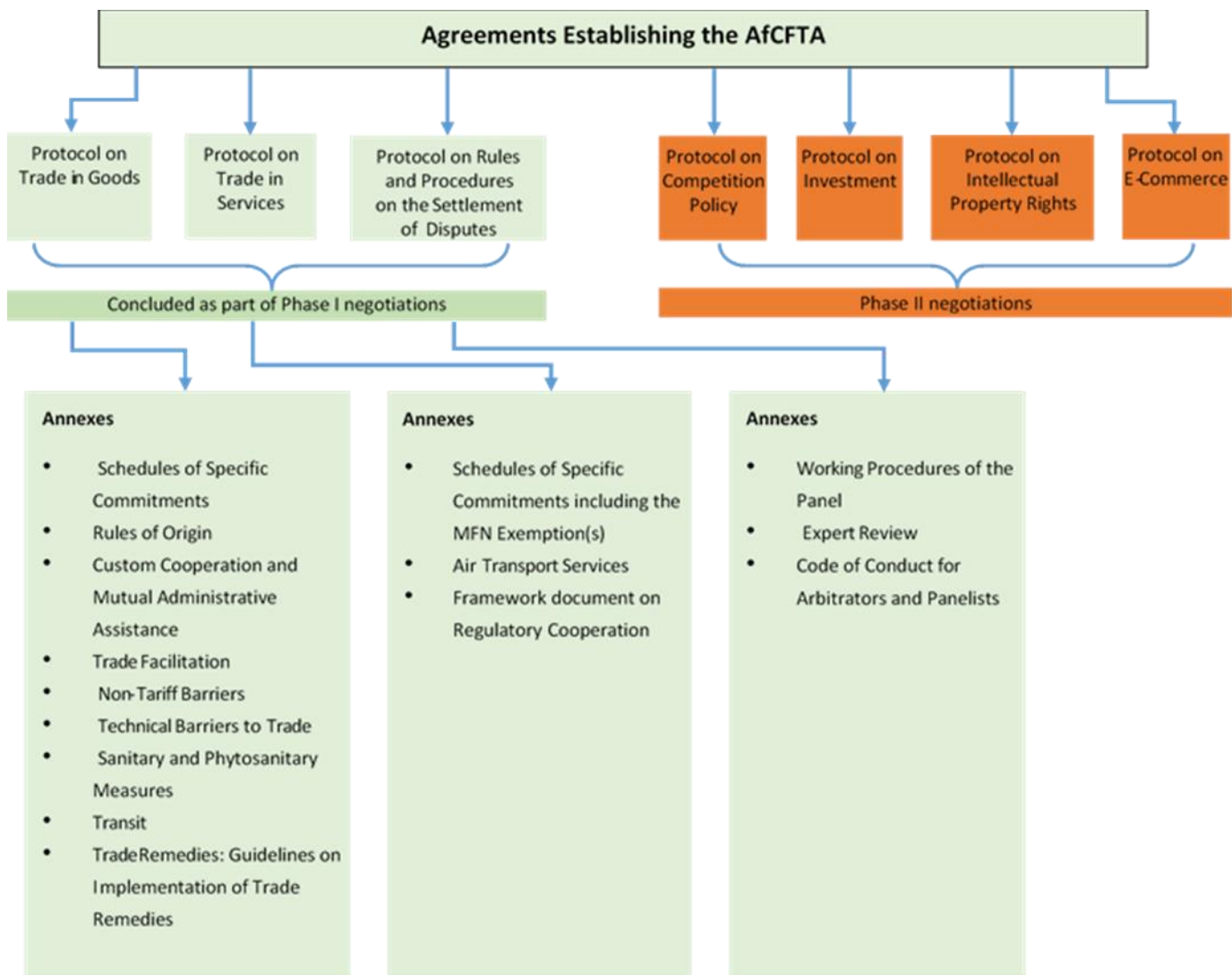
- 2.1 Africa's aspirations for economic integration dates back to the 1980s when African leaders adopted the Lagos Plan of Action to increase Africa's self-sufficiency and economic development (Organisation of African Unity, 1980). The Abuja Treaty Establishing the African Economic Community (hereinafter referred to as "the Abuja Treaty"), signed in 1991, laid the foundation for the creation of an African Economic Community through a gradual process of co-ordination, harmonisation, and progressive integration of the activities of existing and future Regional Economic Communities (RECs) in Africa. In this regard, the Treaty envisaged the establishment of the AfCFTA as a catalyst to boost intra-African trade, to diversify, and structurally transform African economies to achieve the African aspirations as outlined in the African Union (AU) Agenda 2063. Therefore, the AfCFTA is considered a flagship project of the broader AU Agenda 2063.
- 2.2 The decision on the creation of the AfCFTA was taken at the 18th Ordinary Session of the Assembly of Heads of State and Government of the AU, held in Addis Ababa, Ethiopia on 29-30 January 2012. The overall objective of the AfCFTA is to boost intra- Africa trade, support Africa industrial development, create business opportunities, generate jobs, and ultimately help to alleviate poverty (African Union, 2018).
- 2.3 The AfCFTA negotiations were launched by the Assembly of Heads of State and Government of the AU at its 25th Ordinary Session held on the 15th June 2015 in Johannesburg, South Africa. The text-based negotiations on the AfCFTA subsequently commenced and were concluded towards the end of 2017. The Agreement establishing the AfCFTA and its operating instruments was signed at the Extra-Ordinary Session of the Assembly of Heads of State and Government of the AU held on the 21st March 2018 in Kigali, Rwanda.
- 2.4 To date, all AU Member States have signed the AfCFTA, except Eritrea, with thirty (30) countries having ratified the Agreement as of the 4th November 2020. The AfCFTA entered into force on the 30th May 2019, after twenty-two (22) countries had deposited their instruments of ratification with the Chairperson of the Africa Union Commission (AUC). All the SACU Member States have signed the AfCFTA while three (3) Member States, namely, Eswatini, Namibia and South Africa have also ratified the agreement.
- 2.5 According to the United Nations Economic Commission for Africa (UNECA) Report 2017, on regional integration in Africa, the AfCFTA will be the largest trading arrangement since the formation of the World Trade Organisation (WTO). The AfCFTA boasts of a market size of over 1.3 billion people, with a combined aggregate GDP of close to US\$3.4 trillion. The UNECA Report further estimates that the AfCFTA has the potential to boost intra-African trade by 52.3 percent, from the current 18 percent, once the import duties and non-tariff barriers are eliminated.
- 2.6 Trading under the AfCFTA Agreement was due to commence on the 1st July 2020. However, due to the outbreak of the COVID-19 pandemic, this date has

been postponed to the 1st January 2021. The AU Summit scheduled for the 5th December 2020 in South Africa, is expected to approve the Schedules for Tariff Liberalisations, Schedules of Specific Commitments on Trade in Services as well the remaining Rules of Origin in preparation for the commencement of trading under the AfCFTA on the 1st January 2021.

3. THE STRUCTURE/ ACTHITECTURE OF THE AFCFTA

3.1 The AfCFTA Agreement contains seven (7) Protocols including the Protocol on Trade in Goods. This, together with the Protocol on Trade in Services and the Protocol on Dispute Settlement, were concluded and signed as part of Phase I negotiations. The architecture of the AfCFTA is illustrated in figure 1 below.

