Overview of the African Continental Free Trade Area (AfCFTA) Agreement

By

Bernie Zaaruka, PhD[1]
Charlotte Tjeriko-
Mukela Mabakeng-

Research and Financial Stability Department

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Table of Contents

Executive Summary

The role of external trade in economic development has been widely researched. *Many countries all over the world have successfully lifted their people out of poverty to prosperity through trade (African Union, n.d.). Although the African economy is characterized by a relatively high degree of openness, with the ratio of exports and imports to GDP amounting to more than 60 percent in 2019, trade has not served as a potent instrument for the achievement of rapid and sustainable economic growth and development for many of the countries.*

The African Continental Free Trade Area (AfCFTA) is a trade agreement between several African countries to boost regional trade. *The AfCFTA aims to eliminate tariffs on most goods, liberalize the trade of services and address obstacles to trade between African countries. The scope of the AfCFTA Agreement covers Trade in Goods, Trade in Services, Investment, Intellectual Property Rights (IPR) and Competition Policy.*

Namibia relies on a variety of national documents to guide trade. *Although a draft National Trade Policy is in the works**,** the country's trade issues over the years have been guided by policies such as the Vision 2030; National Development Plans; Namibia's Industrial Policy; Competition Act 2 of 2003; Business and Intellectual Property Authority Act 8 of 2016; Namibia Investment Promotion Act, 2016; Import and Export Control Act 30 of 1994, as well as other domestic regulations on imports and exports. Moreover, the country's trade policy has notably been guided over the years by trading arrangements that the country is signatory to.*

Namibia is a net importer of good and has recorded deficits in most years, also, the economy is based on natural resources. *Namibia is a net importer of goods and services and has consistently recorded trade deficits over the years. Furthermore, the Namibian economy is based on natural resources and trade is therefore concentrated mostly in these goods. Moreover, Namibia's trade with the region is highly concentrated to a few countries, with export to non-SADC African countries accounting for only 4 percent of total exports.*

Intra-Africa trade is low when compared to intra trade within Europe, North America and ASEAN countries. *According to McCormac, et al., 2019 intra-African trade is low and stands at around 13 – 15 percent compared to 60 percent, 40 percent, and 30 percent intra-regional trade that has been achieved by Europe, North America and ASEAN, respectively Estimates suggests that the AfCFTA could boost intra-Africa trade by 25 percent over the next* *decade. Namibia's exports to non-SACU and non-SADC tripartite free trade areas account for less than 10 percent of total exports.*

Revenue implications for Namibia in terms of the SACU Common Revenue Pool are minimal. *Namibia relies heavily on SACU revenues from the Common Revenue Pool for its budget, as it accounts for, on average, more than 30 percent of the total revenue. However, according to a study by Meyn et. al (2013), the calculated hypothetical revenue losses from joining the AfCFTA for Namibia amounts to less than 0.1 percent. This is because intra-regional trade is low between Namibia and other African countries. Another aspect that has potential gains for Namibia is tourism. With a better and coordinated marketing strategy, Namibia could attract affluent tourists for recreational purposes.*

The focus of the AfCFTA trade bloc is on three pillars, namely, Market Integration, Industrial Development and Infrastructure Development. *These three areas have been prioritised to support the regional economic integration efforts on the continent. The AfCFTA could ease trade and investment flows, while increasing market efficiency and reducing the cost of doing business. One of the pillars that the AfCFTA aims to develop is infrastructure within member countries. In 2012, the Government adopted an industrial policy for Namibia, which focuses on three strategic intervention areas. The industrial policy aims to support value addition, upgrading and diversification for sustained growth; securing market access at home and abroad; improving the investment climate and conditions.*

The following policy options have proposed. *1) The Namibian Government should invest in the provision of electricity and water supply to reduce the cost of production and enhance productive capacities of the country. 2) Expedite the completion of the logistics hub centre to improve regional infrastructure which link SADC and other African countries and provide cheaper services. 3) The country should expedite the adoption of the draft trade policy and ensure that it is responsive to the dynamic needs of the country in relation to the AfCFTA. 4) Encourage specific industries that produce goods demanded by other African countries to set up at border towns. 5) Review current industrial policies to ensure more outward looking policies.*

1. Introduction

1. **The role of external trade in economic development has been widely researched.** Many countries all over the world have successfully lifted their people out of poverty to prosperity through trade (African Union, n.d.). Although the African economy is characterized by a relatively high degree of openness, with the ratio of exports and imports to GDP amounting to more than 60 percent in 2019, trade has not served as a potent instrument for the achievement of rapid and sustainable economic growth and development for many of the countries. Africa remains the most aid-dependent continent of the world, unable to eliminate poverty through trade (African Union, 2012).

2. **The agreement in which the African Continental Free Trade Area[2] would be established was signed in Kigali, Rwanda on the 21st of March 2018 by 44 African countries.** The decision on the creation of the AfCFTA was taken during the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU) held in Addis Ababa, Ethiopia on 29-30 January 2012. This was done in recognition of the need for the promotion of intra-African trade as a fundamental element for sustainable economic development. The official agreement was then signed in Kigali, Rwanda on the 21st of March 2018, after which the official launch of its operations took place in July 2019 in Niamey, Niger. Regional integration is an economic and political priority for African countries as demonstrated by the abundance of integration programmes[3] being adopted and implemented at continental and regional levels.

3. **The African Continental Free Trade Area (AfCFTA) is a trade agreement between several African countries to boost regional trade.** The AfCFTA aims to eliminate tariffs on most goods, liberalize the trade of services and address obstacles to trade between African countries. The focus of the trade bloc is on three pillars, namely, Market Integration, Industrial Development and Infrastructure Development. These three areas have been prioritised to support the regional economic integration efforts on the continent (Hartzenberg, 2011). 30

[2] The AfCFTA is an envisaged free trade area that will cover a market of 1.2 billion people with the GDP of $2.5 trillion, across all 55 AU members. Once entered into force, it will be the world's largest free trade area after the establishment of the World Trade Organisation (WTO). Its objectives are amongst others: (i) to create a single continental market for goods and services; (ii) to enhance the free movement of business persons and investments; (iii) to expand intra-African trade – through better harmonization and coordination of trade liberalization and facilitating instruments across the Regional Economic Communities (RECs) and Africa in general; and (iv) to improve competitiveness at the industry and enterprise level.

