

“Towards Economic Competitiveness for Namibia”

Annual Address of the Governor of the Bank of Namibia,

Mr. Tom Alweendo, 7 November 2007

The Honorable Speaker of the National Assembly

Honorable Ministers and Members of Parliament

The Mayor of the City of Windhoek

Members of the Bank of Namibia Board

Members of the Media

Distinguished invited guests

Ladies and Gentlemen,

1. I am happy to welcome you all to our Annual Dinner. This event has become a permanent feature on the Bank’s calendar and is meant to provide a forum where we share ideas and information with our stakeholders on key issues that affect our economy. Tonight, my presentation will focus on economic competitiveness and its importance to sustainable economic growth. This is an important subject matter given the fact that Namibia’s competitiveness has been declining over the last few years.
2. The globalization of the world economy has brought the issue of competitiveness into sharp focus, more particularly for small developing economies such as Namibia. With the emergence of economies with lower production costs such as Vietnam, the challenge of the global market place has clearly been heightened. Before proceeding further, I would like to share with you some information on the recent economic developments at the global level and in Namibia.

Recent Economic Developments

3. Notwithstanding tight monetary conditions world-wide and concerns about the US sub-prime market, the global economy continued to expand at a healthy pace during the first half of 2007. It is worth noting that in 2007 global growth has been mainly driven by emerging market economies such as China, India, Russia, Brazil and South Africa. According to the IMF, China, India and Russia accounted for about 50 percent of total increase in global output during 2007. The traditional engines of global growth consisting of North America, Europe and Japan, did not do so well in 2007. For instance, it is estimated that growth of the US economy will be below 2.0 percent, and the Japanese growth will also be in the order of 2.0 percent. The Euro area is projected to grow at 2.5 percent.
4. Going forward, the IMF in its October 2007 World Economic outlook has revised downward its global growth forecast for 2008 to 4.8 percent from 5.2 percent for 2007. The revised forecast is mainly influenced by the recent financial turbulence which poses a significant threat to the global financial stability. Of particular concern is the developments in the US sub-prime mortgage market, which continues to adversely affect global financial markets. Another factor that continues to pose a risk to the outlook is the persistent high and volatile international oil price. Thus far high oil prices did not impact negatively on overall growth, partly because the increase in oil prices has been largely demand driven. Nevertheless, with oil prices nearing US\$100 dollar per barrel, there is increasing concern about its impact on global growth. It is also worth mentioning that due to persistent high oil prices, alternative sources of energy such as bio-diesel have increasingly become more attractive. The downside, however, of this development is that this diversion of agricultural land to bio-diesel production is putting upward pressure on agricultural commodities such as maize and wheat. These are products that are predominantly consumed by the poor.
5. On the domestic front, the Namibian economy continues to grow moderately, with output growth expected to be in the order of 4.0 percent in 2007. This growth would mainly be underpinned by strong performance of the mining sector in particular uranium production, while the performance of other sectors is expected to be rather

subdued. While the GDP growth has been relatively healthy over the past few years, it has not been sufficient enough to make a significant impact on unemployment or poverty alleviation. Indeed, the unemployment rate remains high and is estimated at over 30 percent of the economic active population.

6. Like other net oil-importing countries, Namibia has been confronted by the challenge of stronger inflationary pressures mainly due to high food and international oil prices. The annual average inflation rate reached 6.7 percent during the first nine months of 2007, compared to an average of 4.7 percent during 2006. The increase in food price inflation has been driven by three inter-related factors, namely the diversion of wheat and maize production for purposes of producing bio-diesel in the face of high oil prices; regional droughts in key maize and wheat producing countries; and increased demand from the fast growing emerging market economies. To restrain inflationary pressures, the Bank of Namibia increased the Bank rate by 350 basis points since mid 2006 to reach 10.50 percent in October 2007. It is encouraging to note that inflationary pressures, especially transport inflation, have started to abate since August 2007. Nevertheless, going forward, inflationary pressures are expected to continue due to upside risks such as the volatility in international oil prices and high domestic food prices.

What is competitiveness and why it is important for growth and improved standards of living?