Figure 1: The Architecture of the AfCFTA



4. THE LIBERALISATION MODALITIES

A. Modalities on Tariff Liberalisation (Trade in Goods)

- 4.1 As provided for under Article 3 of the Protocol on Trade in Goods, Annex 1 on the Schedule of Tariff Concessions is one of the critical instruments necessary to operationalise the AfCFTA. Article 1 of this Annex binds the State Parties to develop Schedules of Tariff Concessions in accordance with the approved Modalities for Tariff Liberalisation.
- 4.2 The Modalities for tariff liberalisation were adopted by the African Union Ministers of Trade (AMOT) on the 16th June 2017, in Niamey, Niger. These were subsequently endorsed by the 32nd Ordinary Session of the AU Assembly of Heads of State and Government held on 10-11 February 2019, in Addis Ababa, Ethiopia. The following table presents the AfCFTA modalities for Tariff Liberalisation.

Table 1. AfCFTA Modalities for Tariff Liberalisation

	Non-LDCs and LDCs	Timeframe: Non-LDCs	Timeframe: LDCs (SDT)
Level of Ambition	90 percent	5 years	10 years
Sensitive Products	7 percent.	10 years	13 years
Exclusion List	3 percent		

Source: AUC, 2017

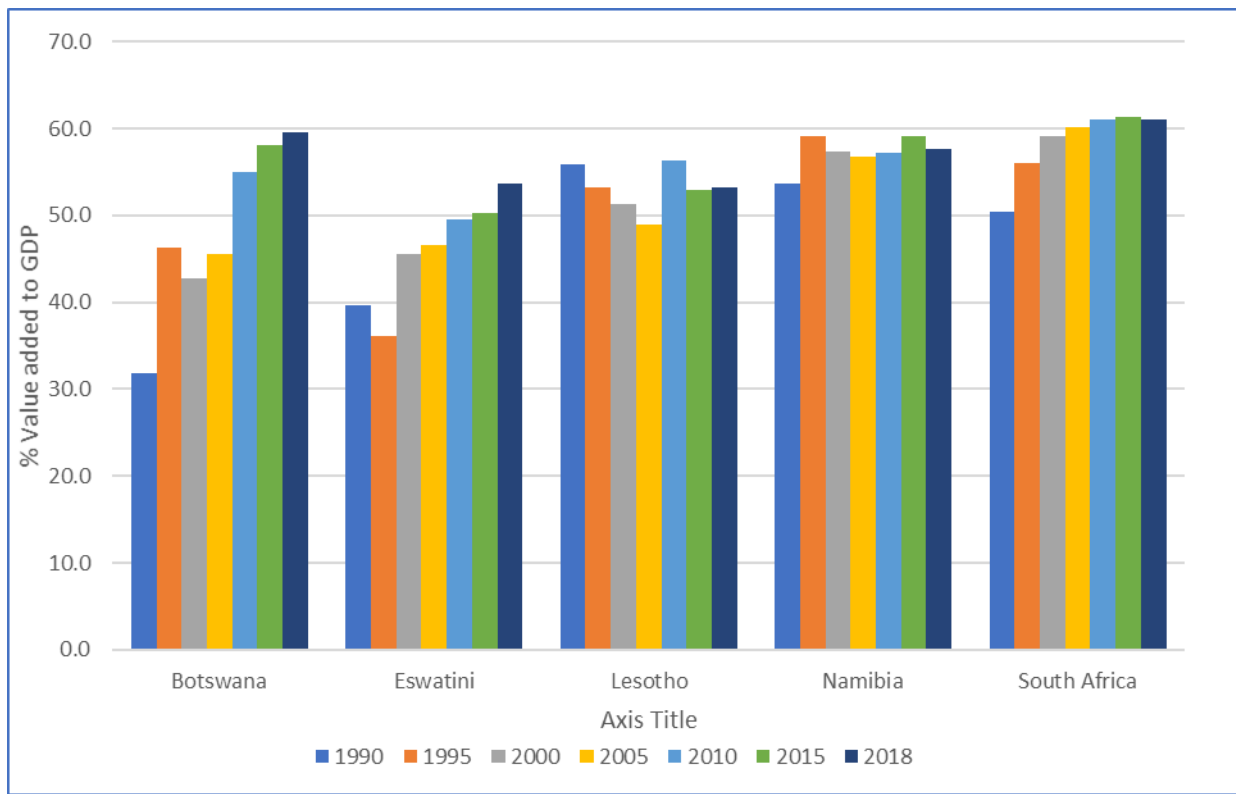
- 4.3 As illustrated in Table 1 above, Member States are expected to liberalise ninety (90) percent of their tariff lines within 5 years in respect of non-Least Developing Countries (non-LDCs) and 10 years for Least Developing Countries (LDCs). In addition, Member States are allowed to designate seven (7) percent of their tariff lines as “*sensitive products*” which will still be subjected to tariff liberalisation, albeit with a longer implementation period of 10 years for non-LDCs and 13 years for LDCs.
- 4.4 The “*exclusion list*” is exempted from tariff liberalisation. However, additional criteria will be applied to ensure that Member States effectively liberalise and do not concentrate their exclusion lists on those tariff lines that would be of export interests to other countries. In this regard, the *double qualification* clause has been adopted to ensure that the *exclusion list* does not account for more than 10 percent of imports from Africa. This, therefore, means that the AfCFTA will eventually liberalise at least 97 percent of tariff lines and 90 percent of imports at the end of their implementation period. Ultimately, duties will only remain applicable on a maximum of 3 percent of tariff lines and 10 percent of imports.

- 4.5 The process towards the formulation of the Schedule of Concessions is still in progress. Member States are expected to exchange tariff offers covering 90 percent of national tariff lines and thereafter, engage on the negotiations on the remaining 10 percent. In SACU, national and regional consultations are underway to develop the SACU tariff offer under the AfCFTA. The SACU tariff book contains 7834 tariff lines. Therefore, in line with the agreed modalities, the SACU's tariff offer on the 90 percent level of ambition will constitute around 7051 tariff lines; the sensitive list will be approximately made up of 548 tariff lines while around 235 tariff lines will be excluded from the liberalisation commitments.

B. Modalities on Trade in Services

- 4.6 As it was the case for Trade in Goods, AMOT, at their 3rd Meeting held on the 16th June 2017, in Niamey, Niger, adopted the Modalities on Trade in Services. The same was subsequently endorsed by the AU Assembly of Heads of State and Government at its 32nd Ordinary Session held on 10-11 February 2019, in Addis Ababa, Ethiopia.
- 4.7 These Modalities provide a basis for the liberalisation of Trade in Services among the AfCFTA Member States, as well as a basis for future regulatory cooperation, in line with their agreed commitments.
- 4.8 The scope of liberalisation covers all the service sectors and all modes of supply as defined under the General Agreement on Trade in Services (GATS). This means there shall be no *a priori* exclusion of any services sector or mode of supply of services in the negotiations. The negotiations are conducted in two phases. Phase I commenced with the five (5) priority sectors: namely *financial services, communication, transport, tourism, and business services*. Phase II will cover the remaining services sectors.
- 4.9 The Modalities provide for the negotiations to proceed on the basis of progressive liberalisation. This combines the GATS-type scheduling of specific commitments, on the one hand, with regulatory cooperation, on the other hand. The negotiations are based on a positive list approach with liberalisation based on the platform of request and offer by the Member States. This process has already begun and is expected to be completed by January 2020.
- 4.10 Although the SACU Member States are not bound to engage in negotiation on Trade in Services as a bloc, the significance of the Services sector to the region cannot be overemphasised. Figure 2 below illustrates how the Services sector in all the SACU Member States has been steadily growing over the past few decades, accounting for larger shares of value added to GDP. The latest trends show that the value added by Services to GDP for all the SACU countries was over 50% in 2018.

