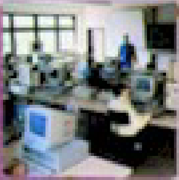
"Raising investment and growth in Namibia"

Bank of Namibia



Annual Symposium

2002

BANK OF NAMIBIA

Windhoek Country Club Resort and Casino, Windhoek, Namibia, 7 August 2002

ERRATA

1. On page 43, figures 4 and 5 supposed to have been recorded as figures 4.1 and 4.2 respectively as referred to on page 41.

2. Footnote 27 on page 68 is missing and should read as follows: "See Bank of Namibia Annual Report 2001".

3. Page references made on pages 100 to 101 can be easily traced from pages 77 to 79 under the relevant headings.

Bank of Namibia

Annual Symposium 2002

Raising Investment and Growth in Namibia

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1 PREFACE AND OVERVIEW

1.1 Preface

The fourth Annual Symposium of the Bank of Namibia took place on August 7, 2002 at Country Club Windhoek, with the theme Raising Investment and Growth in Namibia . The theme was born out of the realization that one of the critical challenges facing Namibia is the need to raise the economy s growth potential in order to reduce unemployment, raise standards of living to an acceptable level, and achieve a visible reduction in poverty. Therefore the main objective of the symposium was to identify possible policy gaps in the country s investment and growth strategy by taking stock of what has been the post-independence experience, and examining the factors that might have hindered investment in Namibia. It was for this reason that the Bank of Namibia invited eminent speakers to address the symposium and share their experiences on possible policy measures that could enhance attracting investment to Namibia.

1.2 Overview and Reflections

Mr. Tom K. Alweendo, the Governor of the Bank of Namibia in his opening speech emphasized the importance of an accelerated growth process that can ensure an improvement in the standard of living of the majority of people. He reiterated the fact that growth will be meaningless if its is not accompanied by equity.

The Research Department of the Bank of Namibia presented a paper titled An Overview of Namibia s Investment and Growth Performance, 1990 — 2001 as an introduction. This paper reviewed Namibia s investment and growth performance since independence and the policies that were put in place to attract domestic and foreign investments. It further assessed to a limited extent the impact of the policies on investment and highlighted the immense challenges facing the country. The paper concludes that although Namibia is amongst the countries with high savings ratio in sub-Saharan Africa, this has not translated into high investment, hence there is a need to explore different saving vehicles to translate the available high saving into higher investment and economic growth.

The paper on Industrial Policy, Trade Strategy and Growth in Namibia, presented by Dr. Carolyn Jenkins, of the University of Oxford looked at reasons that could be attributed to the slow industrial growth in Namibia. The purpose of this paper was to identify possible policy gaps in the country s industrial and trade strategy and assess whether there is a need for a paradigm shift. The paper confirmed, amongst others, that the reasons for the slow industrial growth in Namibia are the apparent lack of profitable investment opportunities and the relatively smallness of the domestic market. It reiterated that industrialization offers substantial dynamic benefits that are important for changing the traditional structure of the economy. It further looked at whether there is a potential for export diversification in Namibia and whether there were incentives to promote non-traditional exports. The conclusion of the paper was that since Namibia is a land and resource-abundant country it should concentrate its development effort by focussing on the mining and agricultural sectors and not so much through manufacturing.

Dr. Patrick Asea from the United Nations Economic Commission for Africa presented a paper that attempted to assess the growth potential of Namibia s services sector. The paper illustrated that while it is true that the manufacturing sector is generally the most dynamic part of the industrial sector, there are economies that have flourished, but with only modest manufacturing activity and robust quality services activity. Thus, Namibia could benefit from developing its service sector, especially since activities in this sector are normally pro-poor and hence could contribute to poverty reduction which is one of her main challenges.

The paper titled Financing Growth in Namibia: Policies and Strategies presented by Dr. Meschack Tjirongo, of the International Monetary Fund examines Namibia s saving level and its relationship to investment and growth. The paper finds that while significant progress has been achieved in addressing economic imbalances, saving in Namibia has been sluggish and volatile, reflecting poor performance in domestic savings, which, in turn, reflects the lacklustre performance in investment and growth during the decade. The paper indicates that raising savings is a necessary but not sufficient condition for higher sustained growth. It further points out that Namibia s savings are largely contractual and these have not translated into investment. Therefore, options could be explored in terms of other saving instruments, along the lines followed by the high-growth performing countries, e.g. social security reform and the introduction of savings bonds.

2 RAISING INVESTMENT AND GROWTH IN NAMIBIA

Opening Address

Mr Tom K Alweendo,

Governor, Bank of Namibia

Board members of the Bank of Namibia, Deputy Governor, Distinguished Guests, Ladies and Gentlemen, it is with delight that I welcome you all to the fourth Bank of Namibia s Annual Symposium. I extend my gratitude and appreciation to all of you for coming, especially speakers who travelled across the globe to be with us at this annual event.

The theme of this year s symposium is Raising Investment and Growth in Namibia . You may have noticed that the Bank of Namibia has addressed the topic of growth on several occasions - and therefore the logical question is why we are so much concerned with a topic of this nature. The simple answer to this question is that the lack of economic growth is by far one of the greatest challenges facing Namibia at the present moment. You may also say that the Bank of Namibia should be more occupied with monetary policy issues, such as price stability, and not so much with growth-related issues. It is true that central banks are usually concerned with price stability, but we should also remember that central banks are concerned with price stability only because of the belief that you could only achieve sustainable growth when you have price stability.

It is only through an accelerated growth process that we can ensure an improvement in the standard of living of the majority of our people. Let us also note that for growth to be meaningful, it must be accompanied by equity. This is particularly important in the case of Namibia, where the income distribution is so highly skewed.

There is no dispute that in order to have economic growth, you need to have savings. This theory is based on the understanding that savings would usually be translated into investments that should lead to economic growth. A review of savings and investment performance shows that Namibia has not performed badly when compared with other Sub-Saharan African countries and a few developing economies.

For example, during the period 1990 to 2001 the rate of savings on average was nearly 23 per cent of GDP, while the rate of investment was 19 per cent. This suggests that over the years Namibians saved more than what was actually invested. In other words the country had a positive savings investment balance. This being the case, the relevant question to be asked is whether the higher savings did in fact translate into more investment in Namibia, relative to other sub-Saharan countries.

The answer to this question is that, even with that higher than average savings rate, the growth recorded is not in line with the savings rate. What this probably means is that, yes, savings are necessary but not sufficient for growth. There are most likely other issues, other than savings, that need to be addressed in order for the economy to grow. In Namibia the arguments are that there are no enough investment opportunities in the country; or that the form of savings, which are usually of long-term contractual nature, is not suitable for investment. Equally there could be other factors preventing savings from being transformed into investment, such as the lack of human skills and the structure of the Namibian economy or the structure of the financial system.

I am hopeful that our eminent presenters will provide some of the answers to the many questions about investments and how it relates to economic growth. We will also give all participants an opportunity to make their comments during the discussion time and I urge all of us to actively participate in the discussions.

Once again, I welcome all of you and I hope that at the end of the symposium we will all have contributed one or two ideas in helping the policy makers to steer the Namibian economy in the right direction of sustainable growth.

3 An overview of Namibia's Investment and growth Performance, 1990-2001

Research Department

Bank of Namibia

3.1 Introduction

The choice of the theme for this year s annual symposium, Raising Investment and Growth in Namibia , reflects one of the formidable economic policy challenges facing Namibia today. Four main objectives of development policy in Namibia have been identified at independence in 1990, namely to revive and sustain economic growth, to create employment, to reduce inequalities in income distribution and to eradicate poverty. A substantial improvement in long-term economic growth performance is central to the achievement of these development objectives.

However, sustained economic growth requires a higher quality and quantity of investment. The theoretical foundation of this relationship is solid, and the empirical results are strong. A large number of combined cross-section/time series econometric models find a significant positive relationship between the rate of growth of real GDP and the ratio of investment to output. Furthermore, international comparisons also suggest that countries that were able to accumulate high levels of investment achieved faster rates of economic growth and development. In particular, the problem of low investment is empirically found to be central in the explanation of low growth in sub-Saharan Africa.

This paper provides a broad overview of Namibia s post-independence growth and investment performance. On average, the country has experienced a steady economic growth rate of about 3.8 per cent during the period 1990-2001. Given formidable development challenges such as high unemployment, inequality in income distribution and the extent of poverty, such a growth rate is quite unsatisfactory. The paper does not attempt to determine causes for such a low growth. However, it appears that structural factors such as the small domestic market, sensitive geo-climatic conditions, and productivity problems can partly be attributed to this inadequate growth performance.

Government has adopted a number of policies and strategies to deal with some of the structural constraints on growth and investment. These are briefly mentioned in the paper. The intention is not to evaluate their impact, but to simply underscore the need to deal with certain institutional and policy deficiencies, if the country is to raise its growth and investment levels. These issues are also further dealt with in subsequent symposium papers. Finally, the need to maintain macroeconomic stability, particularly to ensure stable and low levels of inflation through appropriate monetary, exchange rate and fiscal policies is critical in achieving sustained long-term growth of the economy.

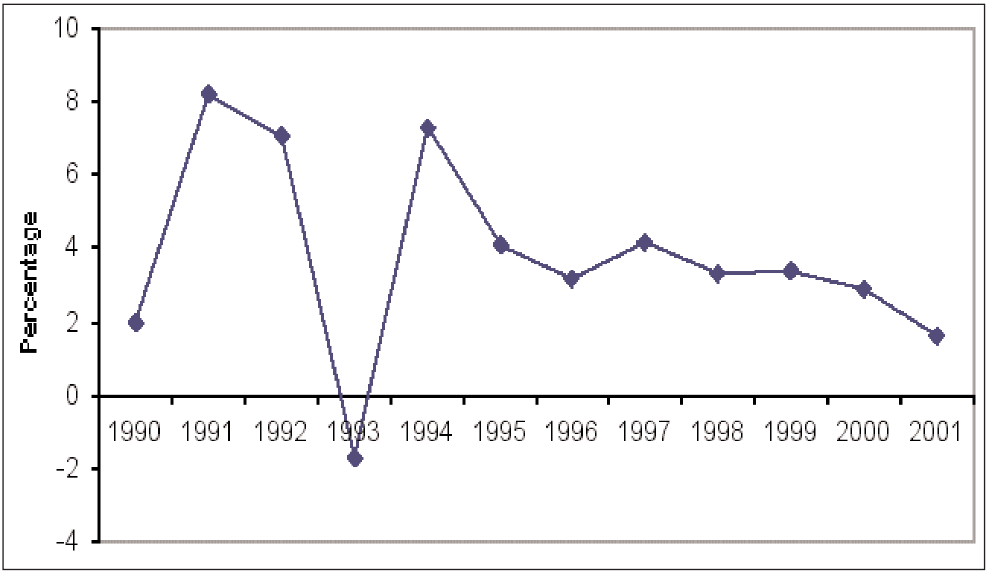
The paper embraces several sections structured in the following way: Section two looks at the structure and performance of the Namibian economy. Section three discusses the institutions and policy framework. In section four an analysis of the performance of investment is undertaken. Section five contains constraints on investment in Namibia. The final section gives conclusions and recommendations.

3.2 The structure and performance of the Namibian economy

The Namibian economy is characterised by production structure that ranges from traditional subsistence agriculture to the technologically advanced modern industrial sector. The economy s productive capacity is based mainly on the mining, agriculture and fishing sectors and to some extent the services sector. The Namibian economy is very open, with a small manufacturing base. The emphasis has been on primary production for export, while the bulk of processed goods required for domestic market are imported from South Africa. Therefore, the performance of the Namibian economy has to be viewed against the behaviour of global economies as the country relies heavily on exports of primary commodities. While Namibian products still enjoy good demand in their export markets, the country s dependence on its primary exports makes it extremely vulnerable to world market fluctuations.

Given these fluctuations and the depletable nature of natural resources over the long—term, the country should diversify its production base towards sectors that are less prone to market and climatic changes. For example, the tourism sector is one of the sectors with high-growth potential. The country is endowed with unique ecological attractions, which could attract tourists. If developed, the growth in the sector could be used to broaden the income base of the poor communities through participating in the conservancies and hence contribute to poverty reduction.

Chart 3.1: Real GDP Growth Rate



Source: CBS, 2001.

Output growth in Namibia improved considerably after independence, surpassing the 1.1 per cent average achieved during the pre-independence period. The average for the post independence period (1990-2001) was 3.8 per cent. The good performance during the post independence period was attributed to the significant recovery of investment activity that raised the investment-GDP ratio to more than 20 per cent as compared to 14.9 per cent recorded during 1985-89 period. In fact the economic growth was more spectacular in the first half of the post independence decade than in the last half of the decade. During the period 1990-1995, the economy grew at an annual average rate of 4.5 per cent. This improved growth rate was attributed by the good performance of the mining and agriculture sectors during the same period. However, the growth rate declined to an average of 3.1 per cent during the second half of the post independence period. This was a result of a contraction in mining and agricultural output. The reduction in agricultural output was attributed to the drought witnessed during the same period, while the decline in the mining output was a result of the fall in commodity prices and the closure of the TCL mines.

3.2.1 Mining

The mining sector continues to be one of the largest contributors to the gross domestic product of the Namibian economy. Over the period 1990 to 1995, mining output as a percentage of GDP accounted for an annual average of 13.5 per cent, a significant decline from an average of 24.6 per cent recorded during the period 1985-1989. This ratio fell further to 10.6 per cent between 1996 and 2001. The decline was attributed to the decline in diamonds and other mineral production due to depressed global demand, which caused prices to fall sharply, especially those for diamond and uranium. The decline has also been exacerbated by domestic factors, such as the closure of Tsumeb Corporation Limited (TCL) which led to a virtual halt in production of blister copper and other by-products such as lead. Although, gold production responded positively to the prevailing favourable gold prices, this increase could not offset the declines in diamond and uranium output.

3.2.2 Agriculture

The agricultural sector plays a vital role in the process of economic development prior to independence. The agricultural sector dominated the economic scene, being one of the major contributors to GDP and the largest employer in the economy. However, this situation has changed, and over time the sector has become relatively less significant as the services and fishing sectors continued to play the dominant role in the economy. In addition, agricultural output has stagnated during the post independence period. Between 1990 and 1995, agriculture output as ratio of GDP recorded an average of 7.4 per cent, a fall from 9 per cent recorded between 1985 and 1989. During the period 1996—2001, the sector s output as a ratio of GDP stagnated around 5.9 per cent. This was primarily due to a decline in livestock marketed as farmers were rebuilding their herds after the serious droughts of 1994/95 and 1995/96. As a result, output declined significantly during this period, falling by about 41 per cent in the last three months of 1995.

3.2.3 Fishing

Fishing output as a ratio of GDP accounted for an average of 3.3 per cent during the period 1990-1995, compared to 1.5 per cent recorded between 1985 to 1989. The improvement in fishing output as a ratio of GDP in the post independence period is due to better policies and restructuring of the sector. During 1996-2001 the average contribution improved further to 4.3 per cent. The high contribution in the second half was mainly due to improved oceanic conditions, which has enabled the government to raise the total allowable catches (TACs) for pilchard and hake for 1998. Consequently, a 25 per cent increase in hake landings was recorded during the early part of 1998 season over 1997.

Table 3.1: Sectoral contribution to GDP

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Mining	19.8	17.7	15.4	8.8	10.8	8.3	10.3	10.3	9.8	9.4	10.5	13.0
Agriculture	9.4	9.5	5.9	4.8	7.6	6.9	6.5	5.8	4.8	5.3	5.6	4.7
Fishing	2.3	2.9	3.4	3.6	3.8	3.9	4.2	3.9	5.0	4.7	4.5	4.3
Manufacturing	13.8	12.9	13.7	12.6	11.8	11.5	8.9	9.9	10.9	10.0	10.2	9.1
Services*	20.7	21.4	21.9	23.8	21.7	22.0	22.8	22.6	21.6	22.1	22.1	21.4

Source: CBS, 2001

* This figure excludes government services

3.2.4 Manufacturing

Over the period 1990 to 1995, industrial output as a ratio of GDP stood at 12.7 per cent, compared to 10.9 per cent between 1985-1989. This increase in the sector s contribution stemmed mainly from the good performance of the agriculture and fishing sectors. Fish and meat processing continue to dominate the manufacturing activities. However, manufacturing output as a ratio of GDP fell slightly to 9.8 per cent during the second half of the post independence era, due to poor performance in agriculture and fishing sectors. The overall sectoral contribution to GDP for the post-independence period stood at registered an average of 11.2 per cent.

3.2.5 Services

Although government services still remain the largest contributor to GDP, its share has dropped during the second half of the post independence period (1996-2001), while provision of services by other sectors (other than government) has increased compared to the time of independence. For example, the share of the transport and telecommunication sector to GDP has increased to an average of 6.2 per cent per year during the second half of the post-independence period (1996-2001) from an average of 5.8 per cent per year during 1990-1995, and 5 per cent during the pre-independence era. Amongst others, the increase in the sector s ratio to GDP during 1996-2001 was helped by strong demand for telecommunications services. Other services such as financial intermediation and real estate and business also increased their contribution to GDP. Their contribution recorded an average of 3.5 per cent and 9.7 per cent, respectively during 1996-2001 from an average of 3.3 per cent and 9.4 per cent respectively during 1990-1995.

3.2.6 The Pattern of Exports

Exports have been and remains dominated by the export of primary commodities particularly mineral exports. The share of mineral exports has recorded an average of 46.4 per cent during the first half of the post-independence period (1990-1995) as compared to 68.8 per cent per year during the pre-independence period (1985-1989). This share declined further to an average of 43.9 per cent during the second half of the post independence period (1995-2000). The decline in the share of mineral exports during the second half of the post-independence period was primarily due to a combination of factors: a depressed demand for primary commodities, following the East Asian financial crisis and the closure of Tsumeb Corporation Limited (TCL) mines witnessed during the same period.

Table 3.2: Sectoral contribution to Total Exports

Sector		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Mining		53.0	54.4	49.9	44.8	38.0	38.2	42.1	43.0	36.3	42.1	56.1
Agriculture		7.7	6.7	6.3	5.0	7.8	7.2	7.4	3.9	4.5	4.0	2.9
Fishing		0.1	0.1	0.4	0.3	0.5	0.2	0.2	0.2	0.2	0.2	0.3
Manufacturing	28.2	27.7	31.8	33.9	36.7	35.6	30.6	30.4	37.3	32.2	34.6	

Source: CBS, 2001

The share of agricultural products in total exports during 1996-2000 declined to 4.5 per cent from 6.8 per cent recorded for the period 1990-1995. Similarly, the share of unprocessed fish in total exports declined slightly to 0.2 per cent from 0.3 per cent during the same periods. On the other hand, exports of manufactured products, mainly fish and beef increased to 33 per cent on average during 1996-2000 from 32.3 per cent per year during 1990-1995, indicating increased value added on fish and meat products. The overall period ended with an increase of average share of 32.6 per cent per year for non-mineral exports

3.2.7 Macroeconomic Stability

Since macroeconomic stability is crucial for high economic growth, it is necessary to briefly review the performance of some of the key macroeconomic indicators with the view to evaluating how Namibia has faired on the macroeconomic front.

Table 3.3: Key Macroeconomic Indicators for selected SADC countries

Sector	Inflation		Total Government Debt/GDP		Deficit/GDP	
	1990-94	1995-00	1990-94	1995-00	1990-94	1995-00
Botswana	12.4	8.6	11.4	13.2	8.9	14.3
Lesotho	13.5	8.4	54.6	67.1	-0.1	-0.2
Mauritius	8.6	6.2	44.6	48.8	2.5	-4.6
Namibia	**12.2**	**8.4**	**12.6**	**20.1**	**-3.9**	**-3.4**
South Africa	12.5	7.0	41.0	48.3	-6.4	-3.4
Swaziland	10.9	7.9	23.4	17.5	0.4	-0.1
Zimbabwe	26.2	34.9	56.3	80.9	-3.0	-9.4
SADC*	14.0	12.9	38.6	46.0	2.3	-3.4

Source: SADC Central Banks Database

* This includes only the above countries excluding Namibia

The inflation levels in Namibia have followed a downward trend, falling from a high of 17.1 percent in 1992 to 6.2 percent in 1998. During the period 1990-1994, the inflation rate recorded an average rate of 12.2 percent. The average inflation decelerated further to 8.4 percent for the period 1995-2000. This was in line with the tight monetary policy stance of the South African Reserve Bank which was translated to Namibia by virtue of her membership to the Common Monetary Area.

The fiscal deficit ranged from between a low of 0.7 percent and a high of 5.6 of GDP between 1990 and 2000, recording an average of around 3.4 per cent during the period. This is in line with the international benchmark. On average total government debt as a ratio of GDP stood at 12.6 per cent of GDP during the period 1990-1994. This average ratio increased to 20.1 per cent over the period 1995 2000. However, the ratio is relatively low as compared to other SADC countries as shown in the table above.

3.2.8 Structural Rigidities

The Namibian economy is characterised by three main structural constraints, namely, dualism in the economy, ecological sensitivity and an unutilised positive savings and investment gap. The discussion of these factors is indispensable because of their importance to the country s investment and growth performance.

3.2.8.1 Dualism in the economy

As mentioned earlier, the economy has two sub-sectors: a relatively small modern sub-sector characterised by comparatively high income and a large traditional sub-sector based on subsistence patterns of production. This dualism in the Namibian economy cut across sectors, but features most prominently in the agricultural sector. Thus, policy efforts must be geared towards developing the domestic subsistence sector in order to narrow the gap between the modern and traditional sectors, continuation of which would further undermine the growth of the economy in the medium and long-term. The related problems that could be exacerbated by this dualism are the stark skewness in income distribution and the widespread poverty in the Namibian economy. Namibia is amongst the top countries whose income distribution is regarded as highly skewed, posing a Gini-coefficient of 0.7[1] per cent (UNDP, 2000).

The highly skewed income distribution is a result of the extremely unequal distribution of productive assets like land and capital, with the largest part of the assets controlled by 5 per cent of the population, while poverty is very much prevalent amongst the majority whose livelihood depends mainly on subsistence agriculture. This unequal distribution of assets, coupled with a lack of skilled labour, has been a major hindrance to the rapid transformation of the economy. The lack of skilled labour has also resulted into high unemployment of about 34.5 per cent of the labour force.

3.2.8.2 Ecological Sensitivity

Namibia is in an ecologically sensitive zone. Surface and underground water resources, both for human and livestock consumption are limited. The semi-arid to arid climate constrains crop production in the country. Thus, huge costs for irrigation are required to make large-scale crop production feasible in Namibia. The nature of the environment also undermines the development of the agricultural sector.

3.2.8.3 Savings and Investment Gap

Contrary to the experience in most developing countries, since independence Namibia experienced a position of excess savings over investment. As a ratio of GDP, gross national saving averaged at 25.3 per cent during the post independence period, reflected by consistent surpluses on the external current account. As a ratio of GDP, the current account surplus increased to 4.6 per cent during the period 1996-2001 from 3.2 per cent per year during 1990-1995, ending the overall post-independence period with an average of 3.7 per cent per year. On the other hand, during the post independence period investment as a ratio of GDP recorded an average of 21.1 per cent. The implication of this situation is that the low growth in Namibia has been largely constrained by the poor investment growth as opposed to insufficient saving.

3.3 Institutions and Policy Framework

As an effort in attracting both domestic investment and foreign direct investment, a number of policy measures and programmes have been put in place with the aim to diversify the economy and create employment for the country s fast growing labour force. In addition, a number of institutions have been established and strengthened to ensure the successful implementation of these programmes and policy measures. These are elaborated upon in the remainder of this section.

3.3.1 Policy and Programme on Small Business Development

Namibia has recognised the vital role that the small business sector could play in her socio-economic development. In this regard, a policy that would assist the development of small businesses in the country has been developed and is being implemented. This policy sets out the government s commitment to transform the sector, as a priority, from its previous state of deprivation and under-development into a lead sector of the economy. The policy was meant to raise the sector s average income by at least 10 per cent in real terms through the injection of additional human capital and financial resources. In addition, the new policy and programme were to create opportunities for a significant number of new entrants in the labour market to find productive employment and/or become entrepreneurs.

The development of small-scale and informal sector enterprises is also regarded as a key to economic empowerment of a large group of the Namibian population. The support to the sector s development includes the continued effort to improve the enabling environment in which the sector s businesses could flourish. The policy framework has called for initiatives in the following areas: (a) de-regulation and incentives, and (b) pro-active programmes, covering key areas such as finance, marketing, technology, purchasing, training and institutional capacity building.

Among the activities carried out in line with this policy framework was the creation of a credit guarantee scheme aimed at encouraging commercial banks to lend more to small businesses. Various industrial parks have also been established throughout the country for the small businesses. A group purchase scheme was set up to bring together small businesses so that they are able to purchase in bulk and/or share the shipping cost of import from other countries. The Institute of Management and Leadership Training (IMLT) was assigned the training role in order to improve the competency of the sector s entrepreneurs.