[3] AMU, CEN-SAD, COMESA, EAC, ECCAS, ECOWAS, IGAD and SADC, SACU

countries[4] have ratified the AfCFTA agreement, while Cameroon and Angola officially approved ratification of the AfCFTA agreement on 31 October 2019 and 28 April 2020, respectively. However, deposit of these instruments of ratification is still pending. Lastly, Eritrea has not signed due to tensions with Ethiopia, but following the 2018 Eritrea-Ethiopia summit the AU Commissioner for Trade and Industry now expects Eritrea to sign the agreement.

4. **The scope of the AfCFTA Agreement covers Trade in Goods, Trade in Services, Investment, Intellectual Property Rights (IPR) and Competition Policy.** These components were however designed to be achieved in two phases. Phase I of the negotiations was focused on trade in goods and trade in services while Phase II will focus on trade related issues namely Investment, Competition Policy and IPR.

5. **The AfCFTA Agreement contains seven protocols[5] including the Protocol on Trade in Goods, the Protocol on Trade in Services, and the Protocol on Dispute Settlement.** The three protocols were concluded and signed as part of Phase I negotiations. There are, however, some aspects of the Protocol on Trade in Goods that remain outstanding and negotiations are being undertaken under the Built-in Agenda. These include the development of tariff liberalization schedules and issues on rules of origin[6].

6. **Strengthening export capacity and having greater regional integration plays an important role for Namibia as stipulated in the Fifth National Development Plan (NDP5).** Regional integration has the potential for boosting economic growth, creating jobs and reducing poverty provided developing countries implement deeper reforms. It therefore becomes important that we look at the benefits that the free trade area would bring to Namibia, as well as what areas Namibia needs to strengthen in order to take full advantage of being part of the Agreement.

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[4] Ghana, Kenya, Rwanda, Niger, Chad, Congo Republic, Djibouti, Guinea, ESwatini (former Swaziland), Mali, Mauritania, Namibia, South Africa, Uganda, Ivory Coast (Côte d'Ivoire), Senegal, Togo, Egypt, Ethiopia, The Gambia, Sierra Leone, Saharawi Republic, Zimbabwe, Burkina Faso, São Tomé and Príncipe, Gabon, Equatorial Guinea and Mauritius.

[5] The Seven Protocols are Trade in Goods, Trade in Services, Investment, Intellectual Property Rights, Competition Policy, Rules and Procedures on the Settlement of Disputes

[6] In general, Rules of Origin (RoO) is one of the essential tools to any preferential trading arrangement (PTA). It authenticates whether goods claiming tariff preferences result from significant economic activity in an eligible country. In the AfCFTA, Annex 2 is the legal instrument on Rules of Origin and its accompanying Appendix IV, outlining the Product Specific Rules (PSR).

7. **Despite Namibia's efforts at boosting trade with several countries, the country only has a draft National Trade Policy and has relied mainly on other national documents to guide trade.** The country's trade issues over the years have been guided by policies such as the Vision 2030; National Development Plans; Namibia's Industrial Policy; and the Business and Intellectual Property Authority Act 8 of 2016. Furthermore, the country's trade policy has also been guided by different trading arrangements that the country is signatory to, such as SACU, SADC, as well as other bilateral and multilateral trade agreements.

8. **In this paper, we review mainly the three pillars on which the AfCFTA is built, in the context of Namibia.** Following this introduction, section 2 looks at Namibia's intra-regional trade with African countries, section 3 outlines the potential benefits/losses of AfCFTA for Namibia, section 4 looks at intra-tourism, section 5 explores investment opportunities within the AfCFTA, while section 6 highlights the infrastructure development on the continent. Section 7 examines market integration, followed by a review of industrial development in section 8, and subsequently followed by measures needed to strengthen Namibia's value chains in section 9. Finally, the policy recommendations and conclusion are contained in sections 10 and 11, respectively.

2. Namibia's intra-regional trade with African countries

9. **Namibia relies on a variety of national documents to guide trade.** Although a draft National Trade Policy is in the works**,** the country's trade issues over the years have been guided by policies such as the Vision 2030; National Development Plans; Namibia's Industrial Policy; Competition Act 2 of 2003; Business and Intellectual Property Authority Act 8 of 2016; Namibia Investment Promotion Act, 2016; Import and Export Control Act 30 of 1994, as well as other domestic regulations on imports and exports. Moreover, the country's trade policy has notably been guided over the years by trading arrangements that the country is signatory to, which include SACU, SADC, the SADC-EU Partnership Agreements, SACU/MERCOSSUR, SACU/ EFTA and the World Trade Organisation (WTO).

10. **The draft National Trade Policy highlights several guiding principles that are important for a robust trade policy and market integration.** The draft National Trade Policy is a comprehensive stand-alone trade policy that specifies policy measures and strategies that will enable trade to be the engine for sustainable economic growth and development of Namibia. The policy outlines the importance for integration of Namibia into the global economy through active and effective participation in regional integration initiatives and multilateral

commitments. The policy further highlights the importance for Namibia to integrate into regional and global value chains to support domestic policies such as the industrial development policy and the growth at home initiatives.

11. **Namibia is a net importer of goods and services and has consistently recorded trade deficits over the years.** In 2019, Namibia recorded a trade deficit of N$19,5 billion, an increase from N$17,5 billion recorded in 2018. Export revenue was recorded at N$91,8 billion, a decline of 1.5 percent from 2018 of N$93,1 billion. Meanwhile, the import bill stood at N$111,3 billion, an increase of 0.7 percent from N$110,6 billion in 2018 (NSA, 2019). Namibia is therefore vulnerable to trade shocks such as commodity prices and currency fluctuations as well as changes to SACU's trade or tariff regime which might negatively affect the common revenue pool (CRP).

12. **The Namibian economy is based on natural resources and trade is therefore concentrated mostly in these goods.** The top 10 traded exports are *copper, precious stones and metals*, *ores*, *fish*, *vessels & boats, zinc*, *live animals, industrial machinery*, *motor vehicles and parts*, and *beverages (*table 1*)*. Moreover, Namibia's trade with the region is highly concentrated to a few countries, with export to non-SADC African countries accounting for only 4 percent of her total exports. Hence there is a need for Namibia to diversify her export basket to mitigate the risks associated with the lack of diversification.