Figure 2: Value Added by Services to GDP in SACU Member States, 1990-2018)



Source: World Bank (2020)

4.11 A comparison of value added by manufacturing, agriculture and services sectors shows that the share of value added by the services sector to GDP has over the years outweighs the share of manufacturing and agriculture sectors in all the SACU Member States (World Bank, 2020). It is also noted that the value added by services has been increasing over the years, a trend which highlights increased economic activity in the services sector across all the SACU countries (Table 2). In 2018, the share of value added by services to GDP was 59.5% for Botswana, 53.7 percent for Eswatini, 53.2 percent for Lesotho, 57.7 percent for Namibia and 61.0 percent for South Africa (World Bank, 2020).

Table 2. SACU Member States' Comparative shares of value added by Services, Agriculture & Manufacturing to GDP (1990- 2018)

Country	Indicator	1990	1995	2000	2005	2010	2015	2018
Botswana	Services VA (% of GDP)	31.8	46.3	42.7	45.6	55.0	58.1	59.5
	Agriculture VA (% of GDP)	4.5	4.6	2.8	1.8	2.5	2.2	2.0
	Manufacturing VA (% of GDP)	4.8	5.3	5.6	4.9	6.4	5.8	5.2
Eswatini	Services VA (% of GDP)	39.6	36.1	45.6	46.6	49.6	50.2	53.7
	Agriculture VA (% of GDP)	8.9	10.1	12.3	11.0	10.2	9.3	8.6
	Manufacturing VA (% of GDP)	31.4	32.8	33.9	34.2	32.5	31.6	28.9
Lesotho	Services VA (% of GDP)	55.9	53.2	51.3	48.9	56.3	52.9	53.2
	Agriculture VA (% of GDP)	12.2	8.8	7.8	5.7	5.1	5.0	6.0
	Manufacturing VA (% of GDP)	9.5	9.0	13.6	20.0	12.5	14.6	14.0
Namibia	Services VA (% of GDP)	53.7	59.1	57.4	56.7	57.2	59.1	57.7
	Agriculture VA (% of GDP)	9.1	9.5	11.0	10.6	8.6	5.9	7.2
	Manufacturing VA (% of GDP)	10.4	10.2	10.0	10.7	12.5	9.7	10.1
South Africa	Services VA (% of GDP)	50.5	56.1	59.1	60.1	61.0	61.4	61.0
	Agriculture VA (% of GDP)	4.2	3.5	3.0	2.4	2.4	2.1	2.2
	Manufacturing VA (% of GDP)	21.6	19.5	17.5	16.3	13.1	12.0	11.8

Source: World Bank (2020)

4.12 The trends in Table 2 above highlights the significance of Services to the SACU economies. The Table shows that value added by services accounts for 53% to 61% of the GDP in the SACU region. This further illustrate the potential and opportunities for the enhancement of trade through services. This also highlights the importance of services as an enabler, and an input into production processes, for example through the integration of payment systems to make trade easier, telecommunications, transport etc.

4.13 This trend corresponds to the findings of a Study undertaken by SACU in 2011, which concluded that the SACU economies have a comparative advantage on trade in services than trade in goods (SACU Secretariat, 2011).

4.14 The above analysis also highlights the need for SACU Countries to put more efforts into AfCFTA Trade in Services negotiations, in order to complement the liberalisation of Trade in Goods. This is crucial especially given the embeddedness of Services on Trade in Goods.

5. POTENTIAL BENEFITS, THREATS, AND REMEDIES TO MITIGATE THE RISKS FROM THE AfCFTA

5.1 Trade liberalisation entails the removal of barriers on imports such as tariffs, and non-tariff measures thereby enhancing efficiency for cross-border trade. Trade liberalisation leads to lower import prices and thus consumer prices. Moreover, with trade liberalisation, consumers are able to access a greater variety of products in domestic markets. Due to these two effects, trade liberalisation may lead to welfare gains in the form of consumer surpluses in importing countries. Lower import prices may also reduce costs of imported raw materials and intermediate inputs for downstream producers in the

importing countries. The reduction in production costs therefore increases competitiveness of domestic producers and allow countries to integrate into global value chains.

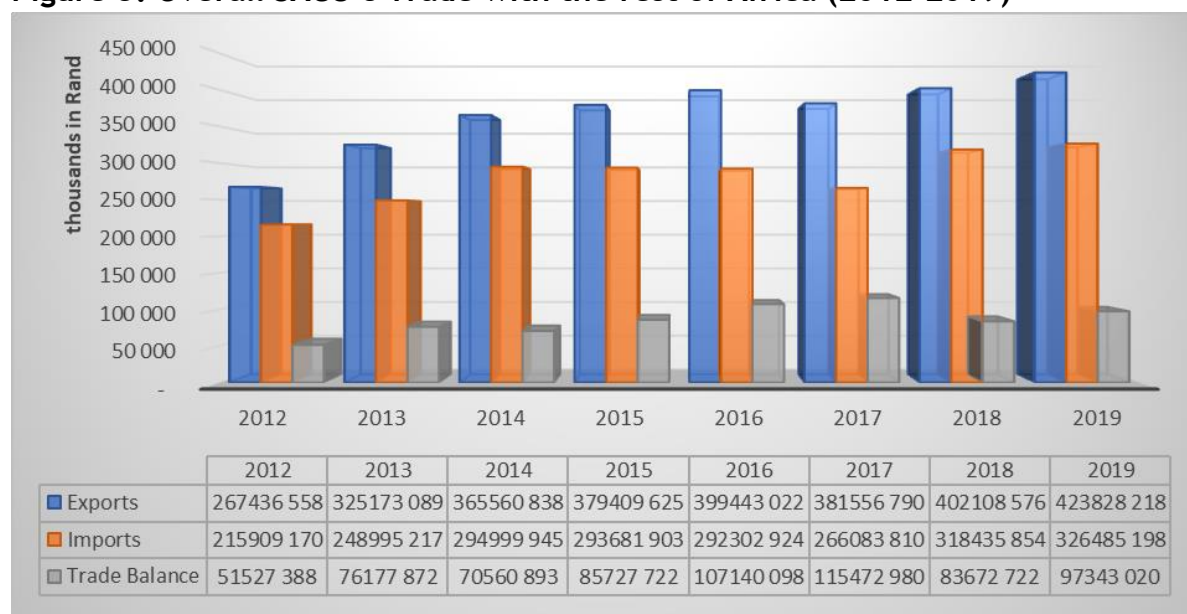
- 5.2 Several Studies such as those undertaken by United Nations Economic Commissions for Africa (UNECA), the Africa Development Bank (AfDB) and AUC (2018) have concluded that the AfCFTA has the potential to promote employment, industrial linkages, economic diversification, and structural transformation in Africa. In particular, the Study by the Afreximbank (2018) on the implications of the AfCFTA states that the AfCFTA's long-term gains are forecast to boost intra-African trade by more than 50 per cent and welfare gains amounting to \$16 billion. *Mevel and Karingi* (2013) took it even further that if trade facilitation reforms take place at the same time as market opening, the forecasted economic benefits will even be larger. For smaller economies, the AfCFTA will ease the process of importing raw materials from other African countries. Through the liberalisation of Services, in particular, Mode 3 on commercial presence, the AfCFTA will enable Small Medium Enterprises (SMEs) to set up assembly firms in other African countries, in order to access cost efficient means of production and thereby increase their bottom lines.
- 5.3 While noting that the AfCFTA is beneficial in general, it is acknowledged that its successful implementation could be challenging. For instance, the diverse disparity in the levels of economic development across the African countries may pose some challenges in ensuring that all Member States benefit from the AfCFTA.
- 5.4 In addition, the AfCFTA may be less beneficial for countries whose production capacity is limited and not diversified, such as Namibia. Likewise, the market integration could lead to increased competition especially for SMEs who constitute the biggest portion of businesses across many African countries. It is further noted that there may be risks of transshipments and trade in counterfeit products which could erode the benefits of the AfCFTA. These risks will arise if customs and border management and all the necessary administrative procedures are not in place and where necessary harmonized and tightened to control such harmful practices. In addition, it is also important for customs authorities to be effectively capacitated to implement and administer implementation of the agreement including the verification of the origin of goods being traded.
- 5.5 However, these challenges as highlighted above, should not be a reason to discourage Member States to effectively participate in the AfCFTA. Fortunately, some of these challenges were foreseen and measures have been adopted to mitigate their effect. For instance, the Agreement has self-regulatory provisions on trade defence instruments which Member States could invoke in the event they are faced with a surge in imports, and other unfair trade practices which could harm the local industries.
- 5.6 There are also other AU Programmes on industrialisation and infrastructure development being undertaken to complement the AfCFTA. For example, in