The Ministry of Trade and Industry serves as the lead ministry within the Government, coordinating the development of the small business sector. The Namibia Development Corporation (NDC) was established primarily to finance small businesses, together the IMLT and other NGOs are meaningfully working with small entrepreneurs, implementing the national programme on small business development.

3.3.2 Foreign Investment Act

In attempting to lure foreign investment to Namibia, the government has promulgated the foreign investment Act and established the Investment Centre. The centre is responsible for identifying potential investment opportunities in Namibia and passing on relevant information to entrepreneurs locally and abroad. The Act provides investor with guarantees in respect of (i) investment security; (ii) non-discriminatory access to all sectors; (iii) repatriation of capital; (iv) access to foreign currency and (v) international arbitration in case of a dispute.

3.3.3 Special Incentives for Manufacturers and Exporters

In September 1995, the government also formulated special incentives for manufacturers and exporters. The incentives include (a) introduction of 50 per cent tax abatement on the taxable income derived from manufacturing enterprises for a period of five years, to be phased out on a straight line (b) establishment tax package for new investment, or when companies wish to relocate an existing

[1] Gini coefficient is a widely accepted measure of income distribution. This measure can fluctuate between 0-1, with 0 representing a completely equal distribution of income and 1 a totally unequal distribution. An income distribution with a Gini coefficient above 0.55 is regarded as very unequal.

operation to Namibia; (c) stamp and transfer duty exemption; (d) export promotion allowance, and (e) special building allowance for manufacturing purposes.

3.3.4 Export Processing Zone (EPZ)

One of the major tools for encouraging investment and growth in the manufacturing sector has been the setting up of the Export Processing Zone (EPZ) regime through the EPZ act of 1995. The EPZ is aimed at attracting direct investment that will be geared towards the production of exports, as well as to encourage the transfer of skills and technology to Namibians. The companies operating under the EPZ regime are exempted from paying corporate income tax, import duties on imported intermediate and capital goods, and sales tax, stamp and transfer duties on goods and services required for EPZ activities.

3.3.5 Pension Fund Act

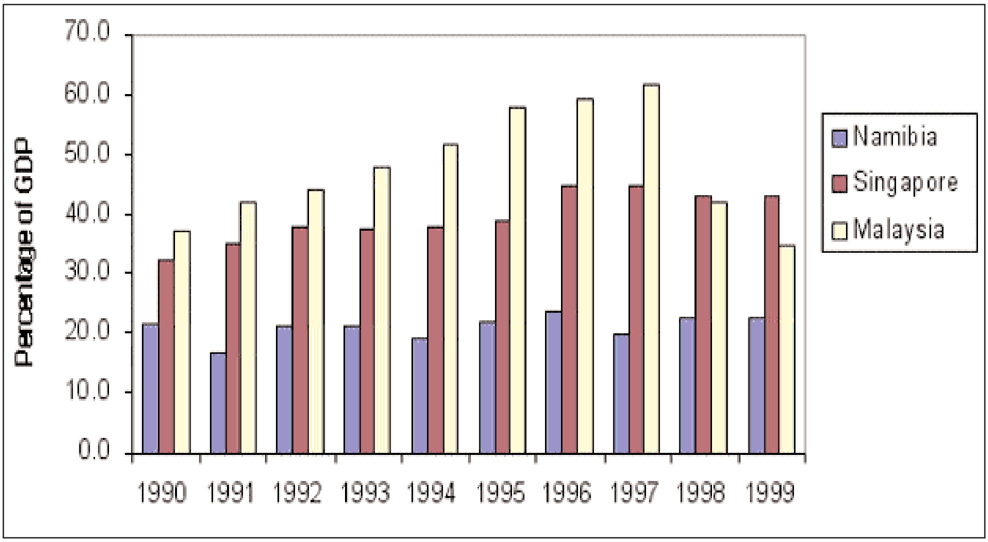
Another attempt to encourage more domestic investment was the amendment of Regulation 28 of the Pension Funds, Act No. 24 of 1956 with the view to reducing capital outflow to South Africa. Under section 5 of Regulation 28 long term insurance and pension funds companies are required to invest 35 per cent of their total assets in Namibia. The regulation basically seeks to ensure that part of the assets generated in Namibia is reinvested locally to contribute to the economic development of the country. It is generally accepted that the amendment of this regulation contributed to the development of the capital market as witnessed by an increase in the number of asset management companies. However, the fact that asset managers invest more in the shares of dual listed companies at the Namibia Stock Exchange (NSX) render Regulation 28 of the Pension Funds Act No. 24 of 1956 partially ineffective because a portion of the 35 per cent required to be invested locally flow out in the form of investment in shares of dual listed companies.

3.4 Investment Performance in Namibia

Having looked at the policy environment and programmes implemented under this environment, it is opportune to assess the response of the actual investment to these efforts.

The ratio of gross fixed capital formation (GFCF) to GDP is a very important indicator of future economic growth as it is generally accepted that higher investment contributes to higher economic growth by making resources available for expansion of current and future production. In the pre-independence decade, Namibia s GFCF as a percentage of GDP stood at an average of 18.8 per cent per annum. After independence, the First National Development Plan (NDP1) placed emphasis on the implementation of policies that encourage and facilitate expansion of productive investment and discourage excessive consumption.

Chart 3.2: GFCF as a Percentage of GDP



Source: CBS, 2001 and IMF 2000

The result showed a moderate increase in the investment GDP ratio to 20.4 per cent during the period 1990-1995. For the period 1996-2001, this ratio stood at 21.8 per cent, and the post-independence decade ended with an average rate of 21.1 per cent. While this ratio is among the highest in sub-Saharan Africa it is still low when compared to rapidly developing Asian-countries such as Singapore and Malaysia where the ratio has been in excess of 30 per cent.

Table 3.4: Share of Sectoral Investment to Total Investment

Sector	1990	1992	1993	1995	1996	1997	1998	1999	2000
Agriculture	5.5	4.9	4.1	4.8	4.8	6.2	5.3	5.3	6.3
Fishing	0.4	6.8	3.4	2.8	2.7	1.6	3.4	3.2	3.1
Mining & Quarring	29.5	13.9	13.1	10.7	16.0	13.3	11.6	13.9	16.1
Manufacturing	1.4	7.5	12.9	8.2	7.0	8.8	10.1	6.4	9.0
Electricity & Water	3.8	4.3	3.1	2.3	4.2	4.2	6.0	9.5	3.0
Construction	1.2	1.5	2.6	4.2	3.7	4.4	5.4	3.4	3.6
Wholesale & retail trade, hotels, restaurants	4.5	2.3	2.9	11.2	6.0	5.4	4.5	3.2	5.1
Transport & Communication	7.2	9.4	6.8	7.4	7.9	14.5	22.0	23.6	13.2
Finance, real estate, business services	15.8	17.2	23.2	22.8	26.9	15.4	12.0	11.3	14.8
Community, social & personal services	0.8	0.5	1.0	0.9	0.6	0.8	1.1	0.5	0.4
Producers of Govt services	29.8	31.8	27.1	24.7	20.3	25.3	18.7	19.6	25.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBS, 2000

Table 3.4 shows that, on average for the period 1990-2000[2] , the top five sectors in which most investment activities took place are the producers of government services, finance, real estate and business services, mining, transport and communication and manufacturing. The producers of the government services sector contributed about 26 per cent to total investment, followed by finance, real estate and business services with about 19 per cent, then mining sector 15 per cent, transport and communication sector 12 per cent and manufacturing sector which contributed about 8 per cent to total investment.

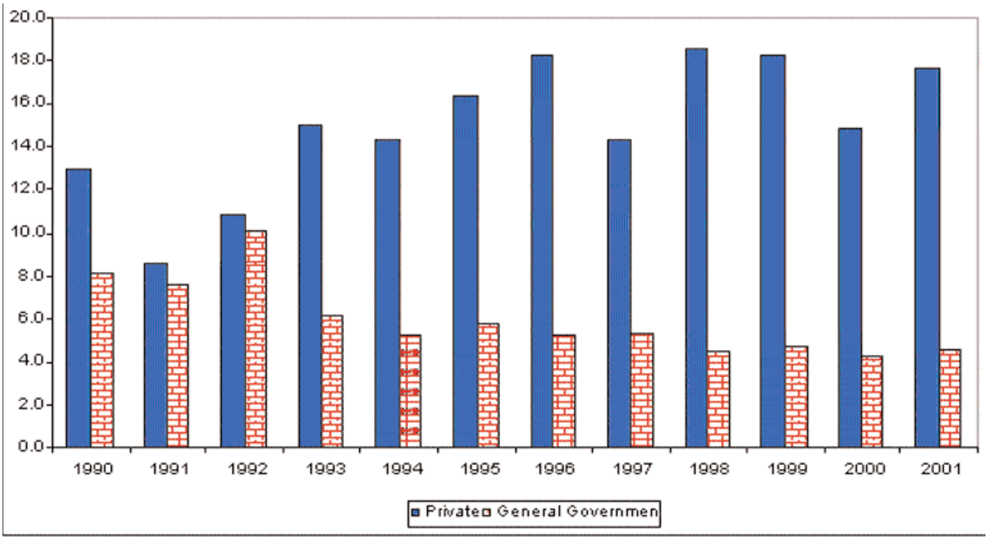
3.4.1 Private and Public Investments

As a ratio of GDP, private investment recorded an average of 17 per cent during the period 1996-2001, compared to 13 per cent during the 1990-1995 period. The average investment-GDP ratio for the post-independence era (1990-2001) was 15 per cent. The increase in private investment during the second half of the post-independence period is attributed to the large inflow of foreign direct investment witnessed during the same period. On the other hand, the ratio of public investment to GDP declined to 5 per cent in the period 1996-2001, from an average of 7 per cent recorded during the first half of the post-independence era (1990-1995) when the government invested heavily in putting in place important infrastructures. The end result of this performance was an average ratio of 6 per cent for the post-

2 Gross fixed capital formation disaggregated at this level is not yet available for 2001

independence period. This indicates a reversal of the experience during the pre-independence period, when public investment constituted a larger proportion of gross fixed capital formation.

Chart 3.3: Ratio of Gross Fixed Capital Formation to GDP by Ownership



Source: CBS, 2002.

3.4.2 Foreign Direct Investment (FDI)

Data on FDI inflows shows that this type of investment has risen steadily over the years from a mere N$76.5 million in 1990 to N$ 4.85 billion in 2001. On average, Namibia saw an average inflow of foreign direct investment of N$305 million per year during the first half of the post-independence period, while the average for the second half was N$646 million. The post-independence period (1990-2001) ended with an average amount of N$483 million per year. The significant inflow of FDI witnessed in 2001 was made possible by projects such as the Skorpion Zinc Refinery (N$3.2 billion), the Ramatex (N$1 billion), Trade Centre (N$60 million) and Namcot Diamonds (N$95 million) (Investment Centre, 2002).

The Namibian case seems to be supporting some of the theoretical views that emphasise the fact that foreign direct investment ensures employment creation. During the course of 2001 alone, when a huge increase in FDI was witnessed in Namibia, a number of jobs were created. According to the Investment Centre, the creation of jobs was as follows: 7050 in the manufacturing sector, 942 in trade/services, 600 in infrastructure, 174 in tourism, and 2129 in the mining sector. These data indicate a significant shift from the mining sector, which has historically employed the major share of labour, to manufacturing. Also, it is of interest to note that in the manufacturing sector, a shift has been observed from fish and meat processing to the manufacturing of a range of high quality consumer products, such as beverages and other products.

The above analysis is an indication that Namibia has made some improvements on the FDI front, especially when considering the fact that until 2000, the average FDI inflows to Namibia has been around 4 per cent of the GDP, while South Africa and Botswana recorded only 1.6 per cent and 1.7 per cent, respectively. One would have expected the opposite for Namibia when considering the size of its population. However, though small in terms of the market size, the political stability that has been experienced in the country, complemented by good physical infrastructure, investor friendly Government policies and good governance, has made Namibia competitive on this front. Also due to Namibia s membership of various organizations and trade arrangements (SACU, SADC, COMESA, Cotonou, AGOA, etc.), investors have come to realise that Namibia s market is not only that of its 1.8 million people but includes a bigger regional market.

3.5 Constraints on Investment Performance

3.5.1 Borrowing constraints

One of the most important issues that the Namibian financial system still has to grapple with twelve years after independence is the provision of investment finance for the productive sector. The credit allocation in the Namibian economy is biased towards consumption rather than to productive investment. The highest share of credit extended by banks goes to individuals and is used to finance properties (mortgage and advances), consumer durables and other personal items. The share of private sector credit allocated to individuals is almost equal to the total amount of credit granted to agriculture, fishing, mining and manufacturing. Apart from the inflationary implications of this lopsided credit distribution, it is also not healthy for the long run growth of the economy, as it does not directly increase capital formation, output and employment.

Another main concern in the economy is the lack of funds to emerging entrepreneurs. These small and medium enterprises are faced with a lack of access to credit. This is attributed to the fact that these borrowers do not have sufficient collateral. This situation coupled with the risk averse behaviour of commercial banks makes the undertaking of investment by these entrepreneurs extremely difficult.

The other major problem affecting the Namibian economy is the fact that financial institutions are geared towards the needs of the formal urban sector resulting in a biased allocation of resources as against the informal sector (rural). The end result is that a disproportionate percentage of the population, mostly rural, does not have access to financial services and capital. Because of high collateral requirements, credit to this group of borrowers is highly restricted. The result has been a widening of the urban bias in the supply of financial services and the reduction of the role of the small-scale entrepreneurs and other vulnerable groups such as women and small-scale service providers in the growth process.

3.5.2 Lack of regional political stability and conflict

Namibia being an integral part of the African continent share this image that African countries are not only facing an economic crisis characterised by famine, malnutrition, high rates of unemployment, refugees, and severe poverty, but is also burdened by serious political problems that have resulted into major conflict. These problems have projected an image that the continent is a region riddled by crises and not conducive to foreign investment. Because of the political crisis that engulfed Africa in the 1980s and the 1990s, many investors have developed a perception that investing in Africa is unsafe (ECA, 1995).

The media failed to distinguish between various African countries. For example, if there is a conflict in the Democratic Republic of Congo (DRC) it is referred to as an African conflict. The creation of such an image has far-reaching repercussions on the continent s ability in attracting investment, particularly, foreign direct investment. Lack of information is the cause of such stereotyping. The world should be aware that there are countries in Africa, such as Namibia, which continue to enjoy relative political and economic stability. Namibia, since independence, has shown to both international and national investors its commitment to maintaining stable political environment. Political stability and democratic governance in Namibia constitute major assets for the country, in providing security to the investors and their investments.

3.5.3 Skills and productivity

The lack of skilled, educated and experienced human capital is one of the major constraints that hinder investment in Namibia. At independence, Namibia inherited an educational system characterised by major disparities in terms of the distribution of educational opportunities and facilities among the different groups of the society. This situation has been further compounded by the provision of education and training which was very skewed, which for that matter benefited only the few. Such an inequality has led to lack of skills for the majority of people and low productivity of the workers. The skill aspect is crucial for any economy as it is taken into investment decision by every investor.

As recognition of the importance of human capital to growth, the Namibia government committed substantial resources to education services. As a share of GDP, the allocation to the education sector accounted for about 7.9 per cent in 1990/91, but it increased to 9.9 per cent in 2000/01. However, it is worth to note that current investment in this sector would not solve the problem overnight as the investment of this nature are characterised by a long gestation period before results are seen. Human capital investment on health and education, including institutional and on—the job training, as well as adult literacy programmes, could overcome obstacles to high productivity and higher earnings.

3.5.4 Market size

The small size of the national economy is a disincentive to investors. Namibian has relatively small population of only 1.74 million people with a GDP of about US$ 3.0 billion compared to South Africa with a GDP of US$130 billion. Thus, the regional integration approach is an important factor to draw investors attention to opportunities not only within but also across the whole region. Such a strategy will by and large address the problem of small market size and create favourable incentives for small countries to become hosts to transnational corporations (TNCs). Therefore, current efforts aimed at enhancing the regional integration process can increase the market size of small economies such as Namibia and this would help to attract more investors. Thus, regional integration should be accorded all the enthusiasm that it deserves.

3.6. Conclusions and Recommendations

The country s economic growth has remained below the target rate of 5 per cent set in the First National Development Plan (NDP1). Namibia recorded a meagre growth rate of 3.8 percent over the period 1990-2001. The growth performance was mainly affected by the poor performance of the primary sector which is influenced by the weather conditions and external shocks. In addition, growth has been constrained by structural rigidities such as dualism in the economy and ecological sensitivity.

The paper has also found that the investment level remains low compared to fast growing developing countries such as Malaysia and Singapore. This low level of investment was partly caused by a number of constraints. These include the small market size, borrowing constraints, regional political instability and conflict and lack of skills and low productivity.

Since independence the government has put a number of programmes and policy measures in place to attract investment. These include (i) policy and programme on small business development, (ii) foreign investment act, (iii) special incentives for manufacturers and exporters, (iv) export processing zone regime and (vi) amendment to the pension fund act. Although Namibia has done reasonably well in attracting investment, this policy framework is yet to realise its full potential in harnessing high investment growth rates that can translate into high economic growth.

Namibia is a country with relatively well-developed infrastructures such as roads, health services, technology and other essential utilities. These infrastructures have assisted in attracting investment especially to the urban centres. However, there is still a need to improve infrastructure particularly in areas where poor infrastructure discourages trade and investment. Therefore, given the importance of public investment in infrastructures that complements private investment, the government must continue to maintain the existing and build new infrastructures in areas where such a need exists.

In recognition of the importance of human capital to investment and growth, the Namibian government committed a substantial part of its budget to health and education services. The Africa Competitiveness Report of 2000 shows that the lack of skilled human resource was one of the principal impediments to attracting foreign direct investment to Namibia. Therefore, investment in human resource should continue to occupy a central position in public spending. This will go along way in forestalling future unemployment.

The paper also highlight that Namibia has maintained relatively a stable macroeconomic environment since independence. Since this is crucial for high investment and economic growth, maintaining macroeconomic stability should continue to be accorded high priority in Namibia.

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4 Industrial Policy, Trade Strategy and Growth in Namibia

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4.1 Introduction

This paper argues that Namibia s future growth - and the growth of any small developing country - lies in an appropriate trade strategy. International evidence is so very strong that openness to international trade is a key determinant of growth, and of investment, which is essential to creating the capacity for production. Of course there are better and worse liberalisation processes and there are better and worse supporting industrial policies. These are the questions that need debate and analysis.

Namibia is essentially an open economy. Although it is bound in a customs union with a larger country that has historically been protectionist, Namibia (and the other smaller members of the Southern African Customs Union (SACU)) are completely exposed to their largest trading partner. Namibia also shares a common currency (the rand) with the main source of its imports, and the increasing weakness of the rand vis- -vis major international currencies, in which most of its exports are denominated, means that Namibia has experienced a sustained terms-of-trade gain over the past decade.

The recent trend in Southern Africa has been towards greater trade liberalisation. However, there remain fears about the effects of the scope and depth of liberalisation. Also, pressures within Namibia surface from time to time about delinking from current multilateral agreements. Economic interdependence should not be confused with political dependence. Incursions into loss of sovereignty should be resisted; economic interdependence should probably not only be embraced but also extended.

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In the next section, the current literature on economic growth is reviewed, especially as it relates to Africa. It highlights the central role of external trade in promoting economic growth and development. In section 3, recent developments in SACU trade policies are examined, with an inevitable focus on what has been implemented by South Africa. The following section reviews industrial policy in Namibia. Section 5 is concerned with analysing the process of regionalism in Southern Africa and the implications for a wider trade strategy. Section 6 concludes.

4.2 The growth problem

Why is it that so many African countries are growing so slowly? The question keeps emerging, especially as many of the other underdeveloped regions of the world have found ways of growing out of poverty. The truth is that the answer to Africa s growth problem is not known with certainty. There is general agreement about the range of factors, which constrain growth; it is less clear which constraints are binding.

Since 1990 at least twenty major studies have been undertaken to explain Africa’s growth performance - or lack of it. All use growth and investment regressions, which examine the statistical relationship between either the rate of growth of the economy or the rate of investment and a range of explanatory variables. Many more studies have been done for other regions, both developed and developing[4]. One very strong conclusion to emerge world-wide is that openness to trade is unambiguously associated with higher rates of economic growth, or, conversely, that a lack of openness to trade is correlated with poor growth performance (see, for example, Edwards, 1993; Sachs and Warner, 1997[5]).

In a review of African growth performance, Collier and Gunning (1997) point out that Africa is less open than other regions to trade, partly due to policy and partly due to natural barriers, like being landlocked. There is no doubt that African governments have had particularly restrictive trade policies in the past. Dollar (1992) constructed an index of trade policy, which found that not only was Africa the area with highest trade restrictions but the gap between Africa and the next most restrictive area, the Middle East, was wider than that between the Middle East and the most liberalised region, the Far East. Almost all of the studies of Africa find that impediments to trade have

4 In 1996 it was estimated that over 20,000 growth regressions had been run using Summers and Heston (1991) data, which allow for intercountry comparisons; since then millions more have been run using this and other data sources (Sala-i-Martin, 1997).

5 Although a majority view, these findings are not wholly undisputed - see, for example, Rodriguez and Rodrik (1999) and Krishna et al. (1998).

been detrimental to African growth performance, reducing the annual growth rate by 0.4 to 1.2 percentage points (see, for example, Sachs and Warner, 1995; 1997).

In studies of the determinants of capital formation, trade liberalisation has been found to generate higher investment across all developing countries (Sachs and Warner, 1995). This is also found to be the case in studies which are concerned only with investment in Africa (Bhattacharaya et al, 1996; Collier and Gunning, 1996).

Micro-level evidence reviewed by Collier and Gunning (1997) generally supports the macroeconomic conclusions, although the findings are not unambiguous. Firm surveys have shown dramatically negative effects of trade and foreign exchange controls on firm expansion and investment in the eight African countries where comparable surveys have been undertaken, but, of course, some enterprises benefit from trade restrictions. Trade liberalisation, therefore, while positive in aggregate, varies in its impact on individual firms, as is to be expected. However, firm-level information may actually understate the negative effects of controls, as it does not reveal activities which are suppressed by a controlled trade environment.

Clearly more liberal trade does not explain everything about a country's economic growth rate. There are a variety of other important explanatory factors, like human capital (education and health), the type of investment undertaken (not only the volume), political stability, the presence or absence of market distortions, diversification away from a dependence on primary (especially non-mineral) exports, and location (Sala-i-Martin, 1997). In Africa, the magnitude and persistence of external shocks, deficient public service provision, and political and economic instability have also been found to correlate negatively with growth[6].

The importance of the policy environment is difficult to overstress. An increasing number of studies link deficient economic policies to slow growth in Africa (Collier and Gunning, 1997; Ng and Yeats, 1997; Sachs and Warner, 1997). Nor is it the case that rapid growth has been sacrificed for a more equitable distribution; African governments, with some notable exceptions, have tended to act in ways that are

6 Institutions, especially the quality of the administrative capacity of government, are also important. Aron (1997) argues that growth prospects in Africa are strongly circumscribed by the political, economic and legal institutional foundations generally prevalent on the continent, as well as the inadequate monitoring structures for institutions (such as constitutional protection of the rights of individuals, the rule of law and central bank independence). Where civil liberties are safeguarded and political stability is achieved (Kormendi and McGuire, 1985; Scully, 1988); where corruption is contained (Mauro, 1993); where financial institutions function properly (Nissanke, 1994); where ethnic divisions are low or well managed (Easterly and Levine, 1995); and where the ability of government to reverse economic policies is limited (Collier, 1995), growth performance tends to be better.

damaging to the long-term interests of their populations because they have served narrow constituencies. Generally speaking, conservative economic policy is associated with stability, and stability is associated with growth and a general improvement in welfare.

Nevertheless, for almost all of the problems cited about Africa, it is possible to think of fast-growing economies which have or had similar difficulties: repressive politics (China), corruption (many Asian countries), ethnic tension (Malaysia), landlocked location (Botswana), a comparatively small manufacturing sector (Australia). If other things are in place, these constraints are not necessarily binding. However, these - and other countries - have all grown through the process of trade.

Two recent - and likely-to-be-influential - studies have proposed dealing with Africa s growth problem in a way that is entirely consistent with this argument. The first (Fafchamps et al, 2001) argues that exporting out of Africa is the only promising avenue for growth. Exporting countries not only grow faster, but technological progress is more rapid and exporting firms are more efficient. Although it is not altogether clear why this is the case, competitive pressures, knowledge transfers and a more responsive culture to change and to opportunities all play a role. Because Africa represents such a tiny proportion of world trade - and export levels are below that of decades ago - there is huge potential for expansion: a very large increase in African output will still only mean a small increase in world absorption.