Table 1: Top exports[7]

Product group	2019		2018	
	Value (N$ m)	% Share	Value (N$ m)	% Share
Copper	23,633	25.8	20,519	22.0
Precious Stones & Metals	20,571	22.4	20,561	22.1
Ores	12,899	14.1	10,854	11.7
Fish	10,034	10.9	9,745	10.5
Vessels & Boats	3,140	3.4	11,635	12.5
Zinc	2,697	2.9	2,644	2.8
Live animals	2,127	2.3	2,768	3.0
Industrial Machinery	1,674	1.8	1,213	1.3
Motor Vehicles & parts	1,668	1.8	1,507	1.6
Beverages	1,480	1.6	1,215	1.3
Meat	1,387	1.5	974	1.0
Oils & Mineral fuels	1,329	1.4	603	0.6

[7] Some of the products listed as exports for Namibia are re-exports since Namibia does not produce some of these products, such as vessels & boats, machinery, motor vehicles & parts, oils & mineral fuels. However, they remain important for this evaluation as Namibia receives compensation for services rendered, and hence remains part of trade.

Fruits & nuts	953	1.0	756	0.8
Natural Minerals & Stone	921	1.0	842	0.9
Iron & Steel	764	0.8	347	0.4
Plastics	761	0.8	633	0.7
Wood	754	0.8	508	0.5
Articles of Iron or Steel	714	0.8	684	0.7
Electrical Machinery	623	0.7	494	0.5
Chemical products	494	0.5	431	0.5
Other	3,142	3.4	4,194	4.5
TotaL	**91,766**	**100.0**	**93,124**	**100.0**

Source: Namibia Statistics Agency

13. **Namibia's external trade continues to be highly concentrated in a few countries and commodities.** A 10-year average (2009-2019) shows that Namibia's key export markets were; South Africa, Botswana, China, Switzerland, United Kingdom, Angola, Belgium, Spain, the United States of America, and Zambia. Looking at the past two years, on the other hand, the following 10 countries lead; China, South Africa, Botswana, Belgium, Spain, Zambia, UAE, DRC, Italy and the Netherlands, representing 80.7 percent of total exports. The commodities traded in 2019 were also concentrated in just a handful of commodities, with the 10 leading export commodities accounting for 86.5 percent of total exports.

Table 2: Top 10 export destinations

		Export value (N$ m)				
Market	**Market Group**	**Average 2009-2019**	**Share 2009-2019**	**2017**	**2018**	**2019**
South Africa	SADC/SACU	11,004	17.43%	15,063	15,029	15,930
Botswana	SADC	4,721	9.11%	8,453	9,252	9,315
China	RoW	3,811	7.35%	3,335	16,418	23,234
Spain	EU	2,381	4.60%	3,139	3,870	4,501
Belgium	EU	2,062	3.98%	3,229	9,332	6,915
Italy	EU	1,642	3.17%	2,687	3,039	2,246
Zambia	SADC	1,385	2.67%	2,532	3,415	3,568
Democratic Republic of Congo	SADC	969	1.87%	1,536	1,794	2,550
Netherlands	EU	806	1.55%	723	1,415	2,132
United Arab Emirates	UAE	715	1.38%	2,749	2,407	3,198
Total		**63,140**				

Source: Namibia Statistics Agency, 2019

14. **Namibia sources more than half of its imports from South Africa.** In terms of imports, the ten leading supplier countries in the past 10 years were South Africa, Zambia, China, Botswana, Switzerland, Germany, Bulgaria, United Kingdom, India and the United States of America (Table 2). This constituted 80.5 percent of the total imports for Namibia. The top import countries over the last 2 years, however, are South Africa, Zambia, China, Bulgaria,

India, Botswana, USA, Peru, DRC and Chile. This shows Namibia's dependence on a few countries for its exports as well as for meeting its import requirements.

Table 3: Top 10 import partners

Market	Market Group	Import value (N$ m)				
		Average 2009-2019	Share 2009-2019	2017	2018	2019
South Africa	SADC/SACU	46,718	57.3%	49,331	49,298	50,482
Zambia	SADC	4,269	5.2%	4,345	15,744	17,431
China	RoW	3,478	4.3%	4,612	6,366	4,575
Botswana	SADC	2,478	3.0%	5,450	4,515	2,818
Switzerland	RoW	1,839	2.3%	337	325	741
Germany	EU	1,449	1.8%	1,228	1,128	1,301
Bulgaria	EU	1,395	1.7%	5,816	2,740	3,576
United Kingdom	RoW	1,390	1.7%	704	2,650	1,036
India	RoW	1,388	1.7%	1,963	1,944	3,282
United States of America	RoW	1,264	1.5%	1,751	1,848	2,026
Total		81,568				

Source: Namibia Statistics Agency

15. **Intra-Africa trade is low when compared to intra trade within Europe, North America and Association of Southeast Asian Nations (ASEAN) countries.** According to McCormac, et al., 2019 intra-African trade is low and stands at around 13 – 15 percent compared to 60 percent, 40 percent, and 30 percent intra-regional trade that has been achieved by Europe, North America and ASEAN, respectively Estimates suggests that the AfCFTA could boost intra-Africa trade by 25 percent[8] over the next decade (McCormac, et al., 2019).

16. **Namibia's exports to non-SACU and non-SADC tripartite free trade areas account for less than 10 percent of total exports.** Namibia exported approximately 0.7 percent of its total exports to the non-SACU/SADC African countries, excluding the rest of the world. Limited production capacity and high transport costs make it unviable to export to the wider region. Moreover, African countries mostly have homogenous goods, which makes intra-trade difficult.

3. Potential benefits and losses for Namibia of entering the AfCFTA

[8] This figure changes based on different estimates, for instance UNECA estimates expects AfCFTA to boost intra-Africa trade to 52.3 percent.

17. **Revenue implications for Namibia in terms of the SACU Common Revenue Pool are minimal.** Namibia relies heavily on SACU revenues from the Common Revenue Pool for its budget, as it accounts for, on average, more than 30 percent of the total revenue. However, according to a study by Meyn et. al[9] (2013), the calculated hypothetical revenue losses from joining the AfCFTA for Namibia amounts to less than 0.1 percent. The hypothetical revenue from the tripartite free trade area (TFTA) imports was obtained by extending the SADC Trade Protocol to all TFTA countries. This is due to the fact that intra-regional trade is low between Namibia and other African countries. However, this implies that the figure could change should Namibia increase intra-regional trade beyond the figures used in this analysis. In addition, most goods imported into SACU from other African countries are already highly liberalized, carrying low or zero tariffs.