an effort to address the systematic productive capacity constraints and the lack of diversification across many of the African countries, work is being undertaken at the AU level to implement the Action Plan for Accelerated Industrial Development for Africa (AIDA) and develop a Continental Commodities Strategy (CCS).

- 5.7 AIDA is a continental framework aimed to address the root causes of Africa's low industrial development. Among others, the AIDA is aimed at ensuring the development and implementation of an industrial policy which prioritise the use of local productive capacities/inputs, value addition and the processing of the abundant natural resources.
- 5.8 In addition, the CCS is being developed with a primary objective to transform Africa from a supplier of raw materials for the rest of the world, to a Continent that actively uses its own resources to ensure economic development of Africans. This Strategy is also seen as key to enabling African countries to add value and extract higher rents from their commodities, integrate into the Global Value Chains, and promote vertical and horizontal diversification anchored in value addition and local content development.
- 5.9 Challenges relating to transshipments and counterfeit products can be mitigated by the AfCFTA instruments such as Annex 2 on Rules of Origin and Annex 3 on Customs Cooperation and Mutual Administrative Assistance. Rules of Origin could also serve as a policy tool for facilitating trade whilst promoting industrial development through regional value chains.

6. SACU'S TRADE PERFORMANCE WITH THE REST OF AFRICA

- 6.1 **Figure 3** below outlines SACU's overall trade pattern with the rest of other African countries (other than SADC Member States) over the period 2012-2019. The data shows that SACU enjoyed a surplus with the rest of Africa which increased from R51.5 billion in 2012 to R115.5 billion in 2017, before declining to R97.3 billion in 2019. The figures show a notable increase in both exports and imports, but with exports growing more than imports. Exports increased from R267.4 billion in 2012 to about R423.8 billion in 2019. SACU's imports from the rest of Africa increased from R215.9 billion in 2012 to R326.5 billion in 2019.
- 6.2 Apart from the SADC market, SACU's main export destinations are Regional Economic Communities (RECs) such as the East African Community (EAC), Economic Community of West African States (ECOWAS) and Economic Community of Central African States (ECCAS). In the EAC, Kenya, Uganda and Rwanda are the main trading partners for the SACU whereas in ECOWAS, Nigeria, Ghana, and Senegal tops SACU's trading partners.
- 6.3 It is also encouraging to note that the composition of commodities that the SACU Member States' exports to the rest of Africa are less concentrated than its imports, as reflected in **Tables 3 and 4** below. Although the degree of diversification differs across the SACU Member States, overall, the picture presents a grin of optimism for the SACU Member States as the liberalisation of goods under the AfCFTA could create more trade opportunities.

Figure 3: Overall SACU's Trade with the rest of Africa (2012-2019)

Source: ITC (2020)

Table 3: Product composition of the SACU Member States' exports to the rest of Africa, 2019 (Percent)

HS Description	Botswana	Eswatini	Lesotho	Namibia	South Africa
Live animals, animal products	4.1	0.8	-	4.2	1.0
Vegetable products	0.1	5.5	3.7	7.5	5.4
Animal or vegetable fats & oils	0.1	3.7	0.9	-	0.8
Food, beverages & tobacco	0.1	11.1	3.0	11.6	5.0
Sugar and Confectionaries	-	40.4	-	3.6	7.0
Mineral products	7.1	15.2	2.1	8.5	10.7
Chemical products	5.5	37.6	0.8	5.8	7.2
Plastic products	2.4	0.1	1.8	3.2	4.2
Raw hides	-	2.9	-	-	-
Wood products	-	6.4	-	3.1	1.0
Pharmaceutical products	-	-	-	1.4	1.3
Paper products	0.1	0.2	2.0	-	2.0
Textiles & clothing	-	3.9	50.0	2.2	3.2
Footwear	-	4.3	3.0	2.0	1.3
Non-metallic minerals	4.0	-	-	8.2	1.6
Precious stones and metals	46.4	-	5.5	-	-
Base metals	6.3	1.9	2.0	27.1	12.9
Machinery	18.3	5.7	19.2	10.4	15.9
Automotive products	-	-	-	-	8.2
Specialised equipment	-	0.2	-	1.2	4.1
Misc. manufact articles	2.1	0.5	6.0	-	6.2
Collectors' pieces & antiques	3.4	-	-	-	1.0
Grand Total	100.0	100.0	100.0	100.0	100.0

Source: ITC (2020)

Table 4: Product composition of the SACU Member States' Imports from the rest of Africa, 2019 (Percent)