What are the most probable sources of additional exports? Manufacturing is unlikely to be important for most African countries in the foreseeable future, but primary exports, both agriculture and mining, are accessible to many[7]. Improvements in exploration technology mean that the potential for an expansion in minerals exports is particularly promising. Fafchamps et al argue that the most obvious service-sector exports are in tourism, although, in fact, the greatest service-sector potential in Africa may lie in industries where transport is electronic. The establishment of call centres, for example, can occur anywhere in the world. Employment is labour-intensive, and the skills requirements are basic. The only other prerequisite is telephones and computers that work. There are other areas of opportunity. Barclays Bank, for example, is planning to run its treasury operations for the whole of Africa from Botswana.

7 There is a growing literature on the curse of resources . However, the problems associated with natural resources are all generated by poor economic management, not by natural resources per se. For a careful analysis of the issues and a range of country examples, see Auty (ed), 2001.

In the second of the recent reports, Wood (2002) argues that Africa s development path should follow the land-abundant route of North and especially South America, not the land-scarce route of Asia and Europe. European and Asian growth occurred on the back of manufacturing; American development occurred through primary exports. Where the ratio of land to labour is higher, a larger primary sector and smaller manufacturing and services sectors tend to develop (although, with time, rising income results in a rising capital-labour ratio, with the result that structures of output and exports become less dissimilar across regions). Wood posits that a prosperous Africa will have a relatively unpopulated interior based on agriculture and mining, and large urban industrial concentrations on the coasts (as in America). The implication is that different African countries will prosper in different ways. There are, of course, objections to this thesis, although many of these have a counter-argument. For example, Africa is more divided into countries than either North or South America, which inhibits migration and means that landlocked countries are likely to continue growing slowly for longer. However, growth tends to spill over national boundaries, so that landlocked countries would benefit more from growing than from stagnant neighbours. Markets for primary commodities have in the past appeared to have limits to growth, although current rapid growth in populous, land-scarce Asia means that world demand for primary products is likely to continue to grow. Primary commodity markets are more vulnerable to price fluctuations. This last problem is difficult to solve, although there is a reasonable case for developing countries to link aid to export-price stabilisation.

The obstacles to this path of progress in Africa are both internal and external. Domestic policy is important for investment. Faster capital accumulation is vital, and this requires a reduction in the risks to private investment in both physical and human capital: the elimination of conflict, greater political and macroeconomic stability, better legal systems and less corruption. This policy agenda is familiar, broadly agreed and set out repeatedly in numerous documents. It is also common to all developing regions irrespective of factor endowments. In addition to creating an investment-friendly policy environment, it is necessary to apply science to nature: the declining share of Africa in world trade in tropical commodities is attributed largely to neglect of agronomic research on export crops. Outside Southern Africa, mining is also fairly primitive. Investment in research relevant to African products and conditions - and the attracting back of African scientists - is vital to export-led development. The third important factor is investment in transport and communications, which will simply have to be higher in per capita terms than elsewhere because of the relatively sparse population. This will mean a higher proportion of GDP should be spent on infrastructural development, and that maintenance and operating costs per person will be greater.

External factors which are crucial include the reform of the world trading system. Although mineral products trade freely, restrictions on agricultural commodities are unacceptable. African countries should consider devoting resources to the building up of negotiating capacity, both between themselves, so as to build a united position instead of focusing on narrow national interests, and in international fora, so as to press their (legitimate) concerns in the face of self-interested intransigence on the part of richer nations. Trade should be separated from questions of aid (which is essentially welfare, and never promotes long-term growth), and poorer countries should be willing to agree to reciprocity of advantage in order to secure access to rich markets.

The reason for stressing the importance of international trade is that a comprehensive trade and industrial strategy is a crucial element in the drive for economic growth. Properly implemented regional integration can go some way, but never all the way, in giving smaller economies access to some of the benefits of more open policies: access to a larger market and hence opportunities for economies of scale; access to greater competition and hence opportunities for improving efficiency; and access to foreign capital and technology. At the same time, regional integration should not be perceived as an alternative to more general liberalisation, which is crucial if African countries are to grow. The focus should be global rather than regional. This issue is explored in more detail in Section 5.

4.3 Developments in SACU trade policy

Because of South Africa s dominance in the regional economy and its leadership in the SACU, its trade policy tends to limit the policy options of its neighbours. Therefore, in this section, recent developments in SACU trade policies are examined, with an inevitable focus on what has been implemented by South Africa. Because the succession of policy initiatives has been complex, a summary table in Appendix 1 lists the developments chronologically. This section is limited to the briefest of sketches, as most readers of this paper will be familiar with the issues.

4.3.1 SACU trade policy

From an early protectionist position, trade policy in SACU has slowly evolved to a more open regime - although the structure of protection is still relatively closed. A study by Bell (1993) identified two trade liberalisation episodes (in South Africa): the first beginning in 1972 which attempted to reduce the anti-export bias by offering incentives to exporters and allowing the rand to depreciate, and the second beginning in 1983 with the programme to replace quantitative restrictions (QRs) with equivalent tariffs.

During the first phase, South Africa s primary concerns - by which other members of SACU were inevitably affected - were to address the slowdown in manufacturing growth, as the easy stages of import-substituting industrialisation were exhausted, and to diversify industry via export growth. During the second phase, more vigorous export promotion was pursued and more market-oriented instruments of policy adopted.

The process of trade liberalisation survived the change in government in South Africa, greatly reducing the possibility of a reversal of the process. SACU countries entered a third liberalisation episode in 1994, when an agreement with the GATT committed the group to the lowering of tariffs and a simpler, more transparent tariff structure[8].

In South Africa, the phased liberalisation of exchange controls has occurred simultaneously with the freeing of trade. Exchange-rate policy is crucial for the sustainability of trade liberalisation. For example, when the weighted exchange rate of the rand fell 20% in the first half of 1996, tariff reduction was accelerated. This was a move calculated to offset the inflationary effects of the depreciation on consumers and import-dependent producers, and the effect was to sustain the boost to exports achieved by the fall in the currency. At the same time, the currency depreciation provided some additional protection to domestic industry.

Trade liberalisation is disruptive, but it is, in the long-run, probably the most growth-enhancing strategy for the region. The only reasonable prospect for growth-led poverty alleviation in Africa is via a significant expansion in exports (Fafchamps et al, 2001; Wood, 2002). The process should also help to reduce the price-raising effects of the common external tariff suffered by smaller members of SACU, although it does not address the other major concern: that of the polarisation of industry.

8 SACU s offer in the Uruguay Round was the raising of the proportion of tariffs bound by the GATT from less than 20% to just over 50%; an increase in the percentage of duty-free lines to over one-quarter; and a fall in the simple average tariff for industrial products by one third in a phased reduction programme [GATT, 1993:5]. It was necessary to revise the first GATT offer under pressure from the US and Europe, which objected to the high protection wanted for the clothing, textiles and motor industries. A 45% tariff on textiles was preserved, but the tariff on clothing was reduced to 45%, compared with the 60% offered and the existing 100%; and the tariff on cars was reduced from 100% to 50%. The number of tariff rates is being reduced from over 100 to six, ranging from 0% to 30%, and discretionary changes in the system are no longer possible.

4.3.2 Trade agreements

The SACU agreement has been undergoing renegotiation since December 1994. The major issues have been the revenue-sharing formula, the institutional structure of a proposed Secretariat and the control of tariff policy, although the members have also worked together on, for example, trade negotiations with the EU, SADC and Zambia. There remain very real differences between South Africa and its customs union partners (the BLNS countries) on trade policy issues.

The accession by South Africa to membership of the SADC in 1994 greatly enhanced its viability as an economic community by multiplying the Community s GDP fourfold. In mid-1996 the then twelve members signed a trade protocol, and later commenced negotiations about a programme to establish a free trade area (FTA). The regional FTA is perhaps the most important initiative being undertaken by SADC. Its establishment is expected to free around 90 percent of intra-regional trade, in line with the rules of the WTO which state that free trade should cover substantially all trade. In an attempt to increase the value of the initiative to smaller non-SACU countries, SACU (South Africa) has implemented an asymmetric tariff phasedown, providing accelerated access to the South African market in advance of reciprocal preferences.

In June 1995 negotiations commenced between South Africa and the EU over trade preferences. The talks with the EU were difficult, not least because of the complexity of the EU political process (Gibb, 2000). The EU's negotiating mandate was unattractive in its early insistence that fishing rights be tied to trade negotiations and its (unreasonable) exclusion of certain agricultural products from discussion, a factor which reduced South Africa's ability to exchange concessions with the EU during talks. In addition, Southern African manufacturers are wary of greater exposure to foreign competition before the WTO commitments have been fully discharged, and were consequently ambivalent about the process. Finally, there were additional concerns on the part of the smaller members of SACU/SADC, which were afraid that a free trade agreement between South Africa and the EU would expose their economies to European competition.

By the trade, development and cooperation agreement, signed at the end of 1999, the tariff phasedown of the EU is to occur asymmetrically, with South Africa-SACU having longer to eliminate tariffs on most imports from the EU (EU, 1999). A special safeguard is written into the agreement to cover disruption of agricultural markets by exports of one party to the other; and a review within five years of the entire agreement is also included. Specific provision is made for developing and promoting cooperation not only between the parties to the agreement but also with the rest of Southern Africa. Areas specifically noted for the development of regional linkages include small enterprise development, telecommunications and information technology, energy, mining, transport and tourism. This includes, but is by no means limited to, financial assistance for regional projects by the EU.

4.3.3 The significance of recent developments

SACU has experienced not so much a trade liberalisation episode as a gradual shift of trade policy in a more liberal direction, accelerated with the transfer to majority rule in South Africa and the removal of international sanctions. The reforms that have taken place have not been part of a general and formal structural adjustment programme, and only very recently have the requirements of an external agency (the WTO) begun to drive trade reform. Nor have the changes been driven by a commitment to some free-trade objective. Rather, they have occurred in response to problems which have arisen in the South African economy in the belief that they were the appropriate policy response at that point in the country s industrial evolution. This does not mean, of course, that they are necessarily an appropriate response to the problems experienced by the BLNS countries.

South Africa is also inevitably playing a greater role in Africa. Its penetration of regional markets has grown significantly both before and after the change of government in 1994. On its own this is not a problem, if the other countries of the region can finance this deficit by exporting elsewhere (or with aid). Furthermore, since the value of the rand has fallen, the increased volume of exports from South Africa has occurred at lower US dollar values, providing a terms of trade gain for regional economies[9]. Nevertheless, its growing trade surplus with the region is politically sensitive, and it is important that the provisions of the SADC FTA are seen to improve the access of the non-SACU members of SADC to the South African market. SACU s asymmetric liberalisation should go some way to addressing this concern[10].

9 Part of this considerable growth represents the recording of trade which was un(der)reported during the sanctions period, when African countries did not want to be seen to be trading too freely with South Africa. Nevertheless, intra-regional trade is actually still understated, because it excludes trade within the SACU (which is effectively treated by South Africa as domestic rather than foreign trade).

10 Studies of the effects of the FTA on SADC members tend to be ambiguous, although on balance the results are positive. Page et al (1999) find that, the more liberal the trade regime, the higher the welfare gains for SADC countries. The primary effect of any trade liberalisation undertaken by SADC countries is generally found to be the fall in tax revenues. The longer-term effects of the regional FTA on government revenue will almost certainly be positive due to the favourable effects on growth, but in the near term, regional trade liberalisation is likely to have some adverse effects on revenue (Leape, 2000). These adverse effects can be limited to the extent that the implementation of the FTA is asymmetric, although virtually all countries will need to put in place some fiscal adjustment measures to offset expected revenue losses.

The EU s support for regional cooperation, now part of its trade agreement with South Africa is consistent with recent EU proposals to support regional initiatives among all ACP countries[11]. The effects of the agreement are expected to be modest in its effects, primarily because it is modest in scope (Stevens, 1997)[12]. If the EU-SACU agreement were far-reaching, it would be likely to shift the balance of trade further in the EU s favour. However, only a small percentage of current SACU exports face a material improvement in terms of access to the EU - and many EU imports are capital goods which currently enter SACU duty-free. BLNS firms report that they are unlikely to be much affected by the agreement (BIDPA, 1999). Some are already exporting to Europe. Others produce non-competing goods for the lower end of the market: makers of cheap footwear or boiled sweets do not compete with imports of Italian shoes or Belgian chocolates. Moreover, producers are already adjusting to WTO-driven unilateral liberalisation[13].

The intangible cost of the agreement may accrue to the EU. It wants to replace the nonreciprocal Lom system with a series of agreements with groups of developing countries. The treaty with South Africa-SACU was billed as a post-Lom test case. EU unwillingness to make genuine concessions to a developing country smaller than Belgium has undermined its credibility as a negotiating partner in both this forum and the WTO. This credibility may be hard to regain.

4.4 Industrial policy in Namibia

Industrialisation is an important part of the process of development, whether or not manufacturing is the lead sector. Economic diversification is a risk-reducing strategy. In addition, the spread of economic prosperity tends to accompany the growth of industry as well as generating its expansion. In many countries, industrial development tends to be concentrated in a few major nodes, which constitute the thriving centres of the economy, while more peripheral areas are marginalised and inevitably poorer. These factors are all recognised in Namibia (Republic of Namibia, 1999). Not only is the manufacturing sector itself relatively underdeveloped, but the problem of geographic concentration is particularly acute.

11 African, Caribbean and Pacific countries (the less developed Lom signatories)

12 As 40 percent of SACU imports originate in the EU, the primary cost will be lost tariff revenue. The countries worst hit will be Namibia and Lesotho which currently run deficits amounting to around 6 percent of GDP. South Africa receives only 20 percent of the revenue pool, so is less affected, and tariff revenue in Botswana accounts for only 15 percent of total revenue.

13 There has been concern about the effect of the agreement on those Southern African countries outside SACU. As 85 percent of the exports of these countries to SACU markets do not compete with the EU, they will not immediately be directly affected. Indeed, if they succeed in negotiating a SADC free trade area, their direct exposure to South African firms will be of greater concern than EU competition.

According to SADC (1997) the most coherent industrial policies in the region are found in Botswana, Mauritius, Namibia and South Africa. Namibia s industrial development programme is concerned with issues of decentralisation, the establishment and growth of export-processing zones (EPZs) and the promotion of small and medium enterprises (SMEs). An important feature has been the development of enterprises processing primary products, particularly for export[14]. As with trade policy, it is not the purpose of this paper to detail programmes, as most readers will be familiar with the provisions. The remainder of this section considers the significance of industrial policy, in the context of Namibia s treaty obligations and development needs.

As a member of the WTO, all trade and industrial policy needs to be compatible with WTO rules[15], as any measure that is not WTO-compatible is inevitably temporary, and, significantly, will be seen as such by the private sector. The WTO dictates the extent of industrial support its members may apply. Supply side measures and export marketing grants are acceptable methods of encouraging manufacturers to produce for foreign markets. For example, duty rebates or drawbacks on imported raw materials for export manufacture are compatible with WTO rulings. This reduces costs, making these products more competitive on the export market, but, when tariffs are reduced, these measures become less valuable to firms. Support for the financing of exports through pre- and post-shipment credits - offered by most SACU countries - is also WTO-compatible, as are matching grants or support for the promotion of exports - available in only two SADC countries, Namibia and South Africa - and valuable for any overseas expenditure on foreign marketing, particularly by those countries with unfavourable exchange rates.

14 Examples include an EPZ ostrich processing plant and a gemstone cutting and polishing plant, both at Keetmanshoop; a zinc refinery near Rosh Pinah; a tannery and leather manufacturing enterprise (among others) at Ondangwa; and a cement factory at Karibib (Republic of Namibia, 2002:302-3).

15 Incentives which contravene WTO rules include subsidies, tax concessions and extra tax deductions based on export performance, i.e, paid to companies either whose exports exceed a certain percentage of their total production or which achieve a specified percentage of domestic value added in volumes of exports; currency-retention schemes involving a bonus on exports; preferential transport and freight costs for exports; the provision of subsidised domestic inputs, which reduce the final selling price so that the product can compete internationally; indirect tax exemptions (other than VAT) for exported products; exemption from cumulative indirect taxes on inputs for exported products; remission of import charges for imported inputs used in exported goods (if this reduces the price of exports below the domestic price paid for the same goods); export guarantee programmes offering levels of coverage in excess of the long-term operating costs of the programmes; and preferential export credit programmes which substantially reduce the final price of exports. Subsidies must not have the effect of injuring a foreign industry, nullifying or impairing the benefits enjoyed under the GATT by a foreign country, or causing serious prejudice to the interests of another member state. No subsidy can be paid to cover the operating losses of an industry, unless as a one-time aid to adjustment; nor can it amount to more than 5 percent of the value of a product. Direct writing-off of corporate debt is also outlawed. (Hill, 2000:131)

Export processing zones (EPZs) have been developed in several African countries following the success of Mauritius in promoting exports in this way. An alternative is the creation of industrial free trade zones or industrial development zones being developed by Mozambique and South Africa[16]. Namibia s programme was launched in 1995, and the primary benefits are tax exemption, training incentives and protection from trade union activities. Eligible enterprises include all manufacture for export, value-added processing in agro-industry and mineral beneficiation, storage and warehousing, break-bulk activities and business services. Within three years, N$192m had been invested and 1,330 jobs (about 5.5 percent of the manufacturing workforce) had been created in EPZs, generating a turnover of N$68m (Republic of Namibia, 1999:47).

The 1998 Export Development Strategy prioritises sub-sectors for development, including research support. These primarily involve processing of products from the primary sector: mariculture, agriculture and minerals. Although criticised by the 1999 review of the 1992 White Paper on Industrial Development for not focusing on traditional exports (Republic of Namibia, 1999:48), it is significant that the strategy has concentrated on primary-product processing, in which Namibia s comparative advantage must lie. This may, in fact, be the wisest approach, and should not mean that impediments are placed in the way of developing other industries. The review is, however, correct, in pointing out that insufficient attention is given to tourism, given both its current and its potential importance in generating income.

The focus of the strategy on exports is particularly important given the small size of the domestic market. The establishment of an export sector in any country begins with a readily available supply of inputs which feed into a developing manufacturing sector which, ideally, in turn, develops an export market as production becomes more competitive. Linkages should be developed sequentially within the industry to allow businesses to be established at all levels. Production for export cannot therefore be isolated from the pipeline development of the industrial sector in a holistic development strategy. Enclave exports rarely support general

16 EPZs are generally enclosed customs bonded areas which are regarded as a foreign entity without being subjected to the host country s legislation, like labour laws, customs duties and quotas. Products may not be sold into the host country s domestic market unless they go through customs and the usual import procedure is followed. Industrial Free Trade Zones or Industrial Development Zones are not necessarily in an enclosed area governed by a customs post. They have benefits such as drawback of duty on imported raw materials or inputs for exported products. Strict records of domestic and export sales and the imported raw materials included in them are inspected by customs. Duty is paid on the imported inputs of domestic sales only. Companies must conform to the legislation and regulations of the country in which they are located. The types of products manufactured in an EPZ are determined by the investor while the products manufactured in an industrial zone may be cluster based (goods and services for a specific industry), sectorally based or regionally based .

industrialisation. For this reason, too much reliance should not be placed on EPZs. In addition, unless the customs and policing facilities within a country are very well developed, difficulties in preventing goods produced in EPZs from leaking into the local market are a real threat to local industry.

To encourage investment into Namibia, the government offers tax and non-tax incentives to foreign investors, with an emphasis on export-oriented manufacturing. Investors may obtain a certificate provided they fulfil certain criteria regarding the size and nature of the investment. The holder of a Certificate is entitled to, inter alia, buy foreign currency to service foreign loans, to transfer abroad net profits, dividends, proceeds of sales and remittances, and to retain currency gained from exports. They are also granted exemption from restrictions regarding categories of business reserved for Namibian residents. These incentives are probably of little value in attracting foreign investment. In a recent study of European investors in Southern Africa, it was found that the main motivation for foreign investment is a desire to take advantage of the local market (Jenkins and Thomas, 2002). Investors report that incentive schemes have little or no influence on their decisions to invest. Benefits are treated simply as useful for cash-flow. It is far more important that Namibia is viewed by foreigners as a stable democracy with a free press. Namibia is seen to be one of the most stable and dynamic economies within the region and supportive of private sector development. The most significant disincentive to foreign investment in Namibia is the poor skills base.

There is considerable inequity in the structure of export and investment incentives among SADC countries, and this has caused political problems in discussions about intra-SADC trade. Harmonisation of industrial policies would facilitate the spreading of production across several countries. Some regional rationalisation of export promotion programmes would facilitate market consistency for producers. Industries in the poorer countries of SADC will also be assisted by the adoption and implementation of a uniform competition policy throughout the region. Competition policy should be unambiguous and coherent, and should be aimed at preventing abuses arising from the FTA in which national markets will be opened to producers throughout SADC.

In addition, some thought needs to be given to economies of scale of certain functions within SADC. A SADC depot which collates and maintains a data base for exporters should be established. Up-to-date, easily accessible international information is essential for exporters, and is difficult and costly to obtain. A cooperative promotional campaign of the region as a market for trade and an investment location might be desirable. It is inescapable that foreign business people view Africa as a country and not a series of countries, and the paucity of information available in Europe, America and Asia means that Africa will probably mean more than Namibia . The main exception to this is the promotion of tourism, in which the exotic is attractive, although regional packages are also more likely to sell better abroad. Also important for intra-regional trade is the harmonisation of rules of origin for both the FTA and for all trade agreements between SADC members, in order to simplify monitoring and policing procedures.

Again, the general guidelines for countries wishing to encourage exporters are well-known: the business environment needs to be supportive of exporting. The most important factors are:

- a bias-free environment in which to operate
- minimal bureaucracy
- basic education
- financial support with overseas marketing and research
- easily accessible data on export procedures, documentation and standards

4.5 Regionalism in Southern Africa

4.5.1 Regionalism in Africa

Almost all regional trade initiatives in Africa have achieved very little, in spite of their political appeal. A range of studies indicates why this is the case[17]. Many schemes were designed without regard for members incentives to comply; implementation has sometimes not been feasible, as countries have overlapping and incompatible membership of different regional arrangements; and members have frequently substituted non-tariff barriers for tariffs against each other. Domestic economic policies have also undermined the effectiveness of African trade integration schemes. Moreover, the structure of demand and production is too similar across African countries to generate substantial trade creation. Finally, African countries have tended to avoid the tough sanctions essential for compliance as practised elsewhere, notably in the EU.

[17] See Berg, 1988; Collier and Gunning, 1996; Decaluw et al, 1995; De Melo et al, 1993; Elbadawi, 1995; Fine and Yeo, 1994; Foroutan, 1993

Nevertheless, African policy makers continue to pursue broader economic cooperation as a potential solution to small markets and generally weak economies. Political interest in regionalism has received added impetus as a result of growing fears of African marginalisation. The expansion of the EU to encompass Eastern European states and the increasing integration of the Americas, for example, have created the perception that Africa risks being left behind in the formation of regional economic blocs, with adverse consequences for trade and investment.

At present, there are several regional integration initiatives being pursued across Africa, aimed at promoting economic growth. Part of the problem facing most African regional groupings is the lack of a large, more developed partner to provide both a significant regional market and a source of external capital and expertise, particularly in regionally integrated production processes. The involvement of South Africa in SADC - representing around seventy percent of SADC s GDP - has alleviated this constraint to some extent by improving the potential for cross-border trade and investment with a relatively large and more developed neighbour[18].

SADC is not the only regional integration initiative in which Southern African countries are currently participating (see Appendix Table 2). The existence of overlapping membership of regional initiatives is common across Africa and provides a confusing picture of priorities. This is another reason why many of these initiatives have not been sustainable.

The focus of this section is the potential of intra-regional trade liberalisation under SADC. An attempt to highlight some of its implications is made by comparing the extent of convergence within pre-FTA SADC with that which has occurred after years of free trade within SACU. This gives an indication of the potential importance of this and other regional initiatives, and highlights what might be achieved by a more outward-facing strategy.

4.5.2 Regional integration and economic convergence[19]

At least half of SADC members are relatively closed to international trade. In part, restrictive trade policies have been driven by a perceived need to protect weak domestic industries but they have also been used as an instrument for balancing

18 It is not suggested that the relief of this constraint necessarily confers success: SADC is currently divided politically (see below), while other regional groupings, notably COMESA and the new East African Community, are showing considerable political commitment to closer integration

19 This section draws on Jenkins and Thomas [1977].

otherwise unstable macroeconomic regimes. Regional trade liberalisation enables members - especially those which are poorer - to reap some of the gains from trade via larger markets and improved efficiency, without exposure to non-regional competition. There is evidence that regional trade groups form convergence clubs, where poorer members catch up with (converge on) richer ones through the process of trade (Ben-David, 1995; Barro and Sala-i-Martin, 1991; Dowrick and Nguyen, 1989).