18. **Namibia's trade on the continent is skewed towards South Africa.** Namibia has a small population and domestic market, weak employment creation, and is highly dependent on the economic relationship with South Africa, which hampers the former's economic development. Namibia's potential benefit is enhanced access to a larger market for its goods and services or enhanced functional cooperation in the wider region. However, the country's high input costs (e.g. high electricity, water and high labour costs) continue to hinder Namibia's productivity and competitiveness. Namibia will, therefore, need to increase its production capacity and improve competitiveness by improving on structural bottlenecks in order to realise this potential benefit. The country will also need to identify products demanded by the key target markets and enhance its competitiveness for those products

19. **The aim of the AfCFTA is to eliminate all tariff and non-tariff barriers (NTBs) to trade in goods within the region.** Trade not only faces tariff barriers, it also faces NTBs, which the AfCFTA aims to alleviate in order to achieve its long-term objectives. NTBs are non-tariff restrictions imposed on goods, they vary from infant protection, restriction of imports of certain commodities, and so forth. NTBS can act as a significance hindrance to international and regional trade and offset expected gains from tariff reductions to firms (UNCTAD, 2019). Although NTB measures have a role to play, it is important to note that NTBs reduce the economic benefits of market integration, especially if they are applied in a non-transparent or arbitrary manner, which may increase transactional costs and create uncertainty (Kalenga, 2005). NTBs also increase the prices paid by consumers due to its monopoly effect.

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[9] This study was commissioned by the Namibian government on the viability of joining the AfCFTA.

20. **Namibia's weak productive manufacturing capacity coupled with limited economic diversification necessitates the use of NTBs.** As a small country, with a small domestic market and a low competitive advantage, Namibia has employed non-tariff barriers measures in order to protect certain goods produced in the country and to be more competitive. Namibia applies infant industry protection (IIP) to some industries, while limiting imports for certain products that are sufficiently produced in the country. These are applied to pasta, poultry, cement, UHT milk industries as well as certain agro-processed products. Although infant industry protection is only allowed for a period of 8 years according to the SACU Agreement, 2002 (Article 26), Namibia has in the past applied protection to industries for longer periods. It shows the inability of the protected industries to gain competitiveness and compete without protection. Under the AfCFTA, NTBs (long customs delays, import quotas, subsidies regulatory bottlenecks etc.) are expected to be removed. This implies that Namibia must address its structural challenges to create competitive capacity for its industries.

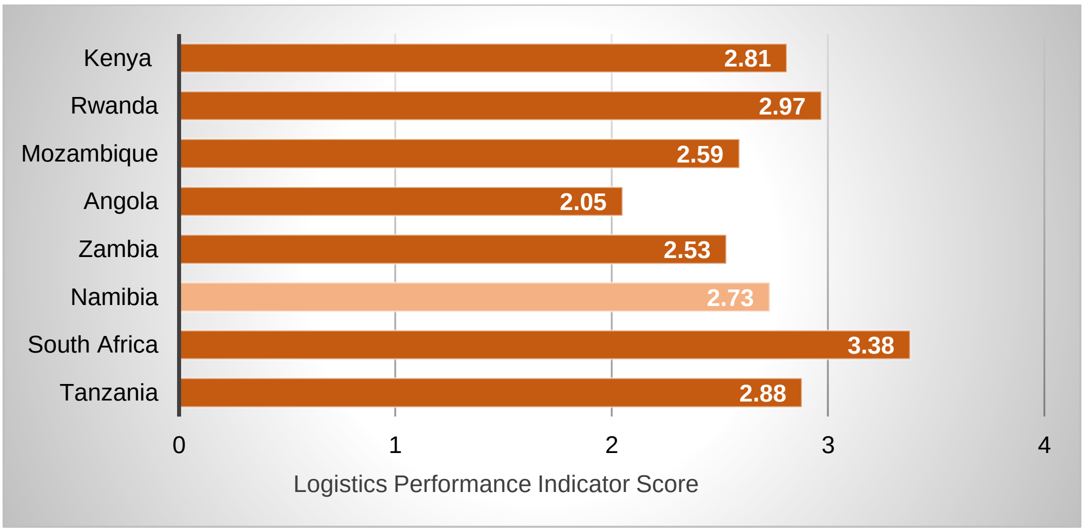
21. **The Namibia Logistics Hub Project is an ambitious initiative which aims to exploit the country's strategic location and transform Namibia.** The logistics hub is an ambitious initiative to exploit Namibia's latent advantage, its strategic location, to transform the country into the preferred logistics and distribution centre for landlocked SADC countries (Namport, 2019). However, through the AfCFTA, this is an opportune time for Namibia to expand the hub to include land-locked African countries that fall under the AfCFTA. This could be done as a joint venture between several African countries to avoid excessive costs.

22. **Namibia plays a crucial role in international trade through the commercial port of Walvis Bay, as an international shipping connection with the added advantage of being a secure gateway to the west coast of Africa.** Namibia plays an increasingly important role in trade, linking global economic centres with close to 300 million consumers in Southern Africa. The Walvis Bay corridor is a network of rail and roads linking the ports of Walvis Bay and Lüderitz with the four main routes to Angola, Botswana, Democratic Republic of Congo (DRC), Malawi, South Africa, Zambia and Zimbabwe, which supports the flow of goods (Namport, 2019). With the effective promotion of the country's transport network through the Walvis Bay Corridor Group (WBCG), Namibia is today recognised for its increasing role as a transport hub.

23. **Towards having a fully functional hub, a number of infrastructure projects need to be realised.** Critical components to ensure the realisation of the logistics master plan include

logistics hub centre development, upgrading of road and rail infrastructure, a truck-stop development programme, a market promotion programme, as well as an integrated border management programme for our major border posts (Namport, 2019). While there have been some improvements in the logistics performance indicators, there is still scope to ease the cross-border movement of goods and services. The improvement in Namibia's score was attributable to increased availability of information and documents, as well as automation of some of the systems. Further work, however, still needs to be done to improve the turnaround time to complete border handling, customs clearance and inspection procedures for shipments both in terms of imports and transit to cross border points. It currently on average takes about 4.9 hours to cross the Namibia-Zambia (Katima Mulilo) border, in comparison to 1.9 hours for Namibia-Botswana (Buitepos/Mamuno) and 1.6 hours on the Namibia-South Africa (Noordoewer-Vioolsdrift) border post (Figure 1) (Namibia State of the Logistics Report, 2018).