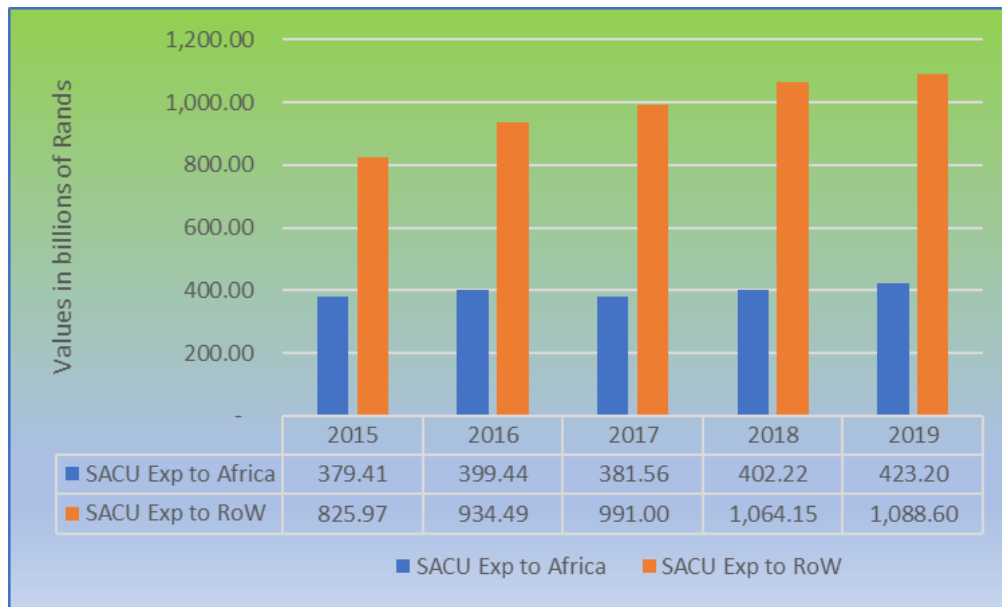
HS Description	Botswana	Eswatini	Lesotho	Namibia	South Africa
Live animals, animal products	1.7	2.8	1.2	0.7	2.9
Vegetable products	18.4	31.5	6.7	1.1	3.2
Animal or vegetable fats & oils	-	2.2	5.9	0.8	4.2
Food, beverages & tobacco	8.0	9.9	10.5	6.6	0.9
Sugar and Confectionaries	-	-	2.4	-	-
Mineral products	19.3	117	3.9	27.4	58.9
Chemical products	-	2.9	-	1.8	5.9
Plastic products	3.8	4.7	-	1.6	0.6
Raw hides	-	-	-	-	0.2
Wood products	5.5	2.0	-	0.1	1.2
Pharmaceutical products	-	0.1	6.9	5.8	0.8
Paper products	2.3	2.9	-	3.6	1.7
Textiles & clothing	13.0	3.9	28.5	2.7	7.1
Footwear	-	-	-	2.8	0.4
Non-metallic minerals	2.6	1.6	1.3	7.5	1.6
Precious stones and metals	15.5	-	-	2.2	1.3
Base metals	2.9	5.1	17.5	9.3	2.0
Machinery	-	15.5	10.0	9.4	3.4
automotive products	-	-	-	2.7	0.8
Specialised equipment	2.4	3.2	5.2	4.2	1.1
Misc. manufact articles	3.6	-	-	2.7	1.7
Collectors' pieces & antiques	-	-	-	-	0.1
Grand Total	100.0	100.0	100.0	100.0	100.0

Source: ITC (2020)

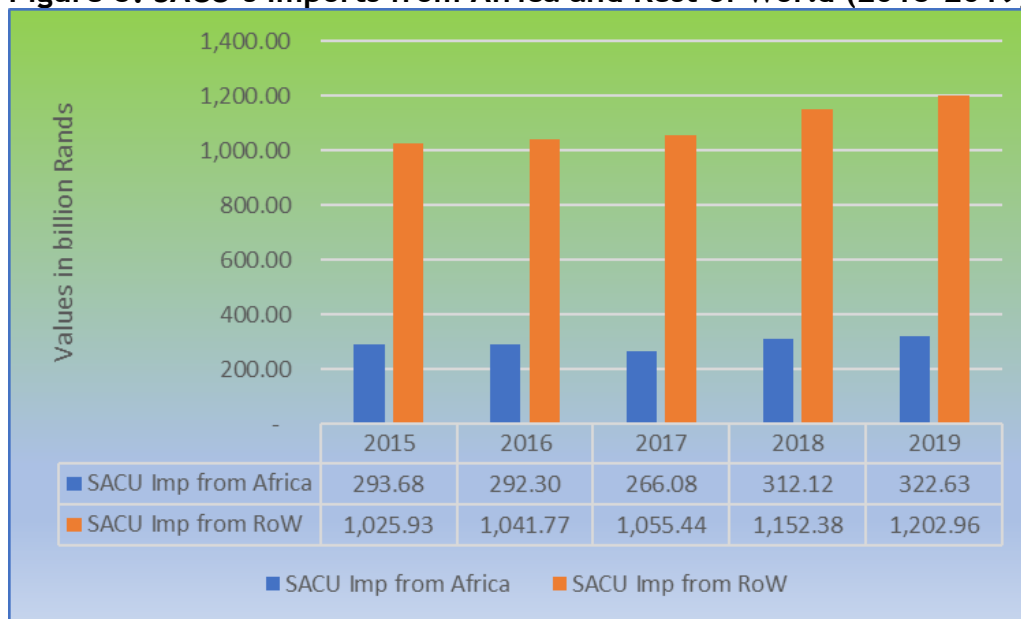
- 6.4 Table 3 shows that Botswana's exports to Africa is dominated by *precious stones and metals* accounting for a share of 46 percent, followed by *machinery* at 18 percent. Eswatini's main exports are concentrated in *sugar and confectionaries*, which accounted for 40 percent of the country's total exports to Africa, followed by *chemical products* with a share of 37 percent and *mineral products* at 15 percent. For Lesotho, *textile and clothing* prominently dominates its exports accounting for 50 percent of the total exports and *machinery* with a share of 19 percent. Namibia's *base metals* constitutes the largest share of her exports to the rest of Africa with an export share of 27 percent. Unlike other SACU countries, South Africa's composition of exports to the rest of Africa is more diversified across all sectors.
- 6.5 Table 4 on the other hand illustrates that, except for South Africa, the composition of imports for all the other SACU Member States from the rest of Africa is more diversified. For South Africa, *mineral products* account for 59 percent of its total imports from Africa. Imports of *mineral products* are also significant for Botswana (19 percent) and Namibia (27 percent). SACU's import duties on most of the *minerals products* is zero rated. This could suggest very

limited gains on imports of these product from any liberalisation under the AfCFTA.

- 6.6 It is also important to note that from the imports perspective, SACU's Most Favoured Nation (MFN) applied rates are generally the lowest on the Continent, with close to 55 percent of tariff lines already applying zero MFN rates. This means that the liberalisation for SACU countries will only be significant on less than 42 percent of its tariff book, assuming the 3 percent will be excluded as per the Modalities. SACU has an average applied tariff on *agricultural goods* (Chapters 1-24) of 12.2 percent, compared to an average applied tariff of 7.9 percent on *industrial goods*. Some of the sectors with the highest duties are *textile and clothing*, which attract between 20 to 45 percent of the applied rates.
- 6.7 On the contrary, SACU's exports to Africa currently faces high duties, with different tariff structures from one customs territory to another. In addition to high tariffs, Non-Tariff Measures (NTBs) are in place, and these effectively hinder and stifle cross-border trade. It is therefore important that in the implementation of the AfCFTA, attention is drawn to the effective elimination of both tariffs and NTBs to ensure meaningful liberalisation.
- 6.8 The overall SACU trade flows show that SACU trades more with the rest of the world than with Africa. This trend is observed both on the exports and imports flows. SACU's exports of goods to the rest of the world account for more than double the value of the region's exports to Africa (Figure 4). SACU's exports to rest of the world have significantly increased from R825 billion in 2015 to R1,088 billion in 2018. Similarly, the share of SACU's imports from Africa is very low compared those from the rest of the world (Figure 5). Imports from rest of the world represents more than a third of imports from Africa.