There is also evidence that, as elsewhere, trade between African countries promotes convergence. There are problems attached to measures of macroeconomic convergence, but two of the simpler measures have been calculated below in order to illustrate SADC trends[20]. The most simple measure is - convergence, when the dispersion of income levels across countries diminishes over time, with dispersion typically measured by the deviation each country s per capita income from the average for the group. If countries which are initially very different are converging, it is expected that this deviation will be growing smaller.

Consider the European Union (EU) (as a point of reference for comparison). Since the formation of the Common Market in the 1950s, the dispersion of per capita income of all EU members has fallen. There was some interruption to this trend in 1982-83[21], when a degree of divergence occurred, but this was subsequently reversed. In contrast to the downward sloping pattern of convergence that is evident in the data for EU countries, the pattern for SADC countries is essentially flat - indicating that no convergence in per capita incomes has occurred over the 30-year period. Indeed, the degree of dispersion was marginally higher at the end of the period than at the beginning, which suggests that the countries have, if anything diverged slightly.

The absence of convergence among the SADC countries may be due to several factors, including different responses to the oil and exchange-rate shocks of the 1970s, different problems with indebtedness, and the uniquely domestic policy issues which have promoted or slowed growth.

The second and most common measure of convergence is _-convergence. When

20 For a third, more technical measure, see Jenkins and Thomas (1997).

21 Data are from the Penn World Tables, Mark 5.6.

countries which are initially poorest grow faster than those which are richer, catching up with richer economies, a downward-sloping plot of average growth rates on initial GDP will indicate possible _-convergence: if the hypothesis of convergence is supported by the data, then those countries whose per capita incomes were below the average for all countries at the beginning of the period should have higher average growth rates subsequently.

If, however, the sub-sample of SACU member countries is examined separately, a strikingly different pattern emerges. Although the intra-SACU dispersion of per capita incomes held roughly constant through the 1960s, it dropped steadily in the 1970s and 1980s. The result of this downward trend was that the dispersion at the end of the period was little more than half what it had been at the beginning - a degree of convergence that slightly exceeds that evident in the EU countries over the same period. Note that neither the oil price shocks of the 1970s nor the gold price shock of 1980 - both of which would have had asymmetric effects on the SACU countries - caused any significant interruption to this pattern.

Some examples should make this clear. In Figures 4.1 and 4.2, time-averaged growth rates (average growth between 1960 and 1990) for members of the EU (Figure 4) and SADC (Figure 4.2) are plotted against initial (1960) GDP per capita relative to the regional average. Again as a point of comparison, in 1960, the poorest country in Europe in per capita income terms was Portugal, whose income per head was 64 percent below the European average in 1960. Portugal grew by an average of 4.8 percent in real terms annually over the next thirty years. On the other hand, Sweden and Britain, with per capita incomes of 45 and 30 percent above the average respectively in 1960, grew most slowly over the decade.

Figure 4.2 shows that, using this second measure, there is no pattern of convergence among Southern African economies over the period. Almost all of the below-average economies in income per capita terms had below-average growth rates over the period, while Mauritius began best-off in 1960 and grew on average 3 percent each year (in terms of real income per head) over the thirty years which followed. However, if one looks at the sub-set of SACU countries, there is again a very clear trend of convergence, with initially low-income Botswana and Lesotho converging on Swaziland, Namibia and South Africa, but diverging from Malawi and Tanzania which began with similar levels of income per head.

Both measures of convergence demonstrate that SADC countries have, if anything, diverged over the thirty years between 1960 and 1990. This implies that the relatively rich have been getting richer, while the poor have been getting poorer. It should be noted that there is no reason to expect that the SADC countries should have converged, as free trade in the Community is a very recent ideal. However, within the Customs Union movements of goods have been free for most of the century and smaller members have grown rapidly, particularly since the early 1970s.

The possible reasons for convergence in SACU include (i) free trade between SACU members, (ii) transfers from South Africa to other members under an enhanced customs revenue formula, (iii) the existence of a currency union (Botswana is not a member of the Common Monetary Area, but the pula tracks the rand), (iv) similar (comparatively conservative) macroeconomic policies; or (v) country-specific factors which have little to do with regional arrangements. These explanations are not mutually exclusive: cases (ii) to (v) do not rule out the importance of international trade in driving convergence in SACU. Although this evidence is not conclusive, it seems likely that access to the South African market has allowed smaller members to escape the limitations imposed by small domestic markets, and this trend is at least consistent with that of other regions, both developed and developing.

4.5.3 Implications for the SADC

Summary of the potential benefits of the FTA

The existence of one convergence club in Southern Africa provides some grounds for optimism that catch-up convergence could also occur in a more closely integrated SADC. Smaller Southern African economies stand to gain from regional integration in a variety of ways.

(i) South Africa is more than three times the size of the sum of the economies of the other SADC members, each of which therefore stands to increase their export markets substantially, with the potential for reaping economies of scale in domestic production.

(ii) While exposure to South African competition will inevitably eliminate some production, more efficient firms will improve productivity and output, and diversification into products for the comparatively large South African market can be expected.

Figure 4: The relationship between per capita income in 1960 and subsequent growth (EU)

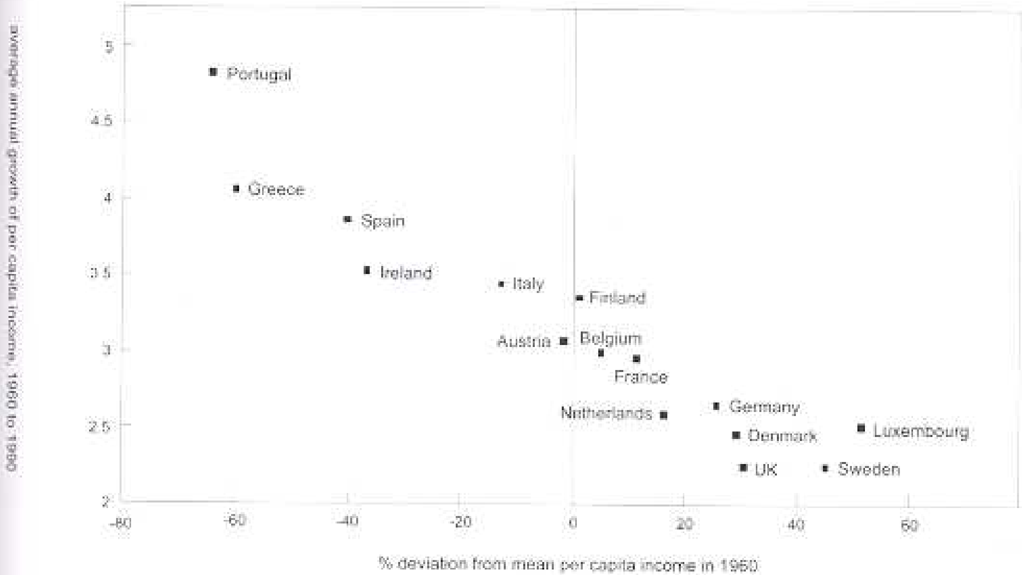
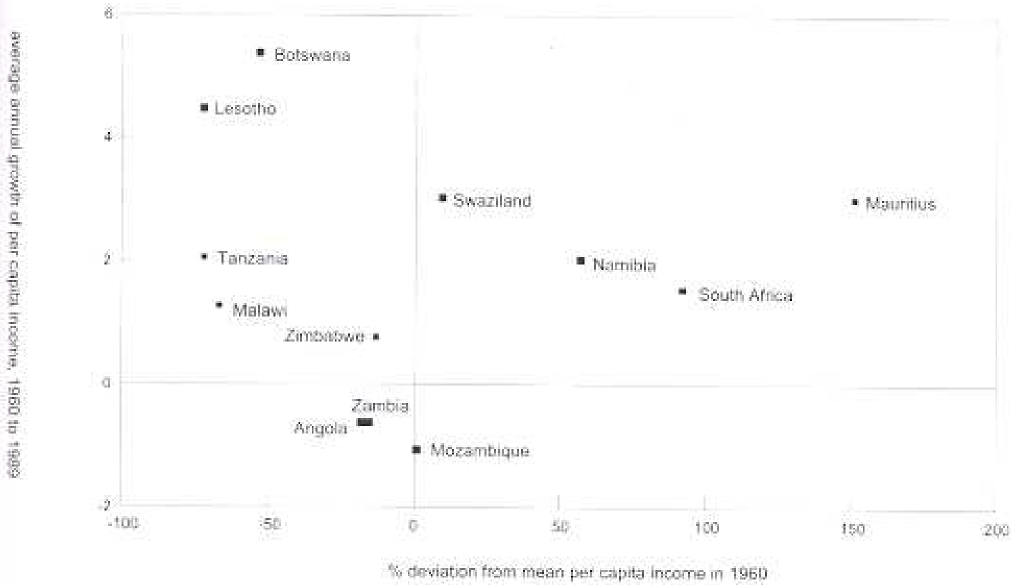


Figure 5: The relationship between per capita income in 1960 and subsequent growth (SADC)



(iii) Exposure to South African competition will help prepare smaller countries for greater integration into the world economy, by enhancing both quality and productivity and thereby competitiveness.

(iv) Countries undergoing donor-funded structural adjustment programmes (SAPs) will find the credibility of their trade liberalisation enhanced, because the policy lock-in mechanism of a regional FTA should be more effective than liberalisation under SAPs has proved to be. If SADC develops an effective enforcement procedure, the costs of reversal of the SADC process could be high for a defaulting member, making it more likely that policy changes will be sustained.

(v) Outward investment from South Africa will both increase resources (access to savings and foreign exchange) and provide opportunities for technology transfers and better integration with South Africa s more sophisticated financial markets.

(vi) Greater two-way trade together with foreign (mainly South African) investment should generate industrial development and help the diversification of production into non-traditional exports.

Regional integration will not be enough for Southern African countries

One of the implications of the notion of convergence clubs is that there may be limits to the extent to which growth performance via regional arrangements can be enhanced: catch-up implies that the benefits in terms of economic growth are greater the lower the initial level of income. In other words, the richest members are constrained in the extent to which economic growth can be accelerated by the forces driving catch-up. This suggests that, if Namibia is to improve its own growth performance, it will need to look beyond the region.

Securing faster future growth requires that SACU expand its trade agreements beyond that with SADC. There are three reasons for this. First, South Africa in particular does not reap significant dynamic gains from regional trade: on average it has superior technology, is the source of most of the region s investment, gains no enhanced credibility, and has limited opportunities to reap economies of scale. Second, many non-SACU members of SADC are instinctively protectionist, and regional integration is seen by some of them as an alternative to unilateral liberalisation. A frequently raised motivation for regional integration in Africa is a lowering of dependence on OECD economies. In this way, their agenda is different from that of the SACU countries, which have embarked on closer integration into the world economy via unilateral liberalisation under a WTO agreement. Finally, SACU countries need to be in a position where they have the opportunity to converge on both high-income and fast-growing economies. SACU should look to establish a network of reciprocal FTAs with regions such as the EU, NAFTA, East Asia and possibly Australasia. It is in the interests of SADC as a whole for the dominant partner to accelerate its growth through expanding trade with the rest of the world (Jenkins, 1997).

The FTA as one stage in the process of globalisation

For all SADC members, regional integration should be perceived as one step in a process of greater integration into international markets. Regional integration is complementary to global integration: it can play an important role in facilitating trade and investment through creating larger markets, which could ultimately enable SADC to compete in the global context. Continued progress in liberalising vis-a-vis the rest of the world is important for the entire region. Two initiatives are of particular relevance: the free trade agreement between the members of SACU and the EU; and the negotiations on the successor to the Lom convention, through which SADC members (with the exception of South Africa) have preferential access to the EU market.

The main provisions of the SA-EU agreement were outlined in Section 3. This FTA offers potential benefits both for the region, especially in terms of enhanced incentives for investment, although, as with any trade liberalisation, there are concerns about the short-term impact on domestic producers. It also offers the potential (long-term) opportunity for stronger growth and convergence with higher-income economies; for the rest of SADC, stronger growth in South Africa in particular may provide a regional stimulus.

The Lom convention, the current version of which is due to expire in 2000, has previously provided preferential access to the EU for around 70 developing countries on a non-reciprocal basis. All SADC members with the exception of South Africa are included in the ACP group. It seems likely that the renegotiated Lom agreement will be fundamentally different in scope - including the principle of reciprocity of access to markets. For SADC, perhaps the most important change being proposed by the EU is that new agreements will be reached with regional (trade) groups as opposed to individual countries - in effect, Lom will be reorganised through the establishment of a series of FTAs with developing regions.

While the EU s proposals face considerable opposition from the ACP group, they nevertheless underscore the potential importance of the SADC FTA as the basis on which a new Lom agreement could be negotiated by Southern African countries.

In summary, in the long term, the SADC FTA could be one of a series of extra-regional trade arrangements in which Southern African countries participate. A shift away from non-reciprocal trade preferences with the EU and towards a SADC-EU FTA may be considered as the next stage in SADC s move towards global integration.

The problem of South Africa

South Africa's size relative to its neighbours has several important implications for regional trade. Firstly, the relationship is asymmetric in that South Africa is much more important to the region than the reverse. Secondly, South Africa runs, and will continue to run, a substantial trade surplus with each of its regional trading partners individually (as well as collectively). The imbalance has widened considerably as South African penetration of the region has increased over the past decade, and the trend will continue regardless of whether a free trade area is established or not: unilateral trade liberalisation has given all exporters greater access to SADC markets; the reconstruction of Mozambique, funded by aid, creates opportunities that South Africa is well-placed to meet; South Africa's semi-Lom status means that inputs from South Africa now count as 'local content' in SADC exports to the EU; and South Africa's reintegration into Africa has improved its ability to receive and send trade delegations. The formation of a SADC free trade area will only magnify these trends.

Intra-regional trade (with the exception of minerals) is heavily oriented towards South Africa. With the exception of Botswana, the smaller members of the SADC trade comparatively little with each other, but substantially with South Africa. Intra-SADC trade, excluding South Africa, is about 4 percent of total SADC trade, while trade with South Africa is 25 percent of total SADC trade. Even these proportions are understated, because they exclude informal trade.

For BLNS countries, the price-raising effect of the common external tariff has been a problem. The CET, binding on all members but set unilaterally by South Africa, protects mainly South African industrialists from international price competition. As the CET raises the price of importables - whether produced within the customs union or outside - above the world price, consumers in every country of the union effectively pay a tax on such goods, while the beneficiaries are protected industries.

There is therefore a case for net exporting members to pay compensation to net importing members of the customs union. The SACU revenue-sharing formula contains an enhancement which is designed to compensate smaller members for these losses (although the system of paying two years in arrears has reduced the compensation element). Moreover, and importantly, although the counterfactual is imponderable, membership of SACU has rendered the smaller members effectively open economies, enabling them to avoid some of the distortions of closed economies experienced by other African countries. It was shown above that BLNS countries have, over a long period, grown consistently faster than any other Southern African economies.

For non-BLNS countries, South Africa's tariff regime has exacerbated the difficulties faced by its neighbours in gaining access to its significantly larger market[22]. Although average rates of protection were moderate, selectivity meant that regional exporters still faced a high tariff wall: effective rates of protection were in fact highest for those products which are or could be produced in the region (like earthenware, clothing, footwear, textiles, foodstuffs and wood products). In some of these industries, protection made penetration of the South African market without preferential access impossible. Moreover, South Africa has not hesitated to erect tariff barriers against neighbouring countries when their exports are seen to threaten South Africa's interests, even against countries within the SACU (car imports from Botswana in 1995) or in violation of a trade agreement (textile imports from Zimbabwe in 1992). These problems are now, in the main, being addressed, as South Africa has virtually eliminated QRs and is reducing tariffs. Nervousness and suspicion are, however, harder to dispel.

The trend of increasing South African penetration of the region does pose a threat to South Africa's regional competitors, although it does not follow that South African exports will swamp regional markets. Regional competitors have some cost advantages over South Africa: cheaper labour; lower transport costs to countries to the north; and a better knowledge of local conditions, which reduces information

22 South Africa s trade surplus with the region has often been explained in terms of its export promotion schemes. There is a perception by South Africa s neighbours that the export incentives give South African products a market advantage which the governments of most smaller countries cannot afford. This is only partly true. The withdrawal of South Africa s General Export Incentive Scheme has, in fact, had little impact on the growth in volume of South African exports to the region compared with previous years. It is likely that there are a range factors which have contributed to the trade imbalance, including a higher level of development, cheaper inputs and lower running costs through economies of scale. Across Southern Africa the structure of incentives has tended to depend not only on each country s ability to afford them, but also on the importance each country has attached to exporting.

costs. Obviously South African competition will most affect uncompetitive, inefficient or backward sectors, but some regional producers are competing effectively in the South Africa market and can therefore do so in neighbouring countries.

Moreover, the asymmetry of the trade relationship between South Africa and its neighbours does not mean that the region is of no significance to South Africa. It is particularly important as a market for manufactured exports, which may be less competitive in European, American or Asian markets, but which can compete in Africa because of proximity, which reduces delivery times and provides better access to parts and servicing technicians. Almost two thirds of South Africa's manufactured exports are sold to other African countries, the range of exports being virtually as wide as the range of South African products. For this reason, BLNS countries should not be slow to exploit the concern of South African exporters that trade links with the region be maintained, or that of South African policymakers that the FTA works .

4.6 Conclusion: trade and industrial policy and growth in Namibia

Economic diversification, especially into manufactures, is highly desirable. Industrialisation is an important part of the process of development, whether or not manufacturing is the lead sector; a diversity of income sources makes the economy less vulnerable to external shocks; and the greater the range of output the more likely that the economy is making use of all available resources. Economic diversification occurs as capital, both physical and human, is accumulated. Capital accumulation occurs as profitable investment opportunities are found. With its small population, Namibia cannot afford to attempt simply to diversify domestic production. The domestic market is so limited that it cannot generate very much endogenous development. It is crucial that production be aimed at a wider market, that is, that Namibian growth is export-oriented.

Being a member of SACU makes a significant difference, but it would be a risk to be exclusively dependent on the South African market, as Namibia is already very dependent on South Africa in so many ways. This is not to suggest that Namibia should attempt to de-link from South Africa, but rather that Namibia should view its market in global terms. In any event, both options - regional markets and global markets - concern exports. The emphasis of current industrial policy on export promotion is therefore well placed.

Existing support for the processing of primary products places the focus in the area of Namibia s comparative advantage. That is a good place to start. It should be supplemented with vigorous promotion of Namibia as a tourist destination, possibly in collaboration with other countries in the region. Another area worth developing is the provision of low skilled services to South African (and, possibly, other foreign) firms in the form, for example, of 24-hour call centres.

Tourism will require significant investment in infrastructure, both physical and electronic, at a higher rate per head than in many (most) other countries, given the sparseness of the population. Infrastructure will also benefit manufacturing and agriculture, and promote, at least to some extent, decentralisation of production[23]. Service exports also require some basic education, especially fluency in English (and other non-African languages) and computer literacy. Expenditure on infrastructure and education is of considerably greater importance than tax concessions to investors.

The other important area for government attention is improvement in access to foreign markets. Individual country efforts are unlikely to be effective, but, within the framework of SACU or SADC, cooperation in building a united position on trade negotiations is very important, particularly for agricultural exporters. As the WTO begins to consider the sensitive question of markets closed to farm products, African countries should be pro-actively developing a viable position firmly within the WTO remit and preparing a highly skilled negotiating team familiar with global markets and issues. Only when agricultural (and fishing) markets are as open as markets for manufactures and minerals will an export promotion strategy based on primary processing generate the growth which Namibia needs.

In the meantime, some thinking should be done about where Namibia might find opportunities in the reconstruction of Angola. Except for Botswana, Angola has no other near neighbour in reasonable economic condition, and there are likely to be economic opportunities for Namibian entrepreneurs, if transport and telecommunication links are reliable. Diplomatic links which pave the way for business contacts will be important, as will be the collation of information about businesses in Angola. Language may be a problem, but all regional countries will face the same barrier, and language centres teaching Portuguese are easily established. A fast-growing Angola will be good for Namibia, as will a fast-growing

[23] Walvis Bay is well-placed for shipping to America and Europe, and, if linked to a cheap and efficient rail network, might draw business from the west side of Southern Africa, especially when taking days off the trip from Durban might be important

South Africa, because spillovers are important for small economies. Economic integration, whether formal or informal, should be pursued as much as possible with as many countries as possible.

Appendix 4.1: The evolution of South Africa-SACU s trade policy

Policy change, important commissions, relevant events

1925—72	**The period of import-substitution industrialisation (ISI)**
1925	Adoption of ISI with the Customs Tariff and Excise Duty Amendment Act
1948	Introduction of QRs
1958	Viljoen Commission recommends continued ISI, but using tariffs rather than QRs or subsidies
1969	SA government announces its intention to lift QRs under pressure from the GATT and the IMF, but does nothing
1972—83	**The first trade liberalisation episode**
1972	Reynders Commission recommends export promotion
1972	Export incentive measures are introduced
1972—6	Some relaxation of QRs
1975—9	The rand is devalued
1978	Further assistance to exporters introduced in line with the Van Huyssteen Committee s proposals
1979—80	Rand appreciates sharply
1983—91	**The second trade liberalisation episode**
1983	Kleu Study Group recommends a move away from ISI
1983—5	The reduction of QRs is resumed
1983	The dual exchange-rate system is abolished
1983—5	The external value of the rand falls significantly
1985	Government white paper recommends a dual approach to industrial policy: ISI and export promotion
1985	Debt crisis; dual exchange-rate system re-introduced
1985	Substantial import surcharges introduced
1987	BTI begins to move proactively towards trade policy reform
1989	QR removal continues
1989	Structural adjustment export incentives introduced for clothing, textiles, automobiles and automobile components
1990	General Export Incentive Scheme (GEIS) is introduced
1990	The phasing out of the import surcharge begins; not completed
1991	An accelerated depreciation tax scheme is introduced

Appendix 4.1: (cont)

Current **The third trade liberalisation episode**

1994	The conversion of QRs to tariffs is completed
1995	Import surcharges are eliminated
1995	Tariff reduction in line with GATT requirements begins
1995	The financial rand is abolished
1995	Negotiations with the European Union over trade preferences commence
1996	The SADC free trade protocol is signed
1996	Further exchange control liberalisation is announced
1997	GEIS removed and replaced with WTO-compatible export incentives
1999	Agreement is finally reached with the EU

Appendix Table 4.2: Membership of regional groupings

Sector	COMESA	SACU	CMA	CBI
Angola	!			
Botswana		!		
DR Congo				
Lesotho		!	!	
Malawi	!			!
Mauritius	!			!
Mozambique				
Namibia	!	!	!	!
Seychelles	!			
South Africa		!	!	observer
Swaziland	!	!	!	!
Tanzania	!			!
Zambia	!			!
Zimbabwe	!			!

Note: COMESA: Community of Eastern and Southern African States
CMA: Common (Rand) Monetary Area
CBI: Cross-Border Initiative

5 INDUSTRIAL POLICY, TRADE STRATEGY AND GROWTH IN NAMIBIA

Discussant s Paper

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5.1 Introduction

5.1.1. Namibia has a mixed economy that operates on a free market system, where private sector plays a leading role, while the Government plays a strategic role in the provision of an enabling environment for stimulating and motivating the various participants in the development of the country.

5.1.2. Namibia s trade and industry sector has been assigned a pivotal role to play in the transformation of the country s economy in line with Vision 2030, and thus is called upon to contribute significantly to the nation s overriding objectives of poverty reduction. Vision 2030 is the framework of Namibia s trade and industrial policy and sets out the Namibian people s aspiration to transform our country from a developing lower-middle income status to a developed high-income country by the year 2030. As a result, the Ministry of Trade and Industry is entrusted to preside over the country s trade and industry sector, and its mandate centres on three key areas of economic management, which are trade promotion, industrial development and investment attraction. This paper, however, specifically focuses on policies for the first two. However, all three areas are so interrelated that one can not discuss one without referring to the other.

5.2 Overview of Namibia s Policy Framework

5.2.1 Namibia s economic development policies (including trade and industry) are contained in the country s medium-term plan (National Development Plans) that are reviewed and revised every five years. The current plan (NDP II) is covering a five-year period till 2005/2006 operational year.

5.2.2 Namibia s aim of achieving and maintaining economic stability manifests itself in the country s macroeconomic policies. This requires promotion of higher economic growth, facilitation of sustainable development, and it leads to poverty reduction.

5.2.3 The economic development objectives, which underpin Namibia s trade and industry policies, are:

- High and sustained economic growth;
- Reduction of unemployment;
- Reduction of poverty;
- Reduction of inequality in income distribution;
- Reduction of inequality in regional development;
- Promotion of gender equality and equity; and
- Enhancement of environmental and ecological sustainability.