Figure 1: Overall Logistics Performance Indicator, 2012-2018



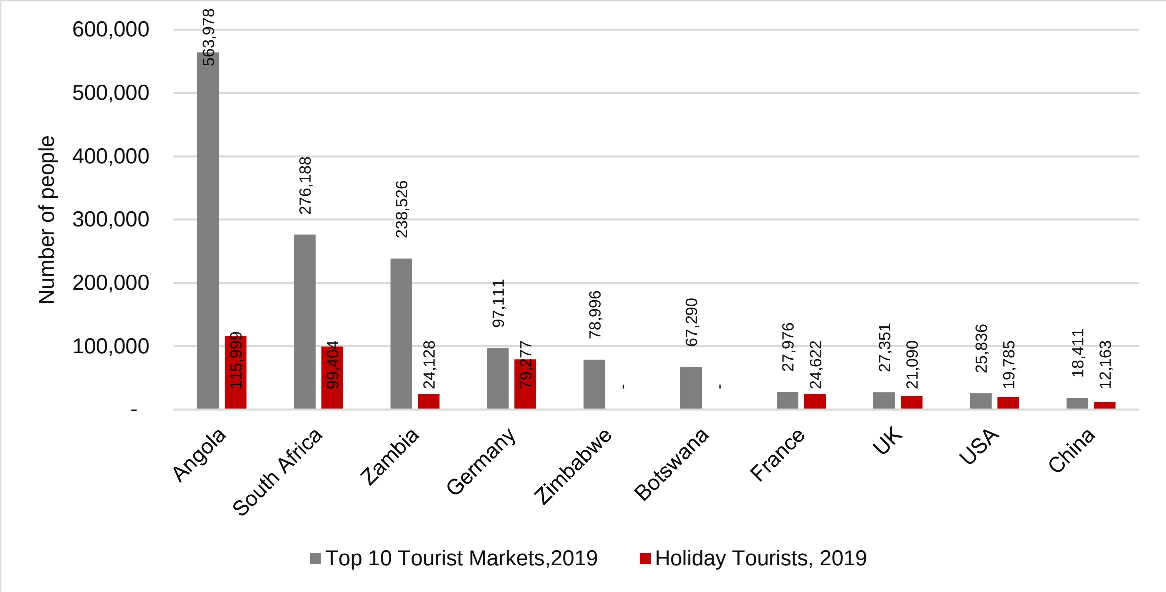
Source: World Bank, 2020. Higher score means better performance.

4. Intra-Africa tourism

24. **Intra-Africa tourism promotion is another aspect that could add potential gains through the tourism sector with proper and coordinated promotion.** Currently, Namibia receives most of its tourists from Angola, South Africa, Zambia, Zimbabwe and Botswana. However, most of these tourists visit Namibia in order to visit family and friends and for other purposes besides holiday tourism. With a better and coordinated marketing strategy, Namibia could attract more affluent tourists for recreational purposes. In this regard, Namibia could strengthen its coordination with neighbouring countries to embark on an enhanced

joint marketing of the southern part of the region and offer collective packages for both African tourists and those from outside the region.

Figure 2: Namibia's Top 10 Tourists Markets, 2019



Source: Ministry of Environment, Forestry and Tourism

5. Investment opportunities within the AfCFTA

25. **The AfCFTA could ease trade and investment flows, while increasing market efficiency and reducing the cost of doing business.** The establishment of the AfCFTA is expected to increase market efficiency and reduce the cost of doing business by offering opportunities for economies of scale; the AfCFTA could further bolster trade and investment flows and shift the composition and direction of foreign direct investment flows into Africa (Fofack, 2018). Competitiveness —the set of institutions, policies, and factors driving productivity— is a key determinant of sustainable growth and provides a path for effective integration into the global economy (Fofack, 2018).

26. **The few African countries that have emerged as the fastest-growing economies in the past decade have also been on an upward trajectory on the global competitiveness ladder.** Increasingly, these countries (i.e., Côte d'Ivoire, Ethiopia, and Rwanda) are drawing on their improving competitiveness and macroeconomic environment to diversify their sources of growth and trade and, in the process, expand their share of the global market pie. Respectively, this gives Namibia an opportunity to improve on its competitiveness through

the effective completion and implementation of the National Single Window initiative. This could lead to an increase in investment in the country.

27. **It is argued that free movement of capital stimulates cross-border trade and investment, leading to an increase in economic growth.** As such, capital flows, especially foreign direct investment (FDI) flows, are more likely to result in a durable and transformative impact through sustainable economic growth and development in the host countries (Baber, 2014). Apart from adding to a country's financial resources, capital flows yield other benefits, such as technology and skills transfer, employment creation and improved standards of living, as well as access to foreign markets and capital from a wider range of investors and associated risk appetites. It is however important to note that economic size and distance matters for intra-Africa capital flows. Other fundamental variables such as natural resource availability, agglomeration effects, level of infrastructure development have been found to be important determinants of capital flows within the region (Bank of Botswana, 2018).

28. **Namibia's total capital flows over the years have been gradually increasing.** Capital flows have increased over the years registering a 29.8 percent growth from 2015 to 2019 (table 4), although a slight decline is observed between 2016 and 2017.

Table 4: SADC Capital Flows

	2015	2016	2017	2018	2019
	Value (N$ m)	Value (N$ m)	Value (N$ m)	Value (N$ m)	Value (N$ m)
Jan	55,690	58,930	63,271	71,879	89,422
Feb	47,056	57,016	58,939	68,299	81,261
Mar	55,612	62,992	74,154	70,326	77,748
Apr	50,802	61,412	60,389	68,471	76,141
May	50,219	54,293	70,262	65,056	80,217
Jun	52,122	61,897	68,300	77,977	78,442
Jul	65,725	58,271	74,850	84,042	79,140
Aug	53,513	60,703	77,353	81,576	83,846
Sep	64,576	68,861	79,111	72,774	74,198
Oct	67,812	60,977	82,466	89,581	77,017
Nov	61,951	61,289	72,808	84,214	84,078
Dec	72,506	71,335	70,817	78,885	94,167

Source: Bank of Namibia

29. **The FDI stock shows that investment in Namibia is mainly concentrated in the mining sector in the form of Equity and Debt**. Table 5 below shows the stock of FDI by country and reveals China to be the highest investor in Namibia. These investments, including that

of Mauritius are mainly in the mining sector, which is primarily resource seeking and capital intensive therefore, its ability to create employment is low. South Africa's investment is mainly in the financial sector, as South African banks dominate the Namibian market. These forms of investments yield better opportunities for Namibia as they are associated with employment opportunities and higher tax revenues i.e. profit seeking FDI. Moreover, investment in the manufacturing sector has been low despite policy schemes such as the Economic Processing Zones. Therefore, strategies targeted at attracting investment in the manufacturing of complex goods, as well as the financial sectors would be beneficial for sustained economic development.