Figure 4: SACU's Exports to Africa and Rest of World (2015-2019)

Source: ITC (2020)

Figure 5: SACU's Imports from Africa and Rest of World (2015-2019)

Source: ITC (2020)

6.9 The above trends depict a degree of untapped potential for SACU in the African market. The liberalisation of the Continental market accompanied by the removal of non-tariff barriers and implementation of efficient trade facilitation measures, among others, presents immense opportunity for increased trade for the SACU countries.

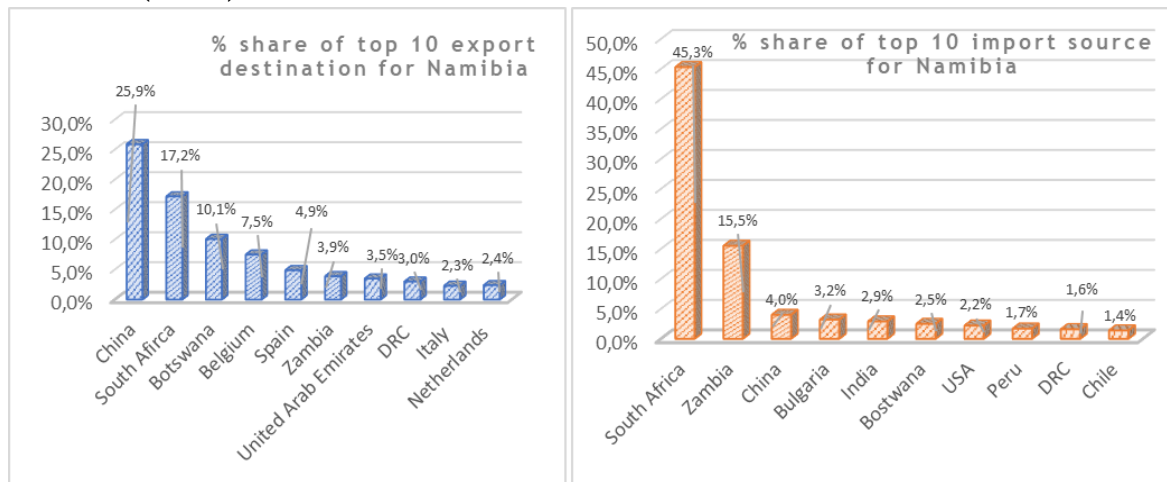
7. ANALYSIS OF NAMIBIA'S TRADE PERFORMANCE WITH OTHER AFRICAN COUNTRIES

7.1 Namibia's trade performance with other African countries especially beyond SACU and the SADC FTA, is not as significant. Data shows that Namibia trades

more with among others, China, the European Union (EU), other SACU Member States, and less with the rest of the other African countries.

- 7.2 The Namibia Statistics Agency's Annual Trade Statistics Bulletin (2019) reports that China remained at the top as Namibia's largest export market accounting for 25.9 percent of Namibia's total exports in 2019. South Africa is in second place, absorbing 17.2 percent of Namibia's overall exports, followed by Botswana in third place, with an export market share of 10.1 percent.
- 7.3 Other major export destinations for Namibia's products are Belgium with an export market share of 7.5 percent; Spain with 4.9 percent, followed by Zambia, United Arab Emirates and DRC accounting for 3.9 percent, 3.5 percent and 3.0 percent, respectively. In addition, Italy and the Netherlands accounts for 2.3 percent and 2.4 percent of the total exports, respectively as reflected in **Figure 6** below.
- 7.4 Similarly, according to Namibia's Annual Trade Statistics Bulletin (2019), Namibia's main source of imports is the SADC region. In this regard, over 45 percent of Namibia's imports, in 2019, originated from South Africa, followed by Zambia accounting for 15.5 percent of the total imports. China was in the third place, accounting for 4.0 percent of Namibia's total imports. The remaining countries in the top ten list of major import markets each accounted for less than 4 percent.

Figure 6: Namibia's top 10 Export Destinations and Sources of Imports markets (2019)



Source: Namibia Statistics Agency (2019)

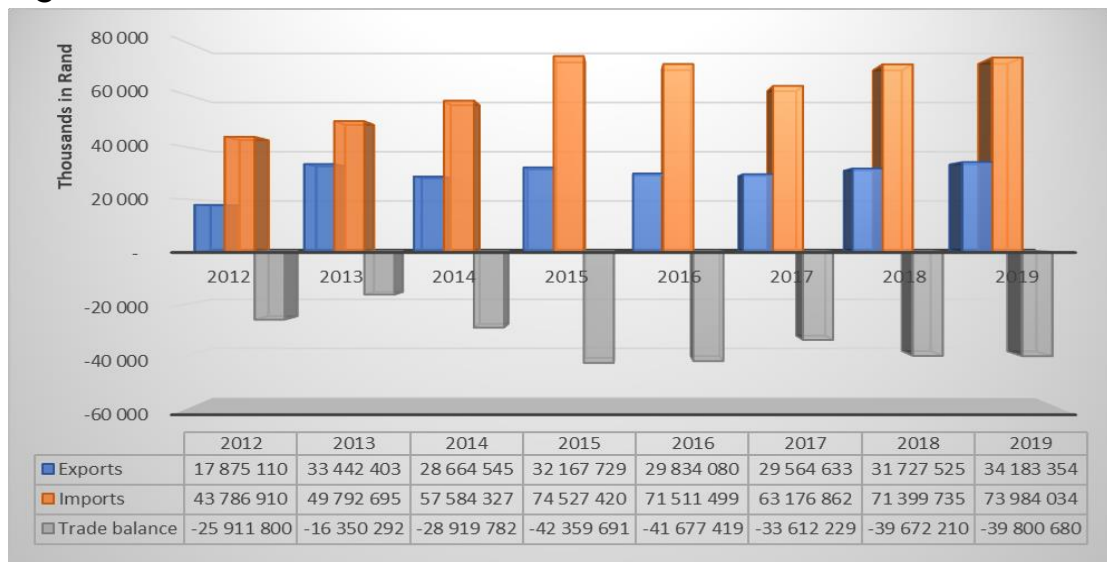
- 7.5 Consistent with the trade trends above, Namibia has recorded a trade deficit with African countries¹ for the past eight (8) years. Even though the country's exports to the rest of other non-SADC African countries have been increasing, they have been outgrown by the imports. Namibia exports have been fluctuating; however, a steady increase was recorded during last three (3) years. The country's exports increased from R29.6 billion in 2017 to R34.2 billion in 2019. On the import side, the highest import bill of over R74.5 billion

¹ The data analysed excluded the intra-SACU trade.

was recorded in 2015. This slightly declined for the next two years before it picked up again to around R71.4 billion and R74.0 billion during 2018 and 2019, respectively.

- 7.6 Beyond the SADC Free Trade Area (FTA) Member States, Namibia’s exports to the rest of Africa are primarily destined to countries such as Angola, DRC Congo, Kenya, Egypt, and Ghana. Likewise, Namibia’s imports from non-SADC FTA African countries are mainly sourced from Angola, Nigeria, Egypt, Ethiopia, and Ghana.
- 7.7 The main commodities exported are *zinc, salt, horse mackerel, marbles, and beer*. Whereas top products imported from these African countries comprised of *minerals (light petroleum), copper refined, machinery, mechanical appliances, carpets, and other textile floor coverings*.