Namibia s trade and industrial policies are pursued within the overall principle of the economic development objective, which is growth with equity . This principle dictates economic growth path that creates opportunity for all Namibians to benefit fully from the country s economic development. There will, therefore, be occasions when choices have to be made between additional growth and additional measures to achieve equity.

5.2.4 Namibia s trade and industry policies aim at encouraging diversification of products and trading partners. A greater variety of export markets are being sought for existing and potential Namibian goods and services, to lessen the country s dependence on the South African markets. The Government s trade and industrial policies therefore continue to focus on enhancing and encouraging development, promotion and diversification of the country s exports, expanding and consolidating the market shares, as well as exploring and penetrating new markets.

5.2.5 Government persists on building and expanding institutional and infrastructural facilities to help create and strengthen entrepreneurial skills for all different trades. In this respect, common facility scheme has been put in place to facilitate development of small and micro enterprises through providing entrepreneurs with access to workshops, tools, and business advice.

5.2.6 Namibia further remains committed to economic integration of all African countries, and particularly the Southern African countries. As such, Namibia consider the Southern African Custom Union (SACU) as the core of its trade and industrial policies, and the Southern African Development Community (SADC) as a meaningful body for the implementation of the country s economic development strategy,

5.2.7 Namibia is cognisant of the fact that its development strategy is being executed within an international economy, and that its economy largely depends on international trade. Namibia, therefore, considers it important to seek to influence trade-related international events and strives to get the maximum benefit from international economic linkages. Consequently, the Government s strategy in the international arena is to establish and maintain beneficial international economic relations with individual countries.

5.2.8 In the global arena, Namibia firmly continue to follow an open, outward oriented development path, and thus supports the drive for further trade liberalisation within the context of the World Trade Organisation (WTO), ACP/EU Partnership and USA-AGOA, in order to get better access to global markets.

5.3 Overview of Namibia s Trade and Industrial Policies

5.3.1 Emanating from to mandates in the introduction section of this paper is the sector s mission to be the catalyst and facilitator of the country s economic diversification and growth through the promotion of investment, industrialisation and expansion of export trade, with a view to reducing poverty. The primary objective of the sector is therefore poverty reduction through accelerated and environmentally sustainable economic growth and development. This would be realised by facilitating and stimulating economic growth and development with a view to create employment opportunities, through the strategies of establishing manufacturing industries and encouraging (assisting) SME development, thereby reducing poverty and mitigate against developmental inequity in the Namibia s society.

5.3.2 As stated earlier, the overarching objective of the trade and industrial policies is reduction and ultimate elimination of poverty in Namibia. Central to this most important policy objective is economic growth, which is a prerequisite for increasing the wealth share and economic development of the country.

5.3.3 The trade and industry sector is therefore geared to pursue a strategy and programme of economic diversification, aimed at focusing policy attention on the creation of more dynamic industrial and service products. The sector regards the export-driven economy as the best instrument for the country s ability to attract high rates of productive investments, which are essential to achieve industrialisation objective.

In this respect, Namibia is pursuing a more competitive and export-oriented policy that the Government believes will enable the Namibian economy to break the barriers with respect to economies of scale, which the domestic markets imposes on local manufactures and professional service providers.

5.3.4 The Namibian Government is aware that the promotion of industrialisation and that of trade are complementary to each other. As such, both trade and industrial policies are being pursued simultaneously and with the same vigour. This is also in line with the fact that economic growth, which is a means to an end (poverty elimination), and requires a sound strategy for industrialisation to broaden the country s productive base, just as effective trade strategies are required to widen the country s economic market space.

5.4 Industrial Development Policy

5.4.1 Industrial policy is deep-rooted in the programmes of industrial development, whose primary aim is to expand and diversify the country s industrial base.

5.4.2 The industrial strategy is being implemented using several strategies, including facilitation of industry diversification and balanced geographical distribution, consolidation of export processing zone (EPZ) regime, SME development, and construction of industrial premises.

5.4.3 The major industrial policy objectives include:

- Establishment of industrial parks;
- Establishment of common facilities centres;
- Intensification of support services to the SME sector;

- Facilitates the increase of SME sector s income;

- Strengthening institutional support structures for the implementation of industrial development programmes.

5.4.4 The realisation of the above objective are being pursued using strategies such as:

- Construction of industrial sites and premises across the country;

- Encouragement of beneficiation and value adding to abundant natural resources (raw materials) of the country;

- Provision of support for SME development, including deregulation, incentives, finance scheme, purchasing assistance, training, etc;

5.4.5 Industrial development policies and programmes are complemented by investment promotion policies, such as those aimed at increasing the level of foreign direct investment in the country, as well as those aimed at encouraging domestic investment. Thus, supporting investment strategies like the aggressive and targeted investment promotion in the manufacturing sector, and active encouragement of joint ventures between foreign and local companies / entrepreneurs.

5.5 Trade Promotion Policy

5.5.1 The primary objective of trade policy is the creation of a conducive and stimulating environment for doing business, which involve putting in place appropriate measures for regulating and directing the corporate environment to realise the objective of production for export.

5.5.2 The salient trade policies include:

- Facilitating the increase of Namibia s intra-regional trade;

- Assist exporters with market identification and penetration;

- Establishing quality control and standardisation body to facilitate the production of high quality products;

- Facilitating establishment of new business through less bureaucratic registration procedures;

- Creating the business conducive regulatory framework through putting in place legislation such as competition policy and anti-dumping measures;

5.5.3 Trade policies are being implemented through the following strategies:

- Export development;

- Provision of technical support to exporters, with a view to improve the country s competitiveness;

- Awareness creation for opportunities and benefits offered by trade arrangements Namibia is part to;

- Support the participation of SME traders in export/import activities of the economy and provision of assistance for market access.

5.5.4 Regional economic integration constitutes a crucial strategy for the implementation of the country s international trade policy. Namibia s memberships to regional economic grouping testify to the importance the country attaches to the objectives of regional integration, and the Government recognises that regionally integrated markets would benefit small economies.

The Government sees country s involvement in regional integration initiatives as a strategic response to the growing demand for market enlargement, and as a risk cover to economic marginalization in the wave of economic globalisation.

5.6 Some Observations on the Paper

5.6.1 The paper takes good account of contemporary trade and industry theories, especially in relation to economic growth and poverty reduction in developing and small economies. A word of caution is acknowledged in the sense that wide and sweep liberalisation does not always benefit an economy. It has been argued in detail that foreign direct investments, which neo-liberal economists advocate as a reward for opening up, are sometimes detrimental to the economy and not always contribute to the necessary economic development. Ownership of local economic activities does matter the most in security economic stability and ensuring benefits drifted to the majority.

5.6.2 On regional agreements, the paper rightly pointed out the adverse effects of being member to SACU, with RSA as a dominant partner. This situation has been realised by all SACU Member States, hence the renegotiation of the arrangement.

As stated earlier, Namibia views SACU as a strategic union and core to our trade and industrial policies. For Namibia, SACU is the most viable way to participate in the global economy. All SACU Member States, including RSA, are beginning to move towards a direction of creating a concrete and visible SACU, with an identity in the global economic arena. It is our belief that with a participatory and democratic administration system, as envisaged under the new agreement, SACU will contribute positively to the prosperous of all its Member States.

One should also be aware that most of the shortcomings in the SACU trade and industry policies are as a result of the fact that SACU has been more a financial oriented arrangement, and focused less on trade and industrial policies as affect its other Member States. It is only now that a balanced approach is being cultivated for equally application all aspects of the economic sphere.

5.6.3 The paper alluded to the point that RSA does not gain much from regional trade, and region need it much more than RSA value the region. We, in the Ministry, do not prescribe to the view expressed. The prosperous of RSA, as of any country, depends on the prosperous of its neighbours. As much as I agree that South Africa is meaningful economy in the region, I am more of the view that South Africa counts more on the region to achieve its long-term economic objectives. Many arguments can be brought up in support of this view.

5.6.4 On Angola, Namibia has long been convinced of the immense benefits and positive economic effect that a prosperous Angolan economy can have on the region, and particularly on Namibia. Besides supporting initiatives for achieving a political stable Angola, Namibia has recently been involved in several economic initiatives to revive and reconstruct the economy of that country.

6 THE SERVICE SECTOR OF NAMIBIA: A LEADING SECTOR FOR GROWTH AND DEVELOPMENT

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6.1 Introduction

Namibia hopes to make its way commercially into the world economy by 2005. Full participation in the global economy is essential for meeting the four principal objectives of the National Development Plan, namely, reviving and sustaining economic growth, creating employment, reducing income inequality and eradicating poverty.

This paper assesses the potential of the service sector to contribute to the realization of this hope. In the last few years, economic growth has been low and volatile in Namibia. New strategies therefore have to be designed to ensure a movement towards a more stable and higher growth threshold.

Namibia needs a philosophy of economic expansion to achieve her development objectives. Stagnant growth in agriculture and industry means the service sector should be given more attention. However, because service production requires much more product diversification and hence more effort in terms of product design and marketing, its development is more amenable to innovation-driven approaches. The paper proposes an innovation-driven strategy for developing the service sector to secure an accelerated growth of the Namibian economy. The development and utilization of the philosophy of innovation is the key strategy for development in today s information-intensive production world. Factor or investment-driven growth strategy cannot adequately provide for a successful, growth-leading services sector.

Namibia has social peace after years of apartheid, a climate of reconciliation and an image of functional democracy- an environment conducive for growth and development. However, there are serious challenges: blatant social inequalities and hesitant private sector and foreign investment activity and, hence slow economic growth.

A higher growth rate could be attained through reform, in particular enhancing openness, of the services sector. Recent econometric evidence based on cross-country growth regressions suggests that fully open telecom and financial services add up to 1.5 percentage points to overall GDP growth (Mattoo, Rathindran and

Subramanian, 2001). Empirical evidence emanating from our econometric analysis of the Namibian economy indicates quite weak inter-dependencies among the sectors of the economy, which has to be addressed, if higher growth rates and significant reduction in inequality and poverty are to be achieved. Development of the service sector, based on innovations, will provide the necessary avenues for linking the entire economy.

6.1.1 Growth Strategies

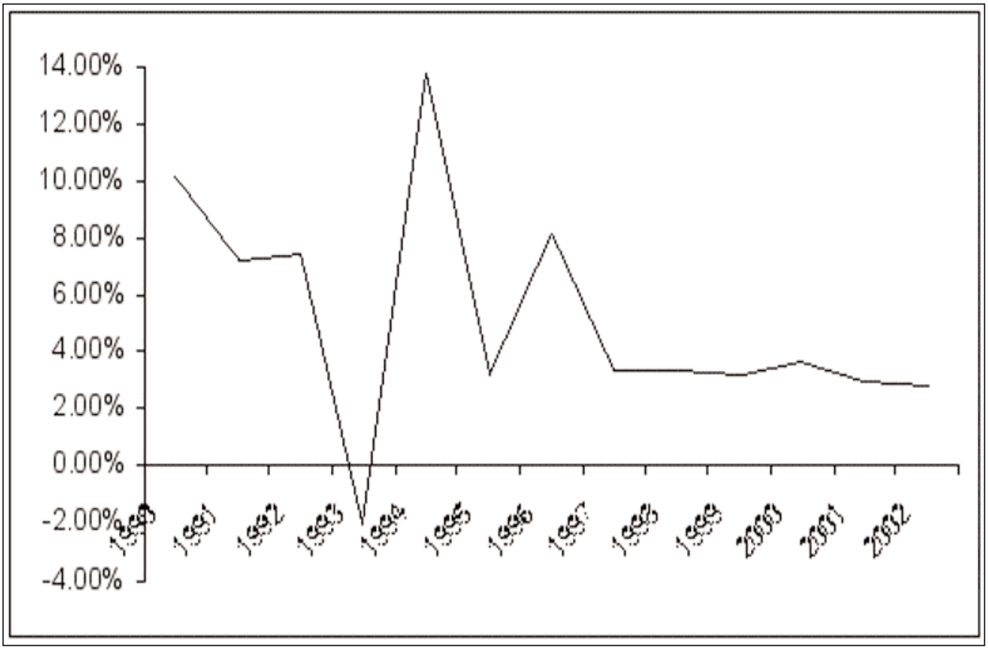
Growth and development may be driven by three fundamental dynamic factors, namely, the supply of factor endowments, the rate of investments, and or the rate of innovation (Porter, 1990). The innovation dynamics promote the economy s need to upgrade her competitive positions, from factor-determined comparative advantages through achieving higher-order competitive advantages in existing enterprises, as well as developing the capacity to compete successfully in new, high-productivity sectors, in the globalized economy.

Factor-driven growth

At the initial stages of development of an economy, as it were in the 1950s and 1960s, economic growth is factor-driven, whereby all successful enterprises derive their comparative advantage mainly from basic factors of production, whether they are natural resources, favourable weather, or abundant cheap labour. However, factor-driven growth and development is usually characterized by extreme sensitivity to world economic cycles and exchange rate fluctuations, a condition that is generally not conducive to the design and implementation of long-term programmes for development and poverty reduction.

Recent economic history has shown that factor-driven growth is unstable and unsustainable. A cursory look at the GDP growth performance of many resource-rich African countries would reveal several cases of growth plateaus , where GDP growth accelerates in the initial stages following the massive exploitation of natural resources or hikes in international commodity prices and then remains at roughly the same rates over extended number of years. Namibia is a good example of countries that appear to have reached a growth plateau, since 1997 (see figure below). During the period 1990-1997, GDP growth rates fluctuated between negative 2% and positive 13%. Since 1997, growth rates have remained within the same low band of 3-4% per annum.

Figure 6.1 Growth of GDP 1990-2002



The recent low GDP growth average of 3% per annum is far less than the minimum 5% promised under the first National Development Plan (1990-2000) and falls below the annual GDP growth rate of above 7% achieved in the early 1990s (Hansohm and Mupotola-Sibongo, 1998). Lack of expansion in diamond and other mineral and agricultural output and, in particular, the downward trend in international commodity prices in recent years are the main causes for this low performance.

Table 6.1: GDP performance of Namibia

Indicator	1997	1998	1999	2000	2001	2002
Real GDP growth (%)	3.6	3.4	3.4	3.4	3.0	2.8*
Diamond exports N$ ml	2475	2110	2809	3937	4040	na
GFCF 1995 prices N$ mil	2866	3564	3713	3252	na	na
Echange rate (av.) N$/US$		4.61	5.53	6.11	6.94	8.61

* IMF projection (2001 December).

**May 2002.

GFCF = gross fixed capital formation.

Source Bank of Namibia (2001); Economist Intelligence Unit (2002)

Investment-driven growth

Investment-driven growth, unlike factor-driven growth, involves the upgrading of production factors from basic to more advanced systems of production based on modern and often large-scale, imported machinery and technology. In this direction, the willingness and ability of the country and her people to invest becomes the foundation of national comparative advancement. Increasing capital-labour ratio, which higher levels of investment make possible, leads to higher productivity of labour. However, this higher productivity may not necessarily lead to higher levels of employment or per capita income, especially in the absence of effective product demand or where labour-saving techniques of production are the source of productivity growth.

Globalisation has made investment-driven growth more viable as a proposition for developing countries. However, investment-driven growth requires an aggressive national industrial policy to complement the usage of capital, and in addition in-house abilities to improve product and process technology, international marketing channels and the presence of domestic competition. Still, the long-term social benefits of investment-driven growth is limited by the fact that competitive advantage is possible only among certain classes of enterprises, notably those with significant economies of scale and standardized products. Furthermore, the national competitive advantage under investment-driven strategy of growth lies in the ability to invest rather than in the ability to offer unique products or produce with unique processes (Porter, 1990:549).

A study of the high growth performance of the Chinese economy has shown that while physical investment remained dominant, its contribution to total output growth has declined since 1979 (when reforms started). Thus, while for the period 1953-78, 65.2% and only 18% of output growth was accounted for by the growth in physical investment and in productivity respectively, in the period 1979-94 the contribution of the two sources was 45.6% and 41.6%, respectively (Hu and Khan, 1997)[24]. That is, the share of physical investments in GDP growth declined by 19.6% points whilst that of productivity increased by 23.6% points after the introduction of reforms. One of the four major sources of the high productivity was the adoption by Chinese enterprises, both state and private, of improved managerial and manufacturing practices.

24 Based on a simple Solow growth accounting framework: $g = \alpha_0 + \alpha_1 g_1 + \alpha_k g_k$, where α s are constant parameters and g s are the growth in labour and capital, respectively.

Thus, investment promotion is only a necessary condition for accelerated growth in GDP. The potential benefits of high investment rates can be realized fully if efforts to increase investment inflows are supplemented by the drive towards higher productivity through innovation.

Innovation-driven growth

The innovation-driven growth process, the third dynamics behind growth, involves the transformation of economic structures, from production technology to the provision of producer and consumer services, which enhances long-run growth in output and in real consumption per capita. This transformation includes public policy to encourage savings and investment and to facilitate the channelling of investments into the most economically profitable segments of the economy, through efficient information generation, processing and dissemination systems. The focus of policy is the creation and adoption of innovations towards higher productivity and growth. Under the innovation-driven growth strategy, the key policy criterion for investment and, for that matter any policy initiative, is the extent to which potential output expansion is due to productivity enhancement rather than factor increments[25].

This paper advocates an innovation-driven process of service sector development in Namibia. Such a process is able to create wider and stronger linkages within the economy, by generating a more dynamic upgrading of the labour force for higher productivity in a wider area of economic activity. Innovation-driven growth leads to less dependence on factors of production, in particular, capital and thereby ensures higher incremental capital-output ratio and minimizes the effectiveness of capital constraints on development. Because service production requires much more product diversification and hence more effort in terms of product design and marketing, its development is more amenable to innovation-driven approaches. Factor and investment-driven growth cannot adequately provide for a successful, growth-leading services sector.

Innovation-driven economic growth also provides the environment for increased investments, both domestic and foreign, because it is based not on factor-cost advantages but on productivity. An economy driven by innovation is also more able to protect itself against extreme shocks from volatile situations including fluctuations in international commodity prices. Since the economy is driven by innovations it is more resistant to cost shocks.

6.1.2 Why Choose Services for Accelerated Growth

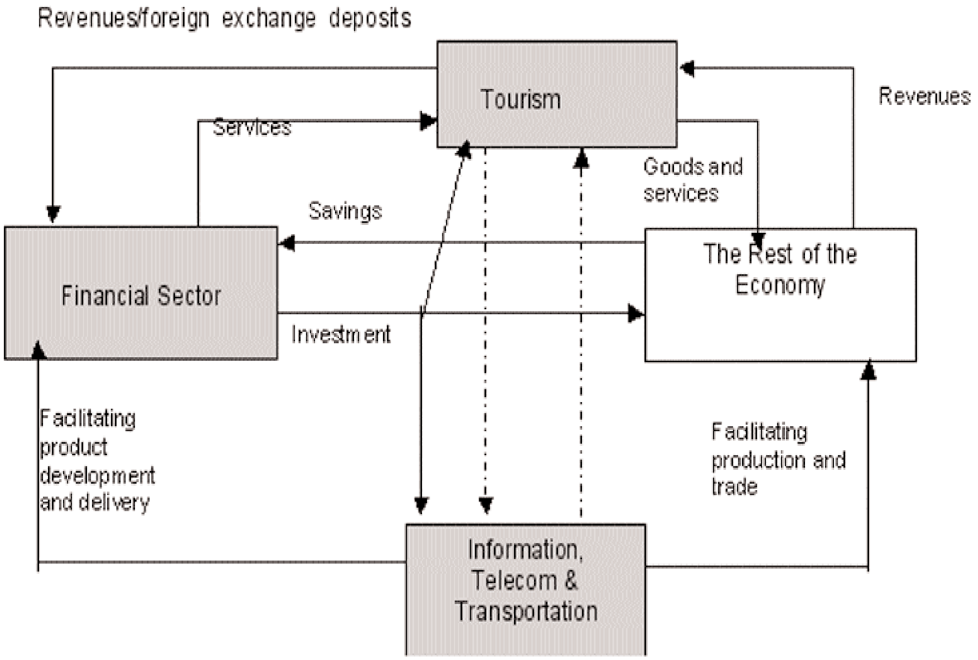
Namibia should pay priority attention to the service sector for a number of reasons. Globally, the contribution of the services sector, in particular global trade in services, to national GDP has increased significantly in the last two decades, as a result of technological change, globalization and domestic liberalization. In Namibia the contribution of non-government services sector to GDP has increased from an average of 36.2% in 1991-95 to 42.4% in 1996-2000, the main source of this increase being commerce and personal services.

Figure 1 illustrates the inter-relationships between the service sector (financial, information, telecommunication and transportation, and tourism shown here as examples) and the rest of the economy. Improvement in ITC&T, which facilitates the development and delivery of financial services, ensures more efficient investment of capital resources and thus generates higher growth rates per unit of domestic savings. New growth theory and empirical research based on it provide ample evidence of the positive effects of efficient financial system and the diffusion of knowledge on long-run growth rates among countries. (See, for example, Grossman and Helpman, 1991; and Barro and Sala-I-Martin, 1999).

The agricultural and manufacturing sectors of the Namibian economy appear to have reached a growth plateau, and continued dependence on these sectors without proper development of the tertiary sector would delay the achievement of national development goals. The current per capita growth rate of about 1% is obviously not adequate to overcome poverty and unemployment, which is now estimated at over 30%.

[25] If we assume a positive constant rate of technological innovation λ, within the neclassical growth model, the long-run equilibrium growth rate will be found to be greater at $g_1+\lambda$ than g_1. That is, a positive efficiency factor emanating from technological innovation leads to a higher growth path.

Figure 6.2: The Service Sector and the Economy



An efficient service sector is needed to promote growth in the other sectors, in particular manufacturing. Telecommunications, transport and finance constitute strategic producer services, which have direct implications for the competitiveness of other sectors. Inefficient services as reflected in, for example high transportation costs have tremendous adverse impact on private sector investment, production and consumption activity. For manufacturing industry, in particular, access to low cost networks in communication and transportation is a necessary condition for international competitiveness.[26]

Innovation-driven growth process requires the development of a sophisticated services sector, in particular the information, telecommunication and transportation sub-sector. The impact of innovations on growth depends on the lag between the

[26] Recent formulations of new growth models lead to the conclusion that the lower the average amount of public capital (such as infrastructure and utilities) available to individual sectors or enterprises the lower the marginal productivity of labour and capital and hence the lower the amount of growth generated by additional units of human capital or physical investment. Take for example the model $Q_i=a(h_i)^{1-\sigma}K_i^{\sigma}(K/N)^{\eta}$, where Q_i is the output of firm (or sector) I; h is the available human capital (that is, labour); K_i is capital available available to firm (or sector)i; and K/N is the aggregate (public capital) available per firm or sector. Obviously, the lower K/N the smaller the marginal productivities of h_i and K_i. The role of innovations is to enhance the magnitude of the externality (spillover) parameter, η.

creation of knowledge and its adoption, and the rate of dissemination of new knowledge; hence, the importance of ITC&T.

Finally, the potential exists for generating additional GDP, foreign exchange and employment in the tourism, telecommunication and transportation sectors of the Namibian economy. In the past five years output growth of these sub-sectors has been higher than in the overall economy. Demand and supply conditions in the service sector as measured by the level and trends in the sector s GDP over the years have improved markedly. Between 1996 and 2000, non-government tertiary output has increased from N$4.3 billion at constant 1995 prices to nearly N$6.0 billion (that is, 5.6% average annual increase), while overall GDP increased from N$13.1 billion to N$15.1 billion (that is, 3% average annual increase) over the same period.

In the sections that follow, we attempt a brief examination of the services sector and its potential for growth, evaluate inter-sectoral relationships in the Namibian economy and then propose some policy measures that need to be considered to transform the services sector into a robust, growth-promoting entity for the acceleration of growth and development of the Namibian economy.

6.2 Growth Analysis of the Namibian Economy

6.2.1 Evolution of GDP and its sub sectors

Namibia s growth performance of the last 20 years shows a better history than the rest of the countries in the Sub Saharan continent. However, whilst growth of the Namibian economy has been largely positive over the last 20 years, the impact is not exactly strong: real GDP at market prices grew at an average annual rate of 1.2% throughout the 1980s, population growth cannibalized this increase; real GDP per capita actually fell throughout the same period. Nevertheless, since independence in 1990, GDP growth has picked up considerably, peaking at rates of 8.4% for 1991, although it seems that economic growth has slowed in recent years (see Table 2 below). In any case, this is a considerable achievement, given that the economy was marred by Apartheid s policy of segregation.