Table 5: FDI by country

FDI by Country	2017 N$ m	2018 N$ m	2019 N$ m
China	34,380	36,218	37,951
South Africa	28,537	31,273	30,146
Mauritius	7,003	7,197	6,700
Botswana	3,293	-	-
United Kingdom	2,057	3,189	3,120
British Virgin Islands	1,647	1,827	1,541
Netherlands	2,001	2,700	1,893
Germany	1,440	1,450	1,498
India	2,429	2,937	3,011
Malaysia	1,361	1,427	1,497
Canada	-	2,277	2,225
Other	5,928	3,217	3,803
	90,075	**94,735**	**93,387**

Source: Bank of Namibia

6. Infrastructure Development

30. **One of the pillars that the AfCFTA aims to develop is infrastructure within member countries.** A third of African countries are landlocked, making them reliant on maritime countries for their international trade. Among the main barriers to trade are poor infrastructure development, maintenance and connectivity, and conflicts and security issues in subregions.

31. **Moreover, the continent's railways and roads often lead to marine ports rather than cross-border linkages over land.** Internal waterways are, similarly, insufficiently exploited and in most cases underdeveloped, making it difficult to conduct intra-continental business. Further emphasis to revamp national transport infrastructure that can create linkages among

African regions is therefore needed in order to improve the movement of goods and services across the continent.

32. **Regional infrastructure development programmes, as well as regional trade policies are important for deeper market integration.** Regional infrastructure development programmes, such as the Programme for Infrastructure Development in Africa, are thus appropriate ways to achieve continental connectivity for Africa. It is equally imperative that African countries and regional economic communities streamline and apply existing regional trade agreements in their national policy and executive bodies to obtain the benefits associated with deeper trade and market integration in Africa.

33. **Inadequate infrastructure in Africa deters the continent to achieve its full growth potential.** Meeting the demand for key infrastructure, both physical and social, hence becomes a priority area for the countries in the region. According to a study conducted by the Export-Import Bank of India (2018), various reports indicate that inadequate transport infrastructure adds around 30-40 percent to the costs of goods traded among African countries. Since Africa is home to 16 landlocked countries, poor and underdeveloped transport infrastructure limit accessibility to consumers, hamper intra-regional trade and drive up import and export costs. A better transport and logistics infrastructure provide efficient transport services to other sectors apart from mining and natural resources, resulting in a better standard of living for its citizens by bringing agricultural and manufacturing products to market.

34. **Namibia's road infrastructure is ranked the highest in Africa according to the World Economic Forum (WEF).** Namibia continues to be recognized for having the best road infrastructure in Africa, according to the report by the WEF of 2019. Namibia's score has gone up to 5.3 from the previous score of 5.1 in 2018, putting Namibia in the same category as countries such as Germany and Sweden. However, exports of goods via road transport is around 24 percent of total exports. This could, however, be because of the destination of the exported goods, as most of Namibia's exports are minerals destined for overseas countries. The table below shows that sea transport is the main mode of Namibia's exports followed by air transport, and then road transport.

Table 6: Export composition by mode of transport

Transport mode	2018		2019	
	Value (N$ m)	% Share	Value (N$ m)	% Share
Sea	55,124	59.2	51,083	55.7

Air	21,091	22.6	21,228	23.1
Road	22,365	24.0	20,597	22.4
RAIL TRANSPORT	196	0.2	24	0.0
MULTIMODAL TRANSPORT	1	0.0	7	0.0
Mode unknown	0	0.0	0	0.0
Inland waterways transport	1	0.0	0	0.0
Postal Transport	0	0.0	-	0.0
	93,124	**100.0**	**91,766**	**100.0**

Source: Namibia Statistics Agency

35. **In terms of transportation of imported goods, road transportation is mainly used.** The table below shows that about 63 percent of imported goods are brought into the country through road transport. This could be because Namibia's imported goods are mainly from neighbouring South Africa.

Table 7: Import composition by mode of transport

Transport mode	2018		2019	
	Value (N$ m)	% Share	Value (N$ m)	% Share
Road	70,129	63.4	70,475	63.3
Sea	39,761	35.9	36,077	32.4
Air	5,350	4.8	4,935	4.4
Rail transport	288	0.3	101	0.1
Inland waterways transport	17	0.0	18	0.0
Multimodal transport	0	0.0	13	0.0
Mode unknown	0	0.0	0	0.0
Postal transport	0	0.0	0	0.0
	110,620	**100.0%**	**111,253**	**100.0%**

Source: Namibia Statistics Agency

36. **There is limited capacity in the existing railway system which can only manage to haul 15-20 percent of the total freight market.** The limited capacity and flexibility have driven many users and passengers to road transport. Namibia has an opportunity to increase the current 1.6 million metric tons per annum to 3 million metric tons by improving the railway service (Namibia State of the Logistics Report, 2018). This will require an increase of railway percentage share of various cargos for which rail has a distinct advantage, such as containers, liquid and dry bulk, and project cargo and construction material. The increased capacity has the potential to absorb more traffic generated from seaports, mines, agricultural, cross-border traffic and manufacturing centres.

37. **The Trans-Kalahari Corridor comprises of a tarred road linking the Port of Walvis Bay with Botswana and the industrial powerhouse of South Africa, Gauteng.** The Corridor stretches over 1,900 km along Walvis Bay – Windhoek – Gaborone -Johannesburg/Pretoria. It is supported by a railway line from the Port of Walvis Bay to Gobabis (via Windhoek), where transshipment facilities (train-to-truck) are available, and then after truck transport through most of Botswana the railway line again continues from Lobatse in Botswana through to Gauteng. The Corridor is complemented by the Maputo (Mozambique) Corridor on the east coast of Africa, thus forming a transport corridor over the entire breadth of southern Africa. The corridor aims to simplify cross-border transactions and customs operations along the Corridor.

38. **The Government has been upgrading and rehabilitating several railway lines across the country over the past few years.** The Government is currently upgrading the railway network to double the volume of cargo transported between Walvis Bay and Kranzberg, Kranzberg and Oshikango, and Kranzberg and Windhoek. The Government is also rehabilitating the track between Kranzberg and Tsumeb. These are projects that have been ongoing from as far back as 2016, and the government therefore needs to expedite the completion of these railway lines for them to bring economic benefit to the country.