7. Ladies and Gentlemen, coming back to tonight's topic let me begin by saying that Namibia's recent macroeconomic performance seems to imply a comfortable level of competitiveness. For instance, between 2000 and 2006 Namibia's average output growth of 4.5 percent exceeded that of other CMA members and of sub Saharan Africa as a whole and inflation has been low. Fiscal policy has been generally prudent with the Government recording a budget surplus for the first time in 2006/07 fiscal year, and the external current account recorded healthy surpluses. It is also noteworthy that our international reserves almost

doubled between 2005 and 2007 and is now in the order of three months of import coverage.

8. While Namibia still scores relatively well in most of the macroeconomic indicators, its global ranking has been steadily falling. That is a clear indication that macroeconomic stability alone is not sufficient to ensure high economic growth. There is therefore a need to look at a number of micro-level issues that affect our competitiveness negatively.

9. Namibia's comprehensive picture of its competitiveness can be understood by looking at our Global Competitiveness Index; the World Governance Indicators; and the Doing Business Indicators. With regard to the Global Competitiveness Index, Namibia's ranking has been falling in relative terms ever since we were first included in the index in 2001. The average slippage has been 5 points a year. Namibia's decline in 2004/05 was particularly pronounced, when its ranking fell by 11 points primarily due to significant deterioration in the sub-indices of public institutions and technology. In absolute terms, the country's overall competitiveness score dropped from a high of 4.0 in 2003 to a low of 3.7 in 2005. The Global Competitiveness Index classifies countries in three different stages of development according to GDP per capita in U.S. dollars. Lesotho for instance is in stage 1 and South Africa in stage 2, whereas Namibia is considered to be in transition from stage 1 to stage 2. However, for Namibia to achieve sustainable growth at stage 2, it would have to improve its scores in "efficiency enhancers" which include (i) higher education and training, (ii) market efficiency, and (iii) technological readiness. With respect to the World Governance Indicators, it is also worrying to note that from 1996 through 2005, Namibia's scores in this index fell, particularly with respect to the rule of law and control of corruption. These are areas where several sub-Saharan African countries have made progress. Regarding the Doing Business Indicators, Namibia's ranking of 42 in 2006 was the second highest in sub-Saharan Africa.

10. There is sufficient empirical evidence that shows that those countries that are more competitive were also among the wealthiest economies in the world as measured by GDP per capita. In the case of Namibia which is a small economy, competitiveness matters even more. As a small economy, we can only hope to grow the economy if we are able to export goods and services. For larger economies, they are also able to rely on local demand for economic growth.

Determinants of competitiveness and how Namibia fares

11. While there are many factors that influence a nation's competitiveness, allow me to highlight few important areas that are fundamental in influencing competitiveness.

12. First, any country that wants to prosper economically need to have a functioning legal system, especially with regard to the protection of property rights. It is my view that Namibia has functional legal system where the judiciary is independent and effective. The recent establishment of the Anti-Corruption Commission has further strengthened our position of a country with effective laws. However, there is a trend developing where we do not have sufficient legal personnel, often resulting in cases being postponed unnecessarily. If this trend were to become a permanent feature of our judiciary, we run the risk of damaging our competitiveness.

13. Second, institutional development is important in ensuring the performance of any economy and Namibia is no exception. For any economy to be competitive and therefore to grow faster, you need to have strong private and public institutions. It is of paramount importance that when staffing our institutions we must always ensure that we do so based on a meritocratic recruitment process. Many institutions that do fail they do so mainly because of inappropriate recruitment, especially at the management level. In such cases institutions are likely to disregard all the necessary governance issues and this is a recipe for failure. I will for example argue that most of the cases of mismanagement of financial resources in our public institutions are as a result of weak institutions.

14. Third, government regulations and procedures have a direct impact on business operations. Bureaucratic red-tape and regulations that cause long delays, for example in business start ups, result in increased financial costs and risks. Decisions by investors on locating businesses in the country would depend not only on the costs of doing business but also on the quality of services that contribute to the business environment. In this regard, there are many areas where Namibia is lagging behind, including the bureaucratic procedures for registering a business. An assessment of the investment climate by the World Bank ranks Namibia 86 compared to 30 for Mauritius. According to this assessment report, investors go through 10 procedures, and wait an average of 95 days to start up a new business in Namibia. This does not compare well with countries such as Australia, where business registration takes a mere two days. Surely, this can be improved. For example, the registration process can be computerised and procedures combined in order to achieve efficiency. Creating a friendly business environment for private sector activities, which is free of distortions and underpinned by efficient public institutions and transparent regulatory frameworks will certainly enhance the competitiveness of the Namibian economy.