From the outset, Namibia seems to be a relatively wealthy country compared to the rest of the continent. Its GDP per capita (PPP US$) ranks 72nd out of 162 countries (UNDP 2001), and puts it actually on 8th rank in Africa. However, Namibia is also one of the most in-egalitarian societies in the world: it has the world s highest Gini coefficient (standing at 0.7)[27] , approximately 5% of the population enjoys 44% of total income according to a 1993/1994 National Household Income and

Expenditure Survey. In fact, once human development aspects are taken into account, Namibia ranks only 111th out of 162 countries (UNDP 2001). In addition, Namibia is, relative to other African countries, an extremely well governed economy: it ranks third best out of a total of 21 countries in the ECA s Economic Policy Stance Index (ECA 2002).

The inequality and unequal provision of social services to the entire population is no doubt a legacy that was inherited after independence in 1990: the country was characterized by a dual economy: one side catering for the white population and a purposely neglected sector accommodating the non-white population. Nevertheless, the government has made efforts over the last decade to deal with this inheritance and lift large proportions of the population out of poverty.

Given the low growth rates of the past however, it seems that identifying the reasons of Namibia s failure to grow seems paramount in order to develop growth and development programmes that would ensure a sustainable society with fair and equal access to a decent life for all.

Table 6.2: Growth rates

Growth rates in terms of % of GDP	**1980-1990**	**1991-2000**	**1995-2000**	**1980-2000**
Real GDP per capita	-1.50	1.83	1.38	0.16
SSA real GDP per capita	-0.80	-0.41	0.65	-0.61
GDP @ market prices	1.20	4.44	3.89	2.82
Agriculture	2.94	4.79	3.84	3.86
Industry	-0.43	3.14	2.66	1.36
Manufacturing	3.91	3.31	2.08	3.61
Services	2.13	4.81	4.07	3.47

Source: World Bank 2002

6.2.2 Sectoral Analysis[28]

Over the last two decades, the contribution of the primary sector has been steadily declining, whilst that of the secondary and tertiary sector has steadily been increasing (see table 2), which per se suggests that Namibia is on track to developing its economy: it is moving away from being an economy largely reliant on primary activities, but is becoming more service and production oriented. In total, the primary sector contributed approximately 22% to GDP in 2000, the secondary sector approximately 16% and the tertiary sector 62%.

Nevertheless, Namibia s economy has not yet managed to sufficiently diversify[29]. It is to a large extent still dependent on extracting and processing minerals for export — in fact, it is one of the large producers of non-fuel minerals in Africa and a producer of uranium, as well as a primary source for gem-quality diamonds, zinc, tin, silver and tungsten. Mining contributes approximately 9% of GDP.

The agricultural sector is still important in Namibia. Whilst it only contributes approximately 13% to GDP, 70% of the population depends on agricultural activities as subsistence farmers. Livestock is important and fisheries have come to dominate the agricultural sector, with commercial fishing being a fast growing part of the economy.

Manufacturing is a sector with potential in Namibia, contributing 12% of GDP. It was the fastest growing sector in 2000, and is considered to have the greatest potential to boost employment. However, currently the sector is rather not diversified, relying to a large extent (approximately 80%) on meat processing and the production of beverages and foodstuffs. In fact, one of the limitations of this sector is that it caters for a small domestic market (Namibia s population totalled 1.74 million in 2000).

As such, the economy is vulnerable to world market fluctuations in commodity prices; hence the need to diversify. Fortunately, in recent years, tourism has become an import industry in Namibia. It now accounts for 6% of GDP and delivers 11% of exchange earnings from the export of goods and services. Whilst still being a relatively small sector, it is also considered to have great potential.

28 This section has been officially compiled data. However, inspection of the data (Annual Reports of Bank of Namibia and official BoN website) found an inexplicable jump in growth between 1992 and 1993. Hence, all data was recomputed using appropriate GNP deflators. The set used is presented in Table A6.3.

29 See the definitions at the end of this study, identifying what forms each sector.

The telecom sector in Namibia is vibrant. Growth in cellular subscribers has been spectacular, as in most countries that have liberalized their telecommunications. Telecommunication revenues represents approximately 2.7% of GDP (1998 figure, see ITU 2001), its capital investment accounted for 8.91 % of GFCF (1998 figure, see ITU 2001).

Table 6.4:- Telecommunication Comparison

	1996	1997	1998	1999	2000
Main Lines per 100 inhabitants	5.43	6.19	6.38	6.38	5.94
Cellular subscribers per 100 inhabitants	0.42	0.77	1.17	1.77	4.67

6.2.2.1 Sector inter-dependencies

Given the rather weak growth performance of the economy, an analysis of the contribution of the various sectors to Namibia s growth and the strength of inter-dependencies among these sectors may seem in order. As suggested above, tourism, financial services and transport and telecommunications have potential to enhance Namibia s growth performance. However, before making any recommendations, an empirical analysis of the interdependencies of the various sectors must be made prior to any concrete policy recommendations: one of the fallacies in development has been that policy adjustments to boost certain sectors have generally resulted in neglect of other sectors. The stronger the links between sectors the greater the multiplier effects of individual sector s growth and the more equitable the distribution of the income benefits arising from that growth to households.

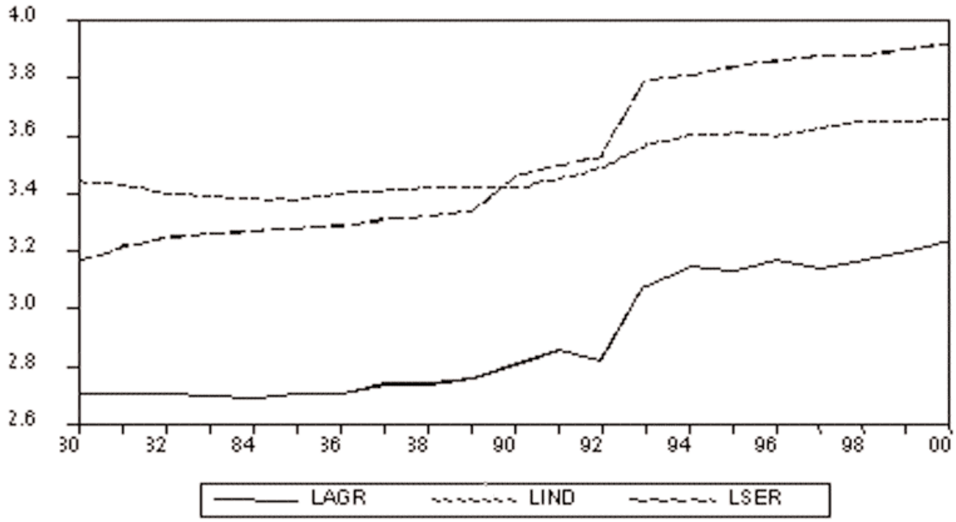
Dual sector models of growth suggest that once economies have reached the stage of an emerging economy by emphasizing the agricultural sector, the former sector becomes redundant and industrialization becomes the engine of growth. However, in the recent past, this theory has largely been refuted: rather, feed backs from productivity gains of the agricultural sector have been shown to affect the manufacturing sector in the form of cheaper imports, hence lower prices, which in turn leads to increased demand for agricultural products and then higher incomes for agricultural households. Thus, manufacturing (in particular, food processing) and agricultural sector actually evolve interdependently.

The study proceeds along the lines of Blunch and Verner (1999) by investigating possible interdependencies of the Namibian economy, in particular, interdependencies between the primary, secondary and tertiary sectors.

6.2.2.2 Econometric Analysis

To investigate the interdependencies among the three sectors, we quantify the economic size of the sectors by using its output (measured in millions of Namibian dollars). Applying the framework of co-integration allows testing for possible interdependencies. The variables included in the Vector Autoregression (VAR) analysis are the logarithms of agricultural GDP (LAGR), industrial GDP (LIND) and service sector GDP (LSER) of Namibia in 1995 constant prices of Namibian dollars, using the information provided in Appendix Table A3 and A4.

Figure 6.3: Plot of Logarithm of Sectors



Before estimating VAR and VEC models, an attempt was made to check the stationarity of the variables, since most macroeconomic variables are non-stationary (Figure seems to suggest that this may be the case). However, in doing so, it is important to note at the very beginning that the very small sample size of only 20 observations may cause a variety of estimation problems, in particular stability and consistency of the coefficient estimates.

Based on the Augmented Dicky-Fuller (ADF) test (results are presented in Table 5), all the three variables are integrated. In fact, agriculture is integrated of order 1 (i.e. I(1)), services or order 2 (i.e. I(2)) and industry of order 3 (i.e. is I(3)).

To select the lag length in the vector autoregression, following Blunch & Verner (1999), we assume that the size of each sector depends on the size of all other sectors, i.e.

(0.1) $y_j = f\,(y_a, y_i, y_s, y)$

where yj is the economic size of sector j, and y_a, y_i and y_s the economic size of agriculture, industry and services respectively; y denotes a dummy variable, we include an intercept term as well as four lags.

Table 6.5: Unit Root Tests

	Levels		First Difference		2nd Difference		3rd Difference	
Variable	**ADF test Statistic**	**5% Critical Value**	**ADF test Statistic**	**5% Critical Value**	**ADF test Statistic**	**5% Critical Value**	**ADF test Statistical**	**5% Critical Value**
LAGR	**0.0991**	**-3.0294**	**-3.09082**	**-3.04**				
LIND	**-2.95888**	**-3.6746**	**-3.6746**	**-3.692**	**-3.7337**	**-3.7347**	**-3.655081**	**-3.0659**
LSER	**-0.18647**	**-3.0294**	**-2.69135**	**-3.04**	**-5.76781**	**-3.0521**		

Note: LAGR = Logarithm of agricultural GDP
LIND = Logarithm of Industrial GDP
LSER = Logarithm of services GDP

Though the dummy variable y was significant for the years 1990 and above (even more so for the years 1992 and above), we dropped it from the VAR estimation due to the small sample size. However, we should note that this significance was to be expected: for one, Namibia became independent in 1990, and in addition, in 1992 it introduced its own currency, the Namibian dollar. Previously it had been using the South African Rand as legal tender.

Using the Akaike Information Criteria (AIC) and Schwarz Criteria (SC), a lag length of order 2 is selected, the estimation result of the VAR(1) model being:

(0.2) $$LAGR = \underset{(-3.95)}{3.169} \underset{(-3.84)}{-1.264}\, LAGR_{t-1} + \underset{(4.40)}{1.694}\, LIND_{t-1} + \underset{(6.06)}{1.089} LSER_{t-1}$$

(0.3) $$LIND = \underset{(0.48)}{0.196} \underset{(-2.78)}{-0.464}\, LAGR_{t-1} + \underset{(4.80)}{0.938}\, LIND_{t-1} + \underset{(4.29)}{0.390} LSER_{t-1}$$

(0.4) $$LSER = \underset{(-2.10)}{2.361} \underset{(-3.55)}{-1.637}\, LAGR_{t-1} + \underset{(2.44)}{1.316}\, LIND_{t-1} + \underset{(6,85)}{1.722} LSER_{t-1}$$

each with R^2 = 0.979, Adj. R^2 = 0.975. Surprisingly, all sectors respond negatively on agricultural output of the preceding year. It does not, a priori, seem quite clear why this is the case.

A test for the presence of co-integration among the three sectors was applied based on Johansen s methodology. This test reveals a rank of two, i.e., two co-integrating relationships, which are presented in 6. The somehow interesting result obtained from normalized co-integrating vectors is that an increase in the services sector size increases the other two sectors with a very high elasticity with respect to agriculture.

Table 6.6: Normalized cointegrating coefficients

LAGR	LIND	LSER	C
1.000000	0.000000	-0.783378 (0.01195)	-0.132712
0.000000	1.000000	-0.396887 (0.01711)	-2.090134

Lastly, with two error correction terms obtained from the two co-integrated equations, an Error Correction Model (ECM) with lag length consistent with that of the VAR was estimated. The estimated results presented in Table6.8 (with t-ratios in the parentheses) show that all the three sectors respond to agricultural output disequilibrium in a significant way (represented in column 6 Table6.8) in such a way that deviations of the agricultural sector from its long term equilibrium results in an opposite move, back to its long-term level. However, it is only the agricultural sector output that significantly changes in response to disequilibrium from long-run industrial output. In addition, industry and services do not respond significantly to disequilibrium in their own sectors.

This finding seems to confirm the results of Blunch & Verner (1999) for yet another African economy: the agriculture sector plays an ever-important role in development. Whilst, as identified, Namibia has great potential in further developing its services sector, it should not do so at the cost of neglecting agriculture as this would impact negatively on all efforts made. However, our results do not necessarily seem wholly intuitive for the reason that one would have expected (hoped for) industry and services to have significant cross-effects.

Once again, one should keep in mind that only a very limited number of observations (20 per series) were available for our analysis, thus, using the co-integration techniques above may have given clearer results had data for a longer time span been available. In fact, using a simple correlation analysis of the primary, secondary and tertiary sectors gives a more intuitive picture. The results show (see Error! Reference source not found.7) that services and industrial output of the same year are strongly correlated to each other, in a bi-directional way. Furthermore, services output growth is closely correlated with industrial output and services of the following year. On the other hand, whilst agriculture activity is positively linked to the same activity of the following year, it is negatively correlated to industrial activity and services.

Table 6.7: Correlation Matrix

	Agr_t	Ind_t	Ser_t	Agr_{t-1}	Ind_{t-1}	Ser_{t-1}
Agr_t	1.00					
Ind_t	-0.54	1.00				
Ser_t	-0.68	0.94	1.00			
Agr_{t-1}	0.60	-0.57	-0.64	1.00		
$Indr_{t-1}$	-0.57	0.94	0.94	-0.54	1.00	
Ser_{t-1}	-0.59	0.93	0.98	-0.71	0.93	1.00

Table 6.8: Sector responses with Error Correction Model

˘	C	˘$LAGR_{t-1}$	˘$LIND_{t-1}$	˘$LSER_{t-1}$	˘$ECMA_{t-1}$	˘$ECMI_{t-1}$	
˘LAGR	0.0281*	0.4404	-0.7780	-0.0774	-2.9668*	2.1124*	R^2=0.80
	(2.52)	(0.96)	(-1.08)	(-022)	(-4.17)	(3.42	Adj. R^2=0.72
˘LIND	0.0146*	.02148	-0.0248	-0.2008	-0.7257*	-0.1268	R^2=0.74
	(3.01)	(1.08)	(-0.08)	(-1.34)	(-2.36)	(-0.47)	Adj. R^2=0.72
˘LSER	0.0446*	0.3817	-0.5902	-0.2880	-2.2206*	1.4439	R^2=0.74
	(2.6)	(0.54)	(-0.53)	(-0.54)	(-2.03)	(1.52)	Adj. R^2=0.64

* significant

Figure 6.4: Three Sectors

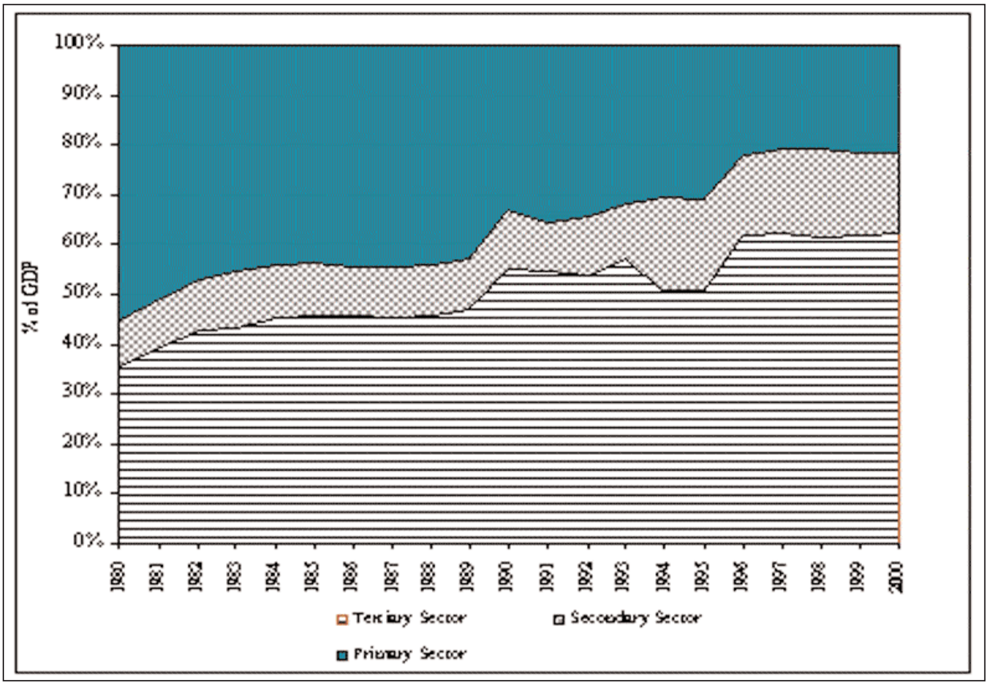
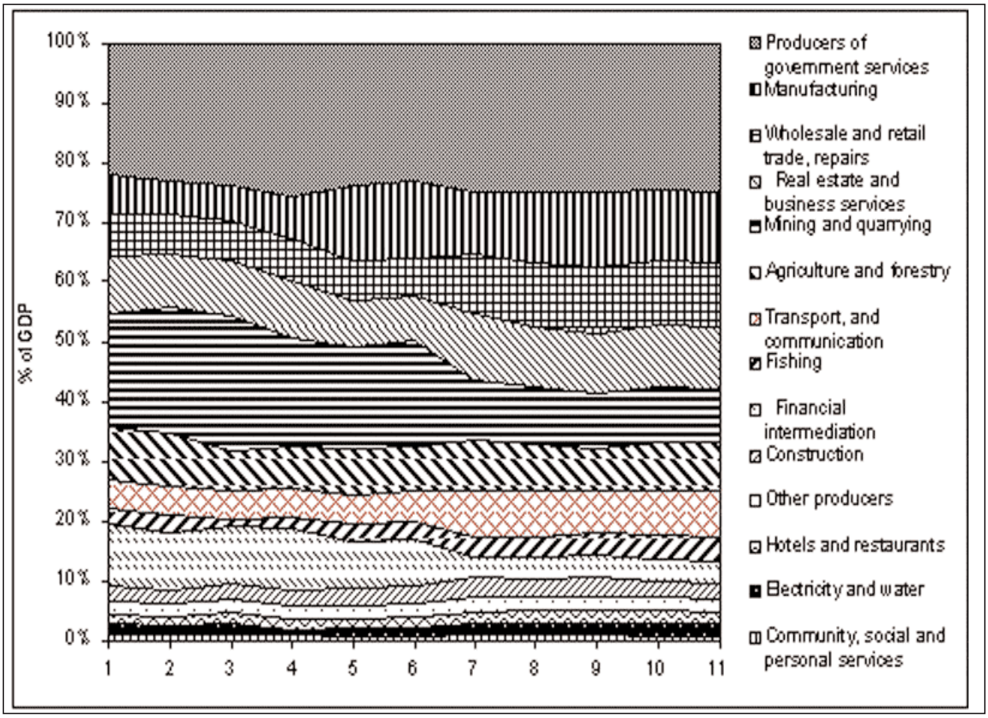


Figure 6.5: Sub-Sector Contribution to GDP



In the next sections we look at the service sector in detail, with the aim of highlighting some possible policy options that are needed to move the sector forward.

6.3 The Services Sector in Namibia

6.3.1 Structure of The Sector

In the absence of conceptual agreement on the precise definition of services as distinct from goods it is commonplace among researchers and policy makers all over the world to look at services and, hence the service sector, in terms of groups or classes of economic activities that are generally intangible, invisible and non-storable.

In Namibia we have three different institutional classifications of the service sector, namely, the Central Statistical Office, CSO classification (reflecting the ISIC perspective), the Bank of Namibia BON classification (reflecting the external trade perspective) and the Ministry of Labour and Human Resource Development, MLHRD classification (reflecting employment and incomes perspective). The Bank of Namibian classification has 13 service sub-sectors, as shown in Appendix Table A2.

This paper focuses on the first five sub-sectors on the BON list, which we have re-grouped into three sub-sectors, namely, 1) tourism (or travel); 2) (tele) communications, computer and information; and 3) financial services, including insurance. Together these three sub-sectors contribute about one-third of non-government services GDP. Our focus on these sub-sectors also stem from the fact that they are the most dynamic in terms of growth and linkages with other sectors of the economy, as they usually have the highest income-elasticity of demand, in any market economy.

6.3.1.1 Tourism

Tourism sector is the third largest foreign exchange earner, after mining and fisheries, and provides employment for thousands. Recent estimates put the contribution of the tourism sector at 6% of GDP, which is equal to the contribution of commercial agriculture (Bank of Namibia, 2001).

In terms of tourist accommodation Namibia has about 5000 guest rooms, which translates into 12,000 beds with an occupancy rate of 40%. Thus, capacity is currently under-utilized.

Namibia s tourism sector has a lot of untapped potential, which exists in its combination of low population and spectacular landscapes, peaceful social climate and developed infrastructure, which offers attractions for up-market, high-value, and low-volume niches (UNDP Human Development Report. Windhoek. July 1996.)

However, the realization of these potentials in the short-to-medium will depend on how well Namibia could introduce innovations in packaging and showcasing her tourist comparative advantages.

A major benefit of tourism development is that trade in tourism requires the consumer to be at the location of the producer. Hence facilities developed for tourist trade could be available for domestic utilization. For example, hotel facilities could be used for domestic conferences and workshops.

6.3.1.2 Financial services

The financial system in Namibia is relatively advanced by developing country standards, according to the Bank of Namibia (2001), with bank density at 20,000 people per bank. But the geographical distribution of banking services is highly skewed in favour of the urban centers in the southern and central parts of the country. The range of services is also low, as reflected in a high ratio of concentration of assets of over 60%.

Analysis of concrete evidence from both developing and developed countries has shown that providing the full range of financial services is always rewarded with economic growth (World Bank 2001). The role of financial sector in the growth and development process is not limited to simply mobilizing savings and allocating credit. Efficient banking systems enhance the scope of specialization in the economy by providing secure mechanisms for settling transactions, and financial institutions could be used to monitor the performance of firms. Thus, restrictive policies towards financial institutions thwart both financial and economic development.

It is observed that recent measures in Namibia to widen the scope of financial services provided by the financial institutions, such as the requirement that a minimum 35% of their investments must be local, have facilitated the emergence of new stock-broking firms and asset management companies. The profitability of the banking sector, as well as its capital adequacy has improved markedly, while the proportion of non-performing loans to total loans has been declining since 1999, implying an improvement in the quality of bank loans and assets.

Though broad money to GDP ratio, as an indicator of financial deepening in the economy, has been increasing, from about 30% in 1991 to 45% in 2000, access to credit is limited to the few large corporations. It is also worrying that the number of bank branches declined in 2001.

6.3.1.3 Information, Telecommunications and Transport

Information, telecommunication and transportation systems are critical to modern-day growth and development. They constitute the backbone of technological and financial sector advancement. Efficient information, communication and transportation systems do not only lead to higher growth but also to a more equitable distribution of the benefits of growth.

The country s transportation infrastructure provides easy access to all parts of the country: 4300 km of first-class roads, 34,000 km of unpaved roads, 2400 km of railway, newly improved airports, and the Trans Caprivi and Trans Kalahari highways. These provide massive opportunities for the development of other services and sectors.

The country has direct telecommunication links with its major trading partners, including Germany, USA, South Africa, Netherlands, and Sweden, which is good for external trade and finance. Telephone density at 5 per 100 people is high by African standards. Telecom Namibia has a customer base of about 100,000. However it has been difficult to achieve a higher subscriber rate, especially in the rural areas, due to capital constraints faced by the government monopoly.

Potential for handling freight services exists at the Walvis Bay (which has the shortest turn-around time for unloading and roll-on/roll-off operations in Africa) and Luderitz harbours. This potential is however linked to the development of highway infrastructure like the Trans-Caprivi Highway and, in particular, the removal of customs processing bottlenecks on the highways and ports.

6.3.1.4 Off-shore Financial Services- Prospects

In the medium-to-long term, some have suggested that Namibia could develop a strong offshore financial services (OFSs) sector, based on potential demand from the Southern African sub-region, in particular South Africa and crisis-ridden Zimbabwe. Namibia already possesses some of the basic pre-requisites for carrying out OFSs, namely political stability, relative macro-economic and currency stability, good infrastructure (communications, payments and transport system), an enjoyable quality of life (low crime, good hotels and restaurants) and an efficient and honest judiciary.

OFSs involve the provision of financial services to foreign users by a local operator, which in return earns foreign exchange. Typically, OFS is restricted to foreign residents, as individuals, corporations, partnerships or financial institutions. However, it could also involve services to the local economy, through captive insurance, mutual fund and banking enterprises.