Figure 7: Namibia’s trade with non-SADC FTA African Countries



Source: Namibia Statistics Agency (2019)

- 7.8 Namibia’s trade profile as demonstrated in this analysis clearly highlights the trade potential that the AfCFTA could unlock for Namibia to expand trade and diversify its exports markets under the AfCFTA. In order to harness this opportunity, there is need for Namibia to expand its industrial base and diversify the export basket and ensure that the country secures better market access for its products in the AfCFTA negotiations.

8. SACU’S POSITION AND POLICY INTERVENTIONS AT THE REGIONAL LEVEL

- 8.1 As a Customs Union, SACU approaches trade negotiations with all third parties in a unified manner. Article 31 of the SACU Agreement, 2002, mandates SACU Member States to negotiate trade agreements with third parties collectively. In this regard, the SACU Agreement established a Common Negotiating Mechanism (CNM) which regulates SACU ‘s engagement in trade negotiations with third Parties. SACU’s participation in the AfCFTA negotiations is therefore guided by principles underpinning the CNM.

- 8.2 The conclusion and implementation of the AfCFTA is a high priority for SACU. The AfCFTA is one of the world's largest Free Trade Agreements and its strategic importance to the SACU Member States cannot be overemphasised. The Agreement presents an opportunity for SACU and the Continent at large to deepen integration at the continental level, a move that is in line with SACU's objectives. In this regard, the SACU Member States have prioritised the conclusion of the AfCFTA negotiations and are committed and striving to ensuring that the AfCFTA is operationalised by the 1st January 2021. This therefore means advancing the outstanding work in the negotiations, mainly on tariffs offers, Rules of Origin and schedules of specific commitment on trade in services and the actual implementation of the AfCFTA by all the SACU Member States.
- 8.3 On the tariff offer, SACU's position and approach is two pronged. Firstly, an initial tariff offer based on the agreed RoO was prepared to ensure the operationalisation of the AfCFTA by envisaged date. This initial offer was approved by the 41st Meeting of Council of Ministers held on the 29 October 2020 and has been submitted to the AUC. This Tariff Offer constitutes 68 percent of the SACU tariff offer, which is about 5335 tariff lines out of a total of 7834.
- 8.4 Secondly, SACU is committed to continue working toward further improving its tariff offer to reach the threshold of 90 percent as required by the modalities. In this regard, the additional tariff lines whose corresponding RoO were adopted during the 12th Meeting of the AMOT held on the 28th October 2020, will serve as a basis to improve the SACU offer.
- 8.5 For SACU recognises RoO as a critical and necessary tool to facilitate the implementation of the AfCFTA. As such, tariff liberalization concessions can only be made where there is agreement on RoO. Similarly, RoO are critical for industrialization and value addition. The recent assessment on the outstanding RoO by the AUC revealed that the adopted RoO thus far constitutes around seventy-three (73) percent of the tariff lines. The outstanding work in this regard, involves sectors of strategic importance for SACU. These include sectors such as Textile and Clothing (HS Chapters 51; 52; 53; 55; 58; 60; 63), Automotive (HS Chapters 87); Fishing (Chapter 3) Dairy products of Chapter 4; coffee, tea and spices of Chapter 9; oil and edible oils of Chapter 15; prepared meat products of Chapter 16; sugar products of Chapter 17; and the prepared fruits and nuts of Chapter 20. These sectors constitute the most economic drivers of the AfCFTA Member States including SACU. Therefore, an agreement on RoO in these sectors is critical as it would greatly unlock significant opportunities that will ensure that the AfCFTA becomes commercially meaningful.
- 8.6 Similarly, SACU Member States recognise, that trade liberalisation alone under the AfCFTA is not sufficient to maximize gains from trade. In this regard, SACU is of the view that in order to leverage from the AfCFTA opportunities, the

region should advance its agenda on industrialisation and the development of regional value chains in order to broaden its manufacturing base.

- 8.7 Industrialisation is an overarching objective for SACU both at the regional level and in the context of the AfCFTA. The development of regional value chains in sectors that enjoy comparative and competitive advantage is therefore a key priority for SACU. Sectors such as automotive, footwear, pharmaceuticals, and textile sectors as well as those already identified under the SADC Industrialization Roadmap are critical to building and strengthening regional value chains amongst SACU Member States and beyond with the rest of the continent. This therefore presents an opportunity for the Member States, including Namibia, to identify those high-margin and competitive products which they can leverage as the region embarks on the development of cross-border value chains.
- 8.8 The outbreak of the COVID-19 pandemic and the resultant shortages in supply of medicinal and other health products has revealed the urgency for the SACU region to focus attention on the development of the health sector. In light of this development and the need to ensure adequate supply of essential COVID-19 related products, the SACU Member States have agreed to prioritise the development of regional value chains in this sector.
- 8.9 SACU Member States have agreed on principles, public policy interventions and tools, the priority sectors as well as the criteria to guide the development of regional value chains with a view to identify concrete and bankable projects.
- 8.10 In order to advance industrialisation and the development of the regional value chains, and to leverage on the AfCFTA, SACU is currently undertaking technical work to outline a systematic approach and practical steps to deepen the region's industrial base and strategically position itself to take full advantage of the opportunities that will be created by the AfCFTA. This work covers the identification of bankable projects to be considered in the development of RVCs, investment and export promotion as well as a regional financing mechanism to support the SACU common vision on industrialisation. A Technical Committee of Senior Officials has been established to steer the work on Industrialisation, Export and Investment Promotion in collaboration with the private sector. A comprehensive plan is expected to be completed by March 2021, followed by the actual implementation of the agreed projects.
- 8.11 The achievement of the regional industrialisation, investment and export promotion ambition will require the mobilisation of substantial financial resources. As such, the SACU region has agreed on the need to design appropriate and effective financing instruments to mobilise Development Financing Institutions (DFIs) and private enterprises within the region to finance this vision.

- 8.12 As alluded to earlier, intra-Africa trade remains very low and this trend has been attributed to among others, the bottlenecks emanating from poor infrastructure, inefficient border management processes, customs operations, and logistics. These factors affect the efficiency and cost of trading across the region. On the other hand, the production capacity for many African countries falls short of meeting the Continental demands. The decision by SACU to advance these key areas, therefore provides enormous opportunity for the region to expand the industrial base and enhance its productive capacity in order to capture the Continental market.
- 8.13 In addition to the industrialisation Agenda, SACU recognises the importance of trade facilitation and logistics in ensuring the seamless movement of goods and to reduce obstacles and hindrances to intra-SACU trade and beyond. In this regard, SACU's Trade Facilitation Programme is being realigned to support trade and industrialisation agenda. The work is being steered by a SACU Technical Committee of Senior Officials on Trade Facilitation in collaboration with the private sector and is expected to be completed by March 2021, followed by the actual implementation of the agreed projects.
- 8.14 At this stage, SACU's priority is focused on putting in place the necessary measures required ahead of the operationalization of the AfCFTA from the 1st January 2021. These include legislative amendments to the Customs Acts, effecting the tariff schedules for the AfCFTA in the SACU Tariff Book, putting in place the required administrative tools such as certificates of origin, engagement with the respective stakeholders and businesses. In addition, implementation of the SACU Customs Modernisation Programme to simplify and harmonise processes, standard operating procedures and policies is ongoing.
- 8.15 The SACU Customs Modernisation Programme has developed critical tools and frameworks which are augmented to create a conducive trade environment within the Common Customs Area, as well as to support the implementation of the AfCFTA. A case in point is the adoption of the SACU IT Connectivity Framework to be used as the basis for development of the AU IT Connectivity Framework to facilitate trade at a continental level. Other instruments and frameworks developed include the following:
- (a) Model Bilateral Arrangement to facilitate automatic exchange of information;
 - (b) Preferred Trader Programme Engagement Strategy, Manuals and guides;
 - (c) IT Connectivity Blue Print;
 - (d) IT Connectivity Utility Block "Your Export Is My Entry";
 - (e) IT Connectivity Unique Consignment Reference;
 - (f) Regional Customs Risk Management and Enforcement Strategy; and
 - (g) the Regional Customs Compliance Management Strategy.
- 8.16 The measures implemented within the SACU Customs Modernisation Programme are core and central to improving the trading environment. In addition, SACU Member States are actively working within the AfCFTA Customs and Trade Facilitation forums to share lessons on the successes and achievement attained to date.