39. **The establishment of a dry port in Walvis Bay has aided in trade increases with several countries, such as Botswana, Zimbabwe and Zambia.** A dry port is an inland intermodal terminal directly connected by road or rail to a seaport and operating as a centre for the transshipment of sea cargo to inland destinations. As a SADC member, Namibia entered into agreements with Botswana, Zambia and Zimbabwe to avail these three land-linked countries a portion of land at the Port of Walvis Bay to enable them to conduct sea-borne trade. With the establishment of the dry port, Zimbabwe significantly increased trade volumes to around 2500 tonnes a month through the Namibian harbour.

7. Market Integration

40. **The main objective of pursuing trade and market integration in Africa is to boost intra-African trade and investment.** When trade flows are rapid and more cost-effective, business and consumers in the regions benefit as it creates employment, industrial linkages, economic diversification and structural transformation that, by extension, generate sustainable development on the continent (African Union Commission, 2016).

41. **Regional integration is important in Africa because it brings various economic benefits for the countries.** Integration affects what people can buy; the variety of what is on offer at the local market; how easily citizens move between countries; where individuals travel for leisure or for work[10]; how cost-effective it is to keep in touch; where people choose to study or look for a job; how to transfer money to family or get start-up capital for a business (African Union Commission, 2016).

42. **The country should investigate migration laws that target the facilitation of flows for highly skilled migrants.** Some level of mobility of migrants is necessary for Namibia to integrate into the global economy. Skilled Namibians who work abroad could bring back their skills and work experience from abroad, thus boosting productivity. Expatriates who wish to remain abroad contribute to foreign currency earnings via worker remittances (Lowell & Findlay, 2017). Moreover, Namibia has an abundance of unskilled labour and a young labour force, therefore, flexible labour laws that encourage skilled emigrants into Namibia would be beneficial for the country's economic development.

43. **While Namibia is highly integrated with the South African market, it is not the case with other African countries.** Namibia has long-standing integration with the economy of South Africa, due to historical ties and its membership of the Southern African Customs Union (SACU), the Common Monetary Area (CMA), and its membership of developing regional organisations. Therefore, monetary integration plays a crucial role in trade as it reduces transaction costs and eliminates exchange rate issues. Intra-African trade remains quite low, although moderate increases have been observed over the years.

8. Industrial Development

44. **Industrialization is regarded as essential for rapid development of a country.** The industrial revolution showed that countries which merely rely on agriculture have remained under-developed, whereas nations which developed industries achieved high rates of development. The advanced countries encourage industrialization on a large scale and transferred advantages to agriculture. They achieved balanced growth across various sectors of an economy.

45. **In 2012, the Government adopted an industrial policy for Namibia, which focuses on three strategic intervention areas.** The industrial policy aims to support value addition,

[10] The COVID19 pandemic showed the vulnerabilities of travel restrictions on most economies, especially Namibia, which relies heavily on tourism.

upgrading and diversification for sustained growth; securing market access at home and abroad; improving the investment climate and conditions. The industrial policy was followed by the Industrial Policy Implementation and Strategic Framework, which contains implementation plans for each Priority Action, including milestones, budgets, responsibilities, and targets. Priority actions supporting value addition, upgrading and diversification included the extension of the Industrial Upgrading and Modernisation Programme (IUMP) and a realignment of incentive schemes and financing instruments for promoting industrial development and value addition projects. While this is encouraging, the links between the industrial development plan and regional integration, including cross-border and regional value chains and AfCFTA are not explicitly addressed in this policy, making it somewhat inward looking and focusing on the resources Namibia is endowed with.

46. **The "Growth at Home" as a theme was chosen by the then Ministry of Trade and Industry to reinforce the importance of accelerating economic growth, reducing income inequality and increasing employment.** The theme subsequently became a strategy adopted by Government for implementing Namibia's first Industrial Policy and to attain the strategic objectives for manufacturing. The "Growth at Home" strategy emphasizes the importance of commodity-based industrialization by strengthening local and national value chains and creating more efficient linkages within the economy supported by improved logistics and infrastructure, improvements in the ease of doing business, and ongoing dialogue and partnership between government and the private sector.

47. **The Growth at Home strategy is a strategy which aims to industrialize the country and attain the aspirations of Vision 2030.** Namibia's Growth at Home strategy reinforces the importance of accelerating economic growth, reducing income inequality, and increasing employment.

48. **The establishment of the Namibia Industrial Development Agency (NIDA) in 2019 shows the continued efforts of the country to the aspirations of industrializing.** The primary function of NIDA is to actively facilitate and drive industrial development in the country in line with the industrial policy and its "Growth at Home" implementation Strategy towards the achievement of Vision 2030 goal.

49. **While the current industrial policy broadly supports the country's ambition, the implementation plan can be tweaked to align to the regional integration agenda.** Table 6 below shows the main products that are imported into the continent. Namibia should align

its industrial production base to provide some of these goods destined for Africa or join others with respect to regional and cross border value chains to produce these good and enhance intra-Africa trade.

Table 8: List of top 10 products imported by Africa

	Product group	Imported value in 2016 US$ billion	Imported value in 2017 US$ billions	Imported value in 2018 US$ billions
	All products	460,7	503,9	573,5
1	Mineral fuels, mineral oils and products of their distillation etc.	60,5	72,3	96,4
2	Machinery, mechanical appliances, boilers; parts thereof	56,9	58,1	60,6
3	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television.	40,0	40,3	44,4
4	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	35,2	37,2	41,7
5	Cereals	19,8	22,6	21,9
6	Plastics and articles thereof	17,6	19,3	21,6
7	Iron and steel	13,4	15,1	16,7
8	Commodities not elsewhere specified	9,1	9,2	16,2
9	Pharmaceutical products	13,8	14,9	15,4
10	Articles of iron or steel	14,7	14,6	14,5

Source: International Trade Statistics (Trade Map), 2019

9. Measures to strengthen Namibia's global value chains

50. **Global value chains provide opportunities for developing countries to diversify their exports and intensify their integration into the global economy.** This is one of the key findings of the "Global Value Chain (GVCs) Development Report" recently published by the World Trade Organization (WTO), World Bank, and other partners. GVCs link firms, workers and consumers around the world often provide a stepping-stone for firms and workers in developing countries to integrate into the global economy. For many countries, especially low-income countries, the ability to effectively insert themselves into GVCs is a vital condition for their development (Gereffi & Fernadez-Stark, 2010).

51. **GVC comprises of two components reflecting the upstream and downstream links in international production chains.** Individual economies participate in global value chains by importing foreign inputs to produce the goods and services they export (backward GVC

participation) and also by exporting domestically produced inputs to partners in charge of downstream production stages (forward GVC participation).