The main users of OFSs are:

- High-income earners seeking to shield their assets from taxes, confiscation by governments or legal challenge, and

- Corporate entities based in developed countries seeking tax benefits, but also vehicles to protect assets from court judgments viewed as excessive (particularly in the US and Europe).

The benefits of OFSs to the local economy include foreign exchange earnings, revenues generated by fees and direct taxes on the operators, economic diversification and employment and skill promotion. The exact size of the benefit depends, however, on: the model of OFSs adopted, the more local resources are used the better; the volume and the effective tax rates. Higher levels of developmental impact could be achieved when the operating entities are financial institutions offering services to third parties, thereby increasing the scope and volume of operations. Impact is limited when the operating entities are simply shell or proprietary booking entities with no real authority to make investment and borrowing decisions.

Empirical evidence from studies on English-speaking Caribbean countries, however, indicates that the more promising long-run strategy for promoting the role of the financial sector in economic growth and development is not to merely provide OFSs but to upgrade the entire domestic financial system to achieve international competitiveness with respect to the intermediation of capital flows within, into, and out of the economy (Scott, 1996).

6.3.2 Regional Competitiveness Profile

How competitive and dynamic is Namibia s service sector, in comparison with her neighbours? Namibia shares borders with Angola, Botswana, South Africa and Zambia. As South Africa remains the giant of the region, one could consider Angola, Botswana and Zambia as the main sub-regional competitors with Namibia, Botswana being the principal competitor.

Competitive conditions in Namibia compare favourably with neighbouring countries, as shown in Table 10. In particular, the indicators of service sector dynamism show Namibia to be ahead of her neighbours (excluding South Africa), in many respects. Apart from the fact that the non-government service sector is larger in Namibia, this sector also makes the largest percentage contribution to GDP growth. Macro-economic indicators show how successful a country is in managing its own resources for better internal pricing, production and consumption as well as undertake beneficial external trade. Human capital indicators provide a way of evaluating the strength of the knowledge base- and hence productivity level- that exists, whilst the social indicators reflect the social environment in which production takes place. Infrastructure and utility costs are important components of the cost of doing business and, in particular, they reflect the extent to which the economy is internally integrated. In most of these respects, notably, macro-stability, health provision, and telephone density, Namibia appears to have a comparative advantage.

6.4 Prerequisites for service sector development

The policy options specified here are based on the choice of innovation-driven strategy as the main strategy of growth and development.

In general the preconditions for competitive advancement, as outlined by Porter (1990) include:

1. A system for creating quality factors of production, in contrast with quantities of the various factors, that provides the foundation for higher-order advantage. The core instrument for doing this is research and development- research based on the philosophy of awareness or need creation and problem-solution;

2. Vigorously competitive domestic market environment, to overcome the fear of failure, and inertia, and to stimulate further innovation, which is aided by business start-up and innovation packages from the fiscal authorities. Lack of competition in

the service industry usually leads to high costs not only in that particular industry but also in other sectors that depend on it[30]. The impetus to innovate, the skills to do so, and the signals that guide its direction must come from the private sector. Government intervention should aim at backing the private sector to achieve an innovation-driven growth.

3. An information system to spice up enterprise efforts at creating sophisticated demand and demanding consumers as a source of pressure- or demand-side stimulus- for continuous and additive innovation.

We now look at specific government of Namibia policies that attempt to satisfy the general pre-conditions listed above and, then, outline some additional factors for the government s consideration.

Table 6.10: Selected Indidators of Sub-regional Competitive Environment

	Namibia	Angola	Botswana	Zambia
Macro-Economy				
Inflation (%)	9.3	38.0	8.5	21.3
Botswana	1.3	13.4	1.4	13.9
DR Congo	45	na	20	na
Human Capital				
Physician/100,000	30	8	24	7
Tertiary students in science (% of enrolment)	4	na	27	na
Social Indicators				
Per capita GDP (1999 PPP$)	5468	3179	6872	756
Gini index	0.7	na	36	0.52
HIV/Aids (%adult)	19	3	36	20
Cost to Consumer				
3-minute local call (PPP US cents)	16	20	na	11
Infrastructure				
Telephone Density/1000	64	8	75	9
Internet hosts/1000	3.7	<0.1	2.7	0.2
Non-Govt Service Sector Dynamism				
Sector share of GDP (%)	42.4	13.0	20.4	19.4
Sector growth rate (%)	5.6	na	6.2	6.0
Sector growth rate as ratio of overall GDP growth rate	1.87	na	0.68	1.87
Contribution to GDP growth (%)	79.1	na	13.9	36.4

Figures relate to 2000, except otherwise stated.

Source: Compiled by author from various sources, inclding UNDP (2002) HDR and the World Bank Profiles

6.4.1 Current policy reforms and other initiatives

In respect of providing a favourable environment for innovation-driven growth, there has been little government action in Namibia. In tourism, for example, the main policy concerns have been the dangers posed to the environment, lack of service orientation of existing state agencies responsible for the sector, and the sector s apparent limited linkages with other sectors. Namibia Wildlife Resorts Company was incorporated in 1998 to take over and operate government-owned resorts in Namibia, and to improve tourism products. There is yet to be a concerted drive on the marketing side.

In financial services a number of measures has been taken in line with developments in other parts of the world. A major initiative towards enhancing the contribution of the financial sector to the growth of the economy is the implementation of the national payment systems reform project, under the collaboration of the Bank of Namibia and the Bankers Association of Namibia. The project seeks to enable the Namibian banks to exchange payments electronically, in real-time, amongst each other and between themselves and the Bank of Namibia. Under the project all commercial banks will be connected to the CRISP (acronym for Central Real-time Inter-bank Settlement Processor). Many advantages can be foreseen, notably improved management of risks and exposures, optimal use of available liquidity, which should improve efficiency in the utilization of financial resources and hence economic growth. However, financial services continue to be concentrated among a few large-scale industrial enterprises and the rural areas are largely neglected.

In telecommunications, several communities have been reached with services in the past six years. The analogue backup routes on service in the telecommunication sector have been partly replaced by a digital network. But lack of financial resources has left many parts of the vast country unconnected. The central government is the sole owner and operator of telecommunication services in the country. There are no immediate plans to privatise telecom Namibia.

In many developing countries reform of the telecom sector, in particular the introduction of competitive environment has led to substantial decreases in cost to consumers and increases in access and usage.

6.4.2 Additional Considerations for Service Sector Growth

6.4.2.1 Fostering Innovation

Innovation is a key factor for achieving and sustaining a cutting-edge in business in the 21st century. Innovations impact on economic growth through productivity gains as well as the creation of new activities and industries.

Innovations in ITC could help in the following dimensions:

- Outsourced production worldwide, especially in electronic data processing and high-tech exports
- Business-to-business e-commerce, networks of finance, business contacts and skill transfer
- Access to worldwide network of knowledge, which helps to overcome capacity limitations of universities and research centers.

The rate of innovation, however, depends on a number of preconditions, some of which, fortunately, can be influenced by deliberate public policy:

- The existing level of education: a minimum standard of education is required for knowledge to be generated or used. In this respect, science and technical-based education is particularly critical. Enterprise on-the-job training is also important. Namibia s current enrolment in science and technical courses is low.
- Access to information, and hence information dissemination infrastructure is also important. In many African countries statistical information is usually treated as sacred, reserved for top public officials. Innovation, which is an act to improve the way of doing things, cannot take place in the absence of information. While education develops cognitive skills, information gives content to knowledge. Tapping the potentials of the ITC technology explosion will itself require innovations in institutional and entrepreneurial structures, to create low-cost, easy to use devices and to set up access through public or market centers with affordable products.
- Expenditure on research: determination of domestic potentials and the contribution that worldwide technology could make towards the realization of those potentials require investment in scientific and market-driven

research by both public and private sector entities. The private sector, in particular large corporations and financial institutions must be encouraged and ready to finance research and development. The creation of technology innovation hubs may be necessary. The government could promote links between universities and research institutions and industry, and also provide fiscal incentives for private firms to conduct research and development. Other public financing schemes for technology innovation research include:

o Provision of matching funds

o Co-financing of technology research funds

o Co-financing of venture capital companies

In the context of innovation-driven growth process, comparative advantage is derivable mainly from knowledge management: that is, the management of the substance of experience and analytical resources developed through research, and information dissemination including access to and degree of utilization of global networks.

- Openness: the policy and cultural environment must be opened to new ideas, new products and new investments. These are among the basic ingredients for building a dynamic economy.

- Stability: a stable political and macroeconomic environment is a necessary condition for innovation in production technology.

- Vitality of small business: small businesses are usually the starting point of many innovative ideas. They need to be nurtured and linked with mainstream, large companies.

Box 6.1. Innovation Brings in More Dollars for kamagoo

In eastern Namibia, in the area around the town of Gobabis the country s poorest communities (the !Ho and Ju/ hoa) have been living They relied on wild plants for both food and medicine, especially the kamagoo, also known as the devil s claw. An extract of the plant is used to treat malaria and other illnesses.

For some time the demand from Europe and the US has increased steadily, where it was used by Western alternative medicine practitioners in the form of infusion sachets and capsules. But since the local people have no income they have been forced to sell at N$3/kilo to middlemen. It has been difficult to cultivate, harvest or store the plant.

The SA-DC, an NGO, launched a project to show that the cultivation and selling of kamagoo can be profitable. During the first stage of the project the Vergenoeg communities learnt to grow the plant sustainably, harvesting only the secondary tubers. Then they ignored the middlemen and dealt directly with the exporters and various European customers. Training and awareness courses were arranged, and then equipment was bought and storage sheds erected. The necessary steps were taken to allow the use of marketing labels such as organic agriculture , environmentally-friendly and fair trade .

In April 1999 as a result of quality improvements the kamagoo was selling at N$12/kilo and yielding export revenue amounting to N$6 million.

Source: ACP (1999). The Courier. October-November, no.177

6.4.2.2 Sector Focus

The best approach to fulfilling the intermediate objective of generating a dynamic growth of the service sector and ultimately the objective of improving income distribution and reducing poverty is to focus policy on sub-sectors with:

- The strongest linkages to other forms of economic activity, outside the service sector itself,
- The least investment cost per unit of labour,

A recent study of the Namibian economy has found that tourism, transportation and financial services have the highest potential to deliver Namibia s development goals in the medium-to-long-term (Hansohm and Mupotola-Sibongo, 1998). What remains to be done is to develop the regulatory and, in particular, growth-enhancing environmental factors for these sub-sectors to advance. We list below three of the most important factors, namely the legal environment, skills and infrastructure, and the macroeconomic environment.

6.4.2.3 Enhancing the Legal and regulatory environment

Regulatory and supervisory arrangements should help ensure constructive incentives for financial market participants, both service providers and their beneficiaries. By providing incentives for participation, fraudulent behaviour of management and bank supervisors could be controlled.

Namibia may be a small country to be able to develop growth-promoting financial services of its own. Currently, the main banks are largely foreign-owned. But it could benefit from accessing financial services, beyond correspondence relations, offered by foreign or foreign-owned firms further abroad, such as through e-finance. To do this will require innovations in information and communications technology. Credit information techniques need to be developed to cover not only large companies but also small-scale borrowers.

To carve a niche in the financial services market, and thereby enhance the financial sector s contribution to growth and development, there has to be close cooperation between private and public sectors in market design and promotion, confidentiality and discretion in client dealings, and the development of a workforce, including competence in legal, data processing and accounting support.

While there is consensus about the capital augmenting effects of improvements in financial sector efficiency, through its impact on the cost and hence efficiency of capital, in a world of free capital movements, the ensuing change in the relative price of domestic assets could lead to a portfolio reallocation abroad and home such that the titles of ownership of the domestic stock of capital could fall into foreign hands. This process could increase the economy s indebtedness with the rest of the world and undermine the prospect of increasing output and employment. (See for example, Viaene 1992.) Hence, policies to improve competition in the financial sector must include counter-measures that will help minimize the vulnerability of the domestic sector to external shocks.

In addition the full implications of tax and financial sector policies in competing countries as well as origins of participants in Namibian markets, tourism and financial, must be carefully examined and adverse consequences counteracted. For example, what measures need to be taken if US IRS and other agencies are permitted by US law to act aggressively to penetrate bank secrecy?

6.4.2.4 Infrastructure and human capital

Producing services tends to require relatively less natural capital and more human capital than producing agricultural and industrial goods. That is, progress in service production usually leads to the substitution of capital by skilled manpower, whilst in goods production usually there is substitution of labour in general by capital. Thus, service production tends to be skill intensive, and its progress depends on the availability of human capital.

Service production, such as in tourism and business finance, is also more depended on the level of sophistication of infrastructure, like transport and telecommunication. Thus, there tends to be inter-dependence between the sub-sectors in the service sector, as already shown in Figure 1. Air and road transportation is vital for expansion in tourism services, and also financial services. Particularly important for tourists is the turn-around time, which is dependent on the frequency of regular passenger flights to and from the country s airports. This means that any effort to secure growth in one sub-sector must have complementary support from developments in other sub-sectors.

The scope of Internet service links has to be widened beyond Telecom Namibia. To accomplish this, a regulatory framework has to be put in place. Currently all links for Internet services are leased from Telecom Namibia.

6.4.2.5 Re-designing Macroeconomic Policy Framework

Inflation rate, current account balance and the fiscal balance are major macroeconomic outcomes of critical importance to the growth and stability of the service sector, in particular financial services and tourism. Unfavourable macro shocks normally lead to the curtailment of private expenditures on services, given that the income-elasticity of demand for services are generally higher than that for goods. Hence, maintaining macro stability is a key condition for the growth of the service sector of any economy.

As a member of SACU, Namibia is subject to the constraints of the Common Monetary Area (CMA), which limits the country s ability to apply to the full its own fiscal and monetary policies. Inflation, exchange rate and interest rate outcomes in Namibia therefore follow policies particularly in South Africa, a tendency which is further re-inforced by Namibia s virtual dependence on South Africa for her imports and exports.

For a better management of the financial sector, the monetary authorities must have a sound understanding of the sources and nature of financial crises and design measures to minimize their likelihood. Banking supervision has to be strengthened to minimize the risk of over-lending, towards such assets as property and stocks. The Bank of Namibia must strengthen its monitoring activities of country financial risks (exposure) and of trends in asset quality.

In an investment-driven growth process fiscal incentives in the form of tax holidays for corporate businesses on account of their initial investments are key instruments. Building an innovation-driven growth process similarly requires fiscal incentives for innovation and skill development, supported by appropriate patent laws, government sponsorship of product and technology fairs, etc.

6.5 Conclusions and Recommendations

Namibia s agricultural sector is almost stagnant, and its performance highly subject to the vicissitudes of the weather. Continued reliance on mining has made the economy more vulnerable to the cyclical declines in international commodity prices. Though the manufacturing sector is expanding, its activities are confined to the processing of agricultural and mineral raw materials, thereby limiting its potential impact on poverty and unemployment. Thus, the service sector is the main avenue for generating higher growth in the economy today.

The Bank of Namibia (2001) has noted that further development of the financial sector is an important element in attracting investment into the country and thereby ensuring a higher growth rate of the economy. But the Bank also recognizes that lack of skills should be at the center of policy, in order to realize higher rates of investment and growth.

The effort to push the service sector into a leading position would generate greater pay off if that effort is driven by the philosophy of innovation: innovation in production processes and technology, innovation in marketing and packaging, innovation in policy design, and innovation in infrastructure development and provision. Innovation-driven strategy is the key to achieving higher levels of economic growth in Namibia. However, innovation is a function of the strength of the service sector, in particular the ability of the financial sector to design and implement savings and payments systems that would facilitate the exploitation of higher opportunities generated through efficient information, communication and transportation networks.

The essence of higher skills is innovativeness, the ability to develop new ways of doing things. An important complement to foreign investment and for that matters any investment is an innovative entrepreneurship and labour force.

Though the service sector appears to have the greatest potential for moving the Namibian economy forward, the results of the data analysis suggest that the agricultural sector should not be ignored in any development effort. Since about 70 percent of the population derives their livelihood from agriculture service sector development in the long run will also depend on improvements in agriculture. Fortunately, the agricultural and service sectors could be linked through 1) financial services designed to take care of smallholder farmers, 2) extension of telecom services to rural areas, that could indirectly link urban markets to the rural, and 3) tourism services could be developed around rural non-agricultural activity such as carving, and eco-tourism.

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APPENDIX

Table A.6.1 ACRONYMS

BON	Bank of Namibia
CAPAS	Coordinated African Programme of Assistance on Services
CBS	Central Bureau of Statistics
ITC&T	Information, Tele-Communication and Transport
OFSs	Offshore Financial Services
MLHRD	Ministry of Labour and Human Resource Development

Table A.2 Bank of Namibia Classification of Service Activities

Sub-sector	Definition
Transport	Services performed by residents for non-residents and vice-versa, including freight and passenger transportation by all modes of transport, and other distributive and auxiliary services.
Travel	Services acquired from the economy by non-resident travelers for business and personal purposes who stay in for less than a year, excluding international passenger services.
Communications	Transactions between residents and non-residents, comprising postal and telecommunications services (transmitting sound, images and other information by vaious modes, and the associated maintenance provided by (for) residents for (by) non-residents.
Insurance	The provision of insurance to non-residents by resident insurance enterprises and vice-versa, comprising those provided for freight insurance (on exported and imported goods), for other types of direct insurance (including life and non-life) and for re-insurance.
Financial	Intermediation services and auxiliary services conducted between residents and non-residents (other than those related to insurance enterprises and pension funds)
Computer & information	Resident/non-resident transactions related to hardware consultancy, soft ware implementation, information servicesf (data processing, database, news agency) and maintenace and repair of computers and related equipment.
Royalties and fees	Receipts and payments of residents and non-residents for the authorized use of intangible non-produced non-financial assets and proprietary rights such as trademarks, copyrights, patents, processes, techniques, designs, manufacturing rights, franchises, etc., and for use through licensing agreements of produced originals or prototypes, such as manuscripts films, etc.
Professional & technical	Includes research, surveys and the provision of instruction and technical know-how, architectural, engineering and similar services.
Administrative & Business	Includes management consulting, accounting, auditing, legal, advertising, public relations, operational leases and rental of tangible assets, and trade-related services such as trade commissions, merchanting and brokerage fees.
Construction	Covers work abroad (in the compiling economy) or in extraterritorial enclaves on construction and installation projects by resident (non-resident) enterprises and their personnel, on a temporary basis, that either is not undertaken by a foreign affiliate of a resident enterprises (direct investment) or by an unincorporated site office that is equivalent to a foreign affiliate if it meets certain criteria.
Other private	Includes all businesses not covered above.
Government	All services associated with government sectors or international and regional organizations not classified under other times, such as expenditures of embassies; compiled from the surveys and information provided by ministries in Namibia.

Source: CAPAS (2000)

Table A3 - Statistics on Namibia)

Industry	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Agriculture and forestry	814.2	841.1	761.8	680.0	614.9	663.9	667.3	828.4	840.1	872.0
Commercial				494.0	446.0	460.7	477.3	621.8	602.7	682.5
Subsistence				87.1	89.6	92.5	95.5	98.4	100.9	103.8
Fishing				98.9	79.3	110.6	94.5	108.2	136.6	85.7
Mining and quarring	3084.4	2736.8	2491.0	2444.5	2365.7	2288.8	2446.5	2390.2	2413.7	2259.4
Diamond mining				1163.7	1062.4	1041.3	1156.9	1178.4	1114.8	065.8
Other mining and quarrying				1280.8	1298.4	1247.5	1289.6	1211.7	1298.9	1193.6
Primary industries	*3898.6*	*3577.9*	*3236.6*	*3124.5*	*2980.6*	*2952.7*	*3113.8*	*3218.5*	*3253.8*	*3131.4*
Manufacturing	276.6	271.2	299.6	306.0	304.0	283.3	296.2	300.6	304.5	317.3
Meat processing										
Fish processing				73.4	55.3	90.1	72.5	102.3	118.0	71.0
Manufacture of other food products and beverages										
Other manufacturing										
Electricity and water										
Construction	247.7	294.7	259.5	211.0	187.0	188.0	157.2	162.5	166.0	155.7
Secondary industries	*653.1*	*702.1*	*702.1*	*739.8*	*700.6*	*729.5*	*686.9*	*728.0*	*759.3*	*720.7*
Wholesale and retail trade repairs	814.2	859.7	885.2	812.7	810.3	801.5	820.5	849.4	883.2	910.1
Hotels and restaurants										
Transport, and communications	375.5	344.2	322.1	346.6	379.9	380.9	401.5	409.8	408.3	450.9
Transport and storage										
Post and telecommunications										
Financial intermediation	377.0	363.8	370.6	380.9	389.9	395.6	405.4	419.1	424.0	430.8
Real estate and business services										
Owner-occupied dwellings										
Other real estate and business services										
Community, social and personal services	91.1	111.6	116.5	122.4	128.3	129.7	131.2	134.1	137.1	139.0
Producers of government services	679.5	896.4	1070.2	1125.1	1154.4	1183.3	1211.2	1242.6	1267.5	1299.4
Other producers	181.1	176.3	181.6	188.0	195.3	199.8	205.1	212.0	218.8	224.7
Tertiary industries	*2518.4*	*2752.0*	*2946.3*	*2975.7*	*3057.9*	*3090.7*	*3175.0*	*3267.0*	*3339.0*	*3455.0*
Less: Financial services indirectly measured										
All industries at basic prices	7070.1	7031.9	6885.0	6840.0	6739.1	6772.9	6975.6	7213.5	7352.1	7307.1
Taxes less subsidies on products										
GDP at market prices										

Source: Own Calculations from BoN Statistics

Table A4 - Statistics on Namibia)

Industry	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture and forestry	810.0	853.9	672.9	689.4	827.1	811.5	1005.0	926.0	909.0	1010.0	1114.0
Commercial	559.3	570.2	555.8	531.2	517.1	473.5	602.0	519.0	489.0	496.0	570.0
Subsistence	250.6	283.6	117.1	158.3	310.0	338.0	403.0	407.0	420.0	514.0	544.0
Fishing	140.0	156.7	290.0	417.1	445.5	475.1	482.0	465.0	567.0	559.0	634.0
Mining and quarring	1688.9	2017.8	2246.6	1757.2	1911.2	2010.9	1100.0	1145.0	1117.0	1210.0	1178.0
Diamond mining	862.8	1327.7	1627.3	1187.2	1316.2	1408.1	783.0	782.0	793.0		
Other mining and quarrying	826.8	690.0	619.3	569.9	596.6	601.2	317.0	363.0	324.0	908.0	844.0
Primary industries	*2638.9*	*3106.2*	*3209.5*	*2863.7*	*3183.8*	*3297.5*	*2588.0*	*2537.0*	*2593.0*	*303.0*	*334.0*
Manufacturing	580.8	513.2	603.4	687.4	1428.3	1470.4	1225.0	1445.0	1574.0	2779.0	2926.0
Meat processing	68.2	70.1	72.1	74.1	76.3	77.9	128.0	92.0	99.0	1515.0	1583.0
Fish processing	217.6	143.0	225.9	298.8	401.9	406.5	139.0	262.0	356.0	110.0	98.0
Manufacture of other food products and beverages							586.0	654.0	725.0	759.0	281.0
Other manufacturing	295.0	300.2	305.5	314.5	948.6	987.5	372.0	438.0	394.0	759.0	774.0
Electricity and water	163.7	148.8	207.0	97.0	129.3	160.4	238.0	214.0	223.0	364.0	427.0
Construction	220.9	185.5	253.3	267.3	334.9	344.2	416.0	367.0	423.0	268.0	232.0
Secondary industries	*965.4*	*847.51*	*063.7*	*1051.7*	*1892.5*	*1976.6*	*1879.0*	*2026.0*	*2220.0*	*364.0*	*345.0*
Wholesale and retail trade repairs	654.2	654.2	686.9	697.2	711.8	744.5	1179.0	1248.0	1336.0	2148.0	2160.0
Hotels and restaurants	122.0	133.5	150.5	140.8	176.0	199.4	200.0	254.0	285.0	1380.0	1447.0
Transport, and communications	439.1	465.9	483.0	492.7	556.1	613.7	894.0	962.0	862.0	2510.0	270.0
Transport and storage	255.5	262.3	267.3	274.5	327.1	370.7	655.0	673.0	533.0	977.0	1005.0
Post and telecommunications	183.6	203.6	215.7	218.2	227.4	243.0	239.0	289.0	329.0	631.0	644.0
Financial intermediation	921.5	947.7	976.2	1004.7	856.7	875.4	380.0	423.0	450.0	346.0	361.0
Real estate and business services	871.0	888.6	917.9	948.1	824.0	845.8	1285.0	1243.0	1272.0	461.0	487.0
Owner-occupied dwellings	593.0	607.8	623.1	638.6	506.2	518.7	628.0	644.0	660.0	1319.0	1338.0
Other real estate and business services	278.0	280.8	294.9	309.7	317.8	327.1	657.0	699.0	612.0	677.0	694.0
Community, social and personal services	102.8	104.5	105.9	105.9	101.2	105.9	120.0	122.0	122.0	642.0	645.0
Producers of government services	1988.0	2230.4	2379.6	2498.9	2613.7	2624.6	2876.0	2980.0	3059.0	122.0	122.0
Other producers	214.2	218.4	222.7	229.8	233.6	238.3	270.0	275.0	281.0	3159.0	3292.0
Tertiary industries	*4442.2*	*4754.5*	*5000.2*	*5169.9*	*5263.2*	*5398.8*	*7204.0*	*7507.0*	*7668.0*	*286.0*	*292.0*
Less: Financial services indirectly measured	248.4	260.9	245.6	300.2	314.6	328.7	125.0	137.0	144.0	7956.0	8254.0
All industries at basic prices	*8047.0*	*8630.4*	*9273.4*	*9085.4*	*10339.6*	*10672.9*	*11545.0*	*11932.0*	*12336.0*	*152.0*	*146.0*
Taxes less subsidies on products	1235.2	1262.5	1355.9	1338.6	1085.7	1176.0	1566.0	1733.0	1779.0	12731.0	13193.0
GDP at market prices	9281.8	9892.8	10629.3	10424.0	11425.2	11848.9	13111.0	13665.0	14114.0	1866.0	1881.0

Source: Own Calculations from BoN Statistics

7 THE SERVICES SECTOR OF NAMIBIA: A LEADING SECTOR FOR GROWTH AND DEVELOPMENT

Discussant s Paper

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7.1 Point of Departure

The services sector in Namibia already contributes a significant portion of GDP. In 2001, 53% of GDP was generated from services, with 21.2% of GDP from Government services and the remaining 32.8% from private sector and parastatal service provision. As such, the service industry in Namibia is already relatively well developed in terms of size and contribution to GDP.