- 8.17 Addressing Continental challenges related to trade facilitation would improve customs administration and the ease of doing business in Africa in general, and thus boost intra-Africa trade as envisaged through the AfCFTA. The development and the implementation of the trade facilitation measures should therefore be prioritised and accelerated to ease the costs of doing business and cross border trade, streamline customs procedures while enhancing security measures. This requires targeted initiatives to strengthening collaboration amongst border agencies to streamline procedures and formalities; maximum use of technology and innovation to simplify procedures; publishing regulatory requirements for transparency and predictability; and removal of administrative hindrances and barriers to trade. The development of hard infrastructure remains critical for the enhancement of trade across the continent.
- 8.18 In conclusion, SACU's position and strategic policy interventions on the Continental Agenda are to ensure that the tariff preferences accorded by the AfCFTA would create significant opportunities and benefits for the SACU Member States and ultimately for the African Continent at large. This implies that the AfCFTA should serve as a catalysts for industrialization and sustainable development of the continent. In addition, the adopted customs administration and trade facilitation measures should improve the ease and cost of cross border movement of goods across Africa. In addition, this will also enhance trade and investment whilst also addressing challenges relating to supply side constrains and transshipment, among others.

9. POLICY CONSIDERATION FOR NAMIBIA AND ITS PRIVATE SECTOR TO MAXIMISE THE BENEFITS FROM THE AfCFTA

- 9.1 The analysis presented above, highlights the enormous potential opportunities that the AfCFTA presents for the private sector in Namibia and the rest of SACU. However, for a small open economy such as Namibia whose manufacturing base and export basket is limited, it is fundamental to develop a national strategy that sets out steps to take full advantage of the AfCFTA. The Strategy also needs to ensure policy coherence across all sectors of the economy. This is particularly important to ensure that the country leverages the opportunities and potential benefits the AfCFTA would offer with its national development goals. This includes alignment of the Strategy to existing policy frameworks such the Growth at Home strategy; the Harambee Prosperity Plan, the Fifth National Development Plan (NDP5) and ultimately the national Vision 2030.
- 9.2 Additionally, key policy considerations should be addressed in order to exploit and maximise the benefits from the AfCFTA. These include but are not limited to the following:
- (a) prioritise and build strong supply side capabilities to increase services and industrial outputs in order to take full advantage of the new export market opportunities offered by the AfCFTA;

- (b) identify new opportunities and products to trade through a targeted AfCFTA export development strategy. This requires the designing of targeted intervention to produce more competitive and higher margin products as well as the diversification and broadening of the industrial base;
- (c) accelerate industrialisation efforts both at the national and regional (SACU) levels aimed at, diversification and the development of targeted regional value chains. The ongoing work on industrialisation and development of the regional value chains both at SACU and SADC levels is critical to ensure meaningful impact on the economy to attain inclusive growth and sustainable growth for the country;
- (d) Given the importance of Services to the Namibian economy, prioritise negotiations on trade in services while aiming for an outcome that creates synergy with the liberalisation commitments under the Protocol on Trade in Goods. This is important for Namibia considering that her share of value added by services to GDP constitutes around 57.7 percent. This is a clear indication of the significance of the services sector to the Namibian economy, which could be enhanced through successful implementation of the AfCFTA; and
- (e) ensure the full implementation of the SACU Customs Modernization Programme that promote efficiency and manages risks. This will include enacting national laws that would give effect to the AfCFTA and provide the necessary transparency and predictability to business and investors alike. Efforts should also be made to enhance security measures to secure the supply chain for goods destined to Namibia, the region, the continent and globally.
- (f) consider extensive awareness and outreach campaigns to promote the utilisation of the Agreement, as well as to create awareness on the benefits to be derived by the Namibian businesses under the AfCFTA
- (g) create an environment that would support SMEs, women, youth and informal traders to derive benefits from the AfCFTA, given their role in poverty reduction. The priority needs and concerns of women and youth should be explicitly considered in implementing the AfCFTA, which has the potential to advance their entrepreneurship;
- (h) ensure effective operationalisation of the national NTB/ NTMs mechanism. This will require the government and continent at large to engage on these issues in advance as they may hinder full implementation and utilisation of the Agreement; and
- (i) provide technical support to Customs and other regulatory bodies to position themselves to ensure the Country's state of readiness towards implementation of the AfCFTA. This should also include technical support to the trading community. In this regard, there is need for extensive

consultations with business, publication of information about the requirements for trading under the Fact.

- (j) leverage the transport logistic opportunities created by the AfCFTA to advance Namibia's Strategy and aspiration of becoming a transport and logistics hub through increased cargo handling at Walvis Bay Harbour and other Corridors to service the landlocked immediate neighbouring countries and beyond. This requires the setting-up the necessary logistics and connectivity framework to facilitate seamless movement of goods through the supply-chains and infrastructure.
- (k) finally, the creation of an enabling environment for the country to fully exploit the benefits and market access opportunities that will be created by the AfCFTA is a fundamental imperative for Namibia. This include, amongst others, skill development, compliance with standards and enhancing access to finance, especially to the SMEs sector and the development of both soft and hard infrastructure.

10. CONCLUSION

- 10.1 The analysis above does highlight that the AfCFTA presents enormous opportunities for Namibia and the rest of Africa. Among the key benefits highlighted is the increased access to the more liberal African market of 1.3 billion people for the Namibian originating products. This is a market that has thus far been characterised by high tariffs and other non-tariff measures which have greatly hindered continental trade. The AfCFTA also presents an avenue for countries to expand their industrial base and focus on value addition in order to tap into this continental export market opportunities.
- 10.2 It is however important to emphasise that "***Positioning Namibia to Reap the Benefits of the African Continental Free Trade Area***" requires deliberate and concerted effort by all stakeholders both private and public actors to ensure that the AfCFTA is successfully implemented. The successful implementation of the AfCFTA should also support national strategies to mitigate some of the negative effects of the COVID-19 pandemic and improve resilience in the face of economic shocks to support long-term growth.
- 10.3 Finally, this would require positioning SACU as the lead catalyst for growth, both at the regional and the continental level with industrialization as an overarching objective that engenders sustainable development. Therefore, SACU Member States should position themselves appropriately in order to reap the maximum benefits from AfCFTA.

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