15. Fourth, a committed and skilled labor force is crucial in achieving long-term competitiveness. A skilled labor force is key in improving productivity levels in any economy. Knowledge in the economy has clearly become an increasingly important factor in wealth creation than natural resources endowment. We are aware of countries with plenty of natural resources, but yet they remain poor and underdeveloped. Knowledge is becoming an important strategy for businesses not only to improve products and services but also to enhance productivity and efficiency. Indeed, knowledge like any other product has an expiry date and we therefore need to update our skills and knowledge on a continual basis. It is therefore, encouraging to note the Government's efforts to improve the quality of our education through the ETSIP program. We hope that the long-term result of this program is a skilled labor force that is able to compete globally.

16. According to the World Bank's assessment of the investment climate in Namibia (2007), labor productivity in Namibia is higher than in most other countries in Sub-Saharan Africa. The same assessment also indicated that total factor productivity in Namibia is higher when compared to the rest of SSA. Nevertheless, compared to other fast growing dynamic countries such as the Asian tigers, labor productivity remains an issue of concern that must be addressed as a matter of urgency. It is also interesting to note that the productivity gains came mainly from the private sector and that productivity in the public sector has remained stagnant. It has also been argued that Namibia's labor market is inflexible compared to dynamic fast growing economies and the recent amendments to the Labor Act, though socially welcome, may further stifle the labor market.

17. Fifth, a sound macroeconomic environment is necessary to support the economic growth process and to enhance economic competitiveness. A stable macroeconomic environment will help businesses to respond accordingly to the changes in market conditions, especially when making investment decisions. In this regard, the Namibian economy is healthy and relatively stable as evidenced by the GDP growth recorded over the past few years and the low level of inflation, which are underpinned by prudent fiscal and monetary policy. With regard to taxation, we are becoming less competitive. For example our corporate tax of 35 percent is relatively high when compared to those in the neighbouring countries. Such high taxes can impact negatively on investments and therefore contribute to low growth. It will be necessary to gradually bring our tax regime in line with the region in order to become competitive in terms of attracting foreign direct investment.

18. Another area of competitiveness that we need to embrace fully is soft infrastructure, such as energy provision and information communication technology (ICT). No country can reasonably expect to industrialize its economy without a secure source of energy. We are currently finding ourselves in a situation where we are running out of power and this is a source of concern. The

efforts being made by the relevant authorities to secure a long-term source of energy to adequately serve the economy is to be applauded. All nations in developing and advanced economies have become such extensive users of information and communications technologies that their economic success now depends on their continued wise promotion and deployment of these by their governments at a national level. Governments in the most economically advanced countries in the world are committed to using these technologies to continue enhancing their nations' competitiveness and to improve the internal operations of public agencies. Thoughtful policies and effective implementation of national economic development policies that integrate economic, social and technological strategies are essential to compete effectively in the globalized economy of the twenty-first century.

19. To conclude, a nation's prosperity depends on its economic competitiveness. Sound macroeconomic policies, a stable political environment and effective legal institutions are necessary but not sufficient conditions to ensure a prosperous economy. The sophistication of institutional operations and strategies and the quality of the microeconomic business environment in which companies compete are equally important. Clearly, there is no reason why Namibia should be slipping down the ranking indexes on competitiveness. The country's strengths are quite impressive in terms of the macroeconomic fundamentals, which include low level of inflation, low budget deficit, and overall financial stability. The weaknesses identified can be addressed easily through policy reform and interventions. It is therefore crucial that our political and business leaders take the necessary steps to improve our economic competitiveness. The absolute truth, ladies and gentlemen, is that without economic prosperity, Namibia as a nation will be of no consequence in the affairs of the world.

I thank you.