52. **A good example of forward participation is the export of raw materials from Namibia to other countries for processing.** Yellow cake uranium is exported from Namibia to other countries to be processed into nuclear energy. Meanwhile, blister copper is imported into Namibia by Dundee Precious Metals for smelting at their facility in Tsumeb. Group PSA of France imports Peugeot and Opel parts for their car assembly facility at Walvis Bay. These cars are exported to other African countries. This is a form of backward participation. A country imports inputs and exports a finished good, which leads to import- and export-led growth.

53. **Global value chains involve long-term firm-to-firm relationships.** These relationships make global value chains a particularly powerful engine for growth and a vehicle for technology transfer. Firms develop a shared interest in specialising in specific tasks. They exchange technologies and learn from each other. Global value chains are driven by factors such as a country's geography, endowments, institutions and market size. Geography is important because it determines how a country is connected to markets.

54. **Distance and the resulting trade costs can be an obstacle to trade.** Improving connectivity helps a country to participate in global value chains. Namibia's coastal state makes it well positioned to tap into global value chains. However, Namibia has a very small market, which puts it at a disadvantage. The AfCFTA could open the country to larger markets of about 1.2 billion people, which can be exploited to the country's advantage. Although Namibia is endowed with natural resources, the country lacks in technology, capital and skilled labour to produce the goods that are imported by other African countries from elsewhere. For Namibia to tap into global value chains the country should be business friendly by creating a strong business climate and deepening trade cooperation.

55. **The health pandemic showed the extreme vulnerability of Africa to the disruption of international supply chains during the COVID-19 pandemic.** The COVID-19 pandemic highlighted the vulnerability of African countries, such as Namibia's overreliance on only global value chains and showed the need for the continent to diversify its trading partners and unlock Africa's business potential. A value chain can be defined as the full range of activities which are required to bring a product or a service from conception to delivery into a final consumer and final disposal after use through different phases of production. It therefore includes primary production, transformation, marketing and final consumption.

56. **In a few African countries, governments redirected production into their own countries to assist the disrupted value chains.** The South African government issued a tender for the domestic production of ventilators, while in Kenya, the government announced that the textile industry will be manufacturing face masks and personal protective equipment (PPE). In Nigeria, the military began mass production of ventilators and PPE kits.

57. **Namibia is highly dependent on international markets, especially South Africa — for both its imports and exports.** The economic instability that persists in South Africa (attacks on trucks, xenophobic attacks) makes it important for Namibia to improve and diversify its value chains that make it less dependent on only one country, and exploit other markets such as other African countries.

10. Policy Recommendations

58. **The Namibian Government should invest in the provision of electricity and water supply to reduce the cost of production and enhance productive capacities of the country.** This will help increase the country's manufacturing production capacity and improve the competitiveness of its products. Namibia should use the World Bank's 'Doing Business' index as a framework to identify a range of reforms designed to make the domestic business environment much more attractive to both foreign and domestic investors, like Botswana and Rwanda. Improved competitiveness will also over time reduce non-tariff obstacles to exports (e.g., quotas, imports ban).

59. **Namibia should expedite the completion of the logistics hub centre to improve regional infrastructure which link SADC and other African countries and provide cheaper services.** This needs to be accompanied by improvements in the railway infrastructure and locomotives to facilitate high volume freight between African countries and could promote faster transformation of the Namibian economy. The Government or its agencies should revamp or develop transport infrastructure such as railway lines connecting Namibia to the rest of Africa (i.e., connecting Namibia to Botswana and Namibia to Zambia) to facilitate trade. Rail transport has the ability to move high volumes of freight over long distances in a safe, energy-efficient and cost-effective manner. Fuel and chemicals, for example, are safer to transport by rail. Thus, with a robust rail and road system connecting the ports of Walvis Bay and Lüderitz, Namibia has the potential to capture a significant share of transit volumes to African countries. Furthermore, the country needs to introduce a cargo

tracking system within the AfCFTA member countries to address bureaucratic delays, red tape, and inefficiencies at border posts.

60. **Namibia must expedite the adoption of the draft trade policy and ensure that it is responsive to the dynamic needs of the country in relation to the AfCFTA.** Trade policies help to shape the size of markets for the output of firms and hence strongly influence both foreign and domestic investment. It is, therefore, important that the draft policy is finalized in order to reap the benefits of the AfCFTA.

61. **Namibia should strive to encourage specific industries that produce goods demanded by other African countries to set up at border towns.** The current Economic Processing Zones (EPZ)[11] have an array of problems, stemming mainly from a lack of consultation with key players in the market from the initial drafting process. This can be avoided if there are regular consultations with the private sector. Therefore, when encouraging specific industries to set up at border towns, such as Oshikango and Katima Mulilo, it should be done intricately to avoid the shortcomings of the EPZs.

62. **Namibia needs to review current industrial policies to ensure more outward looking policies.** The country needs to review current policies and encourage industrial activities by providing a conducive investment environment. This implies removing the structural rigidities that exist in the economy. Given the small size of the Namibian market and the relatively small scale of the domestic private sector, it makes eminent sense to centre a trade strategy on integrating domestic firms into multi-national company value chains – whether oriented to regional or global markets.

11. Conclusion

63. **Namibia is an open economy with exports ranging all over the world, however intra-Africa trade is low.** Although Namibia is an open economy with exports to countries such as the European Union, the United States of America, and the United Arab Emirates, intra-Africa trade is very low. If Namibia wishes to reap the benefits offered by the AfCFTA, it will have to increase intra-Africa trade.

[11] The EPZs are in the process of being replaced by the Special Economic Zones, in the hopes of rectifying the shortcoming of the EPZs.

64. **Potential losses for Namibia are minimal, although the use of NTBs may be an obstacle for Namibia.** It has been found that revenue losses from joining the AfCFTA is relatively low, around 0.1 percent, contributed mainly to the fact that Namibia does not trade much with non-SADC countries. However, Namibia's use of NTBs could pose problems if Namibia wishes to fully integrate into the AfCFTA, as NTBs tend to hinder trade and go against the aspirations of the AfCFTA.

65. **Namibia needs to diversify its exports to fully utilize the AfCFTA.** Namibia's exports are concentrated in a few goods, which are demanded in only a few markets. This means Namibia will need to diversify its exports to integrate into the African markets.

66. **The country will need to diversify its market and not depend solely on a single country for all its imports and exports.** The COVID19 pandemic revealed vulnerabilities with the overreliance on a single market for all imports and exports. It revealed the need for countries, especially Namibia, to diversify value chains to include all countries and to not depend solely on a single market or a single country.

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