The service sector differentiates itself from other sectors in the economy by some distinct features:

- strong emphasis on the human element
- fast changing internal and external environment (service profile and expectations)
- higher-order competitive advantages and sophistication

To provide a service is no mechanical process. It requires creativity, entrepreneurial skills, innovation, flexibility it is multi-facetted.

To make a cup of coffee is no complicated task but to sell that cup of coffee as a unique experience, a fashionable concept, in the form of long and short coffees at hundreds of Starbucks outlets throughout the United States requires a bit more than coffee, water and milk.

The service industry is converging towards an experience industry. It is no longer the consumption that counts but the experience around it. The retail, tourism and food sub-sectors show numerous examples of having integrated this experience in the sales of goods and services. It is no longer enough to sell that great pair of jeans; you have to be able to sell a unique image. It is no longer enough, to build a number of thatched chalets and a swimming pool to attract tourists, you have to offer an unforgettable African experience with lots of value added activities. To offer a juicy, tasty hamburger is no longer enough, the hamburger must come with a host of paraphernalia and kids clubs and franchising goodies.

Growth potential in the services sector may thus be found in:

- meeting the requirements of the experience industry , further adding value to the domestic services industry;
- export-driven expansion of the services sector.

Further, the services sector may be a catalyst for economic expansion in other sectors of the economy. This role of the services sector in the Namibian economy is the focus of Dr. Asea s paper.

7.2 Paper Contents

The paper departs the following information and insights to the reader:

- It motivates the need for diversification into services to accelerate economic growth in other sectors of the economy;
- It establishes the impact of growth in the services sector on agriculture and industry and the services sector itself
- It identifies specific growth potential in a number of services sub-sectors;
- It identifies policies and strategies to unlock this potential;
- It defines the preconditions for innovation-driven, services sector based economic growth (or competitive advancement)

It motivates the need for diversification into services to accelerate growth

The paper by Dr. Patrick Asea focuses on the need for Namibia to diversify its economic base and develop a stronger services sector. It provides convincing arguments that Namibia needs to transform its economic structure, from production technology to the provision of producer and consumer services, which enhances long-run growth in output (p.4). The transformation process should be innovation driven and focus on the services sector. Factor and investment driven growth are no longer sufficient for the required expansion and strengthening of the services sector. Innovation will need to be given a prominent place in the development of the services sector in Namibia. The services sector in turn is expected to accelerate and strengthen growth in other industries through the strong inter-relationships between the services sector (financial services, information technology, telecommunications, transport and tourism) and the rest of the economy.

It further sets out to assess the potential of the services sector to contribute to the NDP2 objectives, which are in fact the following seven and not the four mentioned on page 1 of the paper:

> It establishes the impact of growth in the services sector on agriculture and industry and the services sector itself

(1) revive and sustain economic growth

(2) create employment

(3) reduce inequalities in income distribution

(4) reduce poverty

(5) reduce regional development inequalities

(6) promote gender equality and equity

(7) promote economic empowerment

This assessment is made by means of an analysis of sector inter-dependencies. Figures on the Namibian economy are fed into an econometric model that is based on Vector Autoregression (VAR) analysis. Based on the findings, the following key statements are made, in that:

- the agricultural sector plays an ever-important role in development; and
- whilst Namibia has great potential in further developing its services sector, it should not do so at the cost of neglecting agriculture.

Tourism	▪ significant untapped potential: unspoiled nature, wide-open spaces, wildlife, spectacular landscapes, etc.
Finance	▪ scope for broadening and deepening of services profile
Information,	▪ significant scope for transport corridor based development
Telecommunication and Transport	▪ use of strong existing networks (information, telecommunication and transport) in introduction and further development of other services and sectors
Offshore Financial Services	▪ upgrade the entire domestic financial system to achieve international competitiveness as compared to focus on OFS

It identifies policies and strategies to unlock this potential

Tourism	▪ significant untapped potential: unspoiled nature, wide-open spaces, wildlife, spectacular landscapes, etc. ▪ innovations in packaging (p.19-20) ▪ showcasing of comparative advantages (p.19-20) ▪ introduction of tourism specific fiscal and other incentives (p.19-20) ▪ divestiture of state-owned enterprises: NWR (p.19-20) ▪ improve tourism products (p.19-20) ▪ improved linkages between tourism and other sectors of the economy (?); ▪ on-going sophistication of the transport and telecommunications industry (p.24) ▪ fiscal incentives for innovation and skills development (p.24) ▪ appropriate patent laws, government sponsorship of product and technology fairs (p.24) ▪ improved linkage between tourism and rural development, e.g. through development of linkages around rural non-agriculture activity such as carving and eco-tourism (see conclusion, p.25)

Finance	▪ providing the full range of financial services (p.20) ▪ improved geographical distribution of banking services (p.20) ▪ improved access to financial services offered by foreign or foreign-owned firms through e-finance (p.23) ▪ development of credit information techniques (p.23) ▪ cooperation between public and private sector in market design and promotion, confidentiality rules, development of a workforce (incl. legal, data processing and accounting) (p.23) ▪ introduction of counter-measures to help minimize the vulnerability of the domestic sector (in tandem with measures to open up the sector) (p.23) ▪ comparative assessment of the implications of tax and financial sector policies in competing countries (p.23) ▪ on-going sophistication of the transport and telecommunications industry (p.24) ▪ redesign of macro-economic policy framework with strengthening of bank supervision and monitoring of the country s exposure and trends in asset quality (p.24) ▪ fiscal incentives for innovation and skills development (p.24) ▪ appropriate patent laws, government sponsorship of product and technology fairs (p.24) ▪ introduction of financial services designed to take care of small holder farmers (see conclusion, p.25)
Information, **Telecommunication and Transport**	▪ divestiture of state-owned enterprises: Telecom and NAMPOST (p.20) ▪ introduction of competition ▪ widening of the scope of internet service links beyond Telecom Namibia (p.24) ▪ fiscal incentives for innovation and skills development (p.24) ▪ appropriate patent laws, government sponsorship of product and technology fairs (p.24) ▪ extension of telecom services to the rural areas (see conclusion, p.25)

	It defines the building blocks for innovation-driven, services sector based economic growth (or competitive advancement

Creation of quality factors of production c.q. fostering innovation— through R&D Further depending on: - minimum standard of education; in particular science and technical based education - access to information - expenditure on technology research; in particular private sector driven research to be supported by Government through provision of matching funds, co-financing of technology research funds and co-financing of venture capital companies - openness in public, policy, educational and cultural spheres - stability in political and macro-economic environment - vitality of small business
Introduce and maintain a high level of competition — with Government intervention only to back private sector initiative to achieve innovation-driven growth
Introduce and maintain an information system — with a focus on demand-side stimulation

7.3 The Missing Links

Apart from establishing the importance of the service sector in taking the high road in economic development, the paper offers a host of policy options and proposed interventions of benefit to both policy-makers and private sector leaders in Namibia.

As such, the missing links are not so much found in a lack of detail and information but rather in the lack of emphasis on the key constraints that face Namibia in getting onto the high road and following its course.

The missing links I would like to focus in my intervention today are:

- How will Namibia secure access to the human resources required to make the leap to a higher, innovation-based, service-driven economic growth path?
- How do we ensure an equitable distribution of the economic gains from this growth acceleration?
- Where will we be selling all these services — the need for an export-driven approach?
- Balancing the factors: no sector should be singled out in an economy with such diversity diversity in skills levels and critical need for job creation — instead the enabling environment in all these sectors should be enhanced to encourage private sector exploitation of opportunities.

Access to Skills

We need to ask ourselves, how do we create that required momentum, skills base, entrepreneurial confidence, innovation push, excitement and passion to graduate from a factor/investment driven growth path to a growth path driven by innovation?

We may all agree that innovation-driven growth is the way forward. We may all agree to the substantial multiplier effects of enhanced and broadened service delivery. We may all agree on the proposed measures to be taken to support the service sectors in this endeavour.

What we may not be able to agree upon is whether or not Namibia is ready to take that leap. How far the imagination stretches of our politicians, our policy-makers, our bureaucrats and technocrats, our directors of research institutions, our managers of universities, colleges and schools, our private sector leaders, our parents, our kids — is highly debatable. What inroads have the leading centres for innovation made to date? Where are those entrepreneurs? Where are those wizz-kids? Where are our innovators?

In the academic bubble where we are finding ourselves today, it is all too easy to go through the motions problem identification, hypothesis, testing and results, and formulation of policy options. But to put our finger on what really holds Namibia back in terms of innovative development — in the real world out there — is a much more challenging task, not in the least because it deals with intangible concepts such as passion and dreams, organic processes, psychology and attitude but also with the extent to which entrepreneurs are willing to take risks.

It is not for Namibia to decide rationally that it will move its economy to a higher order of sophistication, have the production factors put in place, and let the show begin. For Namibia to successfully transform its economic outlook, a much more rigorous process of change will need to be initiated that will affect not only the selected service sectors but all spheres of life and living.

It will need to start with confidence building — to make ourselves believe that we can do this! The showcasing of successful entrepreneurs is still not done aggressively and far-reaching enough. Some of the local newspapers make an effort in promoting innovation by showcasing, but their impact is limited. Every now and again there is a documentary on national television. And yes, there are numerous non-government and governmental programmes providing managerial, technical and business support to emerging enterprises. However, what is lacking is a national, coordinated effort to make Namibians — young and old and throughout Namibia — aware of the wide range of opportunities in the production of goods and services that are within their reach.

A case in point is the recent effort by the City of Windhoek to identify potential tenants for the SME Incubation Centre in Katutura. The applications do not tickle the imagination; in fact raising the question to what extent one can incubate yet another take-away shop, car repair workshop, car wash, bakery, welding and spray paint workshop?

The paper refers to the creation of quality factors of production as a pre-requisite for the success of the recommended transformation. I would propose to take that a step further and refer to this pre-condition as a killer assumption for Namibia. This may sound overly dramatic but reality dictates to place the lack of skills in Namibia singled-out on top of the list of conditions for the desired transformation. The Namibian Government and private sector may wish to act upon all the recommendations listed in the paper and summarised above, without skills development these efforts will prove futile.

If we are to get ourselves involved in the sophisticated and psychological game of creating higher-order competitive advantages, ready to face and challenge the rapid changing internal and external environment, our players will need to be equipped, at all levels and throughout the whole country. This would appear all the more important given that the services sector is evolving rapidly into a sector that sells a unique experience . We will need to opt for a change in mindset, change in approach, change in attitude and all become — in our own little or big way — ambassadors of change, contributing to the greater good of diversifying our economy and taking its growth path to the high road.

Distribution of Benefits

The high road we have been discussing should be made accessible to more Namibians. The lack of integration of economically active Namibians into mainstream service sectors is an issue of serious concern. Generally, the services sector is more sophisticated and advanced than the secondary and primary sectors of production. Those involved in the sector at present are likely to be the better educated, more exposed, higher paid, and more likely than not white Namibian or foreigner. Without a clear focus, the benefits of expansion and improved quality in services will accrue to those who already have an established position in the industry.

If tourism is to create the anticipated impact on the livelihoods of Namibians, they will need to be trained, exposed, challenged and integrated into the service package. The tourism industry in Namibia is still largely white-owned and largely driven by foreign-based tour operators. Community-based tourism, though expanding rapidly, is still at an infant stage of development. Joint venture partnerships are being established between the emerging tourism communities and private sector investors and operators, but their impact is yet negligible. The active and long-term involvement of communities and community members in tourism ventures will contribute to the building up of a skills base and not less important confidence and entrepreneurship. The joint responsibility in the empowerment of the communities involved will be a key challenge to the success of community-based tourism development. Empowerment is the sum of employment, training, exposure, responsibility sharing, joint planning and decision-making. All this is needed for tourism to make any significant impact on our national development goals as listed above.

If the financial sector is to catalyze economic development in Namibia, the skills of those working in the sector will need a drastic refocusing to embrace innovation. Technocratic concerns still control the financial sector. To assess a credit application on income generating potential as opposed to collateral availability requires a total paradigm shift towards creativity, innovative security measures, and passion. Furthermore, decision-making powers will need to be decentralized — hand in hand with training of bank personnel. Where financial services do not exist, the existing banks should join forces and establish mobile banking facilities that cover the entire range of services and not simply deposit and cash-outs. Especially, the area of smallholder farm credit is under-serviced at present and holds back on- and off-farm diversification. And finally, the provision of financial assistance should be integrated into a full service package. Given the number of defaulted loans in the Namibian financial system and the structure of the available SME loan facilities — from commercial banks, development finance institutions and to non-governmental schemes — there appears to be no systematic approach to back-up the loans with non-monetary support (financial, business and operational management and technical support). Only recently have training and mentoring measures been made available to the commercial bank clients that have been granted loans guaranteed by the Small Business Credit Guarantee Scheme.

For the transport and communications sectors similar concerns apply. Black economic empowerment also needs to be integrated in the development strategy for these sectors of the economy. Black ownership in the sector needs to be encouraged and both sectors should be opened up for competition, as the parastatal companies TransNamib and Telecom Namibia continue to artificially control the sectors.

Export Drive

Thirdly, whilst the paper acknowledges the ever increasing significance of trade in services in the global trading arena, for Namibia the paper places the emphasis on the role the services sector could play in unleashing growth potential in the other sectors of the economy. The export of services is not sufficiently scoped in the paper.

We need to address the following questions:

- What services industries with their main focus on exports could be fostered in Namibia?
- Could any data processing on a large scale be performed in Namibia?
- Is there a place for Namibia in the international movie industry?

- What export services in the financial sub-sector could be suitable for development in Namibia?

- Are we ready to take our telecommunications operational and management systems across our borders?

- What contribution may we expect from the development of transport and investment corridors in terms of increased service exports? These corridors have been given substantial private and public sector support in recent years under the leadership of the Walvis Bay Corridor Group, the Spatial Development Initiative and various Government ministries.

- What further impacts will we see from the upgrading of the Walvis Bay deep-sea harbour?

An investigation into the export potential for services could assist in profiling Namibia in the direction of:

- increased foreign exchange earnings from the export of services; and

- diversification of these earnings.

Balanced Economic Development

The recognition of the importance of concurrent sectoral development, especially in a country like Namibia with such high variance in skills levels. While the contribution of the services sector to accelerated growth may need to be given prominence by both Government and private sector, there are risks associated with selective single-sector development.

It requires little effort to argue that the creation of a job for an unskilled or under-educated Namibian in a factory is a much more likely event than for this person to be employed in a sophisticated, export-driven service company. We need jobs in Namibia in order to achieve our national development goals and given the quality of our labour, we can at this junction not be particular whether these jobs are created in the right or preferred sector.

In Namibia with an economically active population of some 500,000 people, a historic strong reliance on agriculture and mining, an emerging - still rather vulnerable - manufacturing sector and a limited skills base, the potential for economic growth is found in the strength of existing economic activity in combination with innovation and diversification. Where competitive and comparative advantages exist or can still be found, production should continue and where possible innovation and diversification should be introduced through existing production structures.

A multi-sector approach should be advocated and emerging manufacturing operations such as the Scorpion mine, Ramatex and related textile industries, the new meat processing facilities in Mariental and Witvlei given the credit they deserve.

Furthermore, Government may wish to level the playing field between the manufacturing and services sector by introducing fiscal and other incentives (especially for training) that match those offered to manufacturing companies. The service sector has in that respect been largely neglected over the past decade. The private sector may then be inspired to take certain risks and create business opportunities in areas previously neglected.

Namibia will need to strive for a balanced combination of mining, agriculture, manufacturing, and services and all these should be driven by quality of production factors, investments, exports and innovation. Innovation is required in all sectors of the economy for them to make a significant contribution towards the NDP2 objectives.

Finally, building on the policy and private sector interventions included in Dr. Asea s paper, I would like to add the following recommended actions in the key sub-sector of the service industry:

Tourism	▪ Involvement of local communities ▪ local sourcing requirements ▪ opening-up of alternative tourism routes ▪ cross-border cooperation and packaging ▪ black economic empowerment
Finance	▪ take a final, firm decision on the establishment of the proposed Development Bank of Namibia and either implement the proposal without any further delay or shelf the proposal and focus development/capacity building efforts on existing infrastructures (DFN and NDC) ▪ introduction of financial incentives (based on performance indicators) for the commercial banks re. small business financing ▪ introduction of mobile banking facilities and incentives for increased cooperation between the commercial banks in servicing the more remote areas of the country ▪ Government and private sector to become more pro-active in backing private sector applications to regional and international funding/ development houses, e.g. IDC, DBSA, EDF, etc.
Information, Telecommunication and Transport	▪ more proactive involvement of the Namibia Communications Commission in fostering coordination and cooperation between the various players in the industry — competition does not exclude coordination and cooperation in specific areas ▪ opening up of the mobile telecommunications network for a second/third operator ▪ export-driven growth

7.4 CONCLUSION

In conclusion, I will highlight the key considerations for the services sector in Namibia, i.e. from my perspective.

In order (1) to meet the requirements of the experience industry , further adding value to the domestic services industry, (2) to diversify our market focus towards the export of service and (3) to have the services industry play a catalyst role in the expansion of other sectors of the economy — we need:

- maximum focus on skills development, exposure, confidence building and black economic empowerment;
- a national campaign on innovation — private and public sector driven;
- a balanced combination of mining, agriculture, manufacturing, and services and all these should be driven by quality of production factors, investments, export and innovation driven expansion;
- to take a organic approach to the desired diversification;
- to let existing strengths in production serve as a point of departure.

Together with the information and insights provided by Dr. Asea, I hope that the above outlined considerations have given you sufficient tools and stimulation for a lively discussion around the subject of the role and potential impact of the service sector in economic development and acceleration in Namibia.

8 Financing Growth in Namibia: Policies and Strategies

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8.1 Introduction

There is abundant evidence that countries that achieved high rates of economic (GDP) growth also experienced corresponding high rates of saving and investment. While raising saving is not a sufficient condition for achieving sustained growth, it does appear to be a necessary condition for higher sustained growth. Studies on savings (Rodrik, 1998) indicate that saving rates averaged above 30 percent in high growth performing countries (South Korea, Taiwan, Province of China, Singapore, Hong Kong, Mauritius and Chile) in the last two decades. In contrast, the poor growth performance in Sub-Saharan Africa (SSA) during the period is mirrored by dismal performance in saving and investment. Sacks and Warner (1997) also point out that the variation in national saving rates across countries is potentially important sources of variation in growth rates.

The Namibian authorities quest to bolster growth as part of the strategy to reduce the high and rising levels of poverty and unemployment raises a question: are the level of saving (or saving rate) and saving instruments adequate to generate the high rates of investment and growth. The saving rate in Namibia has been sluggish and volatile, reflecting poor performance in domestic saving, which, in turn, is mirrored by the lackluster performance in investment and growth during the last two decades. Owing to a number of adverse external shocks, including unfavorable external terms of trade, private investment in mining declined significantly in the early 1980s. Agriculture was also severely constrained by the prolonged drought. With growth in the two key sectors of the economy severely constrained, financial imbalances emerged, which in turn affected both public saving and private saving. In recent years, however, the focus has shifted to reversing the flow of Namibian private savings (insurance and pensions) invested in South Africa. There is a perception that since the majority of insurance companies and pension funds in Namibia were mostly branches of South African companies, their investments were likely to have a strong home bias.

The policy debate in reviving investment and growth in Namibia has thus focused on efforts to raise national saving and measures that ensure a high transition rate of domestic saving into domestic investment. Against this background, the paper assesses the adequacy of policies to increase the saving rate and policy implications for the future. The assessment reveals that since the mid-1990s there has been notable progress in reversing the economic and financial imbalances that characterized the economy in the 1980s through mid-1990s. However, growth remained volatile and low to trigger a transition to high and sustained saving rate. Policies to diversify the economy through the creation of export processing zones (EPZ) have had limited success. As a result, the economy continues to rely on primary sectors, which remain highly susceptible to external shocks. Efforts to stem the flow of private domestic saving from flowing to South Africa since 1995 have not yet resulted in the high transition of domestic saving into domestic investment. However, preliminary data indicate some successes, including the emergence of fund management companies, and increased activity in the domestic money and capital market. Savings continue to outstrip the rate of investment, suggesting that either the lack of investment opportunities or reluctance of private investors to invest in Namibia.

The rest of the paper is organized into three sections. Section two presents a brief overview of theoretical underpinnings on saving, investment and growth, and also highlights experiences with saving transitions for high-growth performing developing countries. Section three discusses saving, investment and growth performance in Namibia during 1980-2000. Section four examines whether government policies and strategies have been adequate to engender a conducive environment to promote high saving rates and investment needed for higher economic growth; and what policy implications can be drawn from the past experiences to guide future policies. Positive policy steps to address the problems are discussed. The last section provides the summary, conclusions and policy recommendations.

Stylized facts on saving and selected country experiences

Theoretical underpinnings

Accumulation of physical capital is the proximate source of growth. Although, the short-run relationship between investment and growth is weak at best, in the long run the investment rate is found to be the most robust correlate of growth (Rodrik, 1998). As an accounting necessity, investment has to be financed by saving, from either domestic or foreign sources. He argues that in practice, there have been few cases of high-investment countries, perhaps none at all, where foreign saving has accounted for 20 percent or more of investment over long periods of time. Moreover, large inflows of foreign capital raise concerns about balance of payments sustainability for the recipient country. Therefore, domestic saving plays a critical role in economic growth, and Rodrik posits that differences in saving performance could explain differences in growth outcomes, especially between thriving economies and stagnant ones.

The preceding discussion raises interesting questions. First, is the high saving rate sufficient and necessary for investment and growth? Second, will saving transitions likely result in higher growth? The empirical literature attempting to answer these questions[31], can be conveniently divided into three strands. The first strand focusing on cross-national determinants of saving (Loayza, Schmit-Hebbel, and Serven 1998) has emphasized the roles of demographic factors, fiscal policy, financial depth, and economic growth itself.

The second has examined causality between saving and growth (Carrol and Weil 1993) and the results indicate that growth drives savings. These models emphasize slow changing consumption habits or that consumers value both consumption and wealth. In this context, some analysts point out that once obstacles to growth are removed, the response to saving could be nearly automatic (Gavin, Hausmann and Talvi 1996). However, the empirical evidence of causation from growth to saving is not conclusive. Moreover, as Elbadawi and Mwega point out, direct policies for promoting private saving remain critical, especially in SSA, for at least two reasons: (a) international evidence and experiences of the high-growth performing Asian countries (HPACs) suggest that sustaining high rates of growth requires substantial levels of physical capital accumulation; and (b) the binding constraint in accessing international capital markets for most developing countries suggests domestic saving is important for aggregate investment.

The third strand covers analytical studies that examined countries that had undergone transitions to high saving (Japan, Korea, Taiwan and Chile) to uncover the determinants of saving and growth transitions in specific settings. The results from the case studies tend to reinforce the findings from the cross-national

[31] The saving transition, which can be broadly defined as a sustained increase in the saving rate by more than 5 percentage points of national income per annum, has played a key role in economic development

regressions, emphasizing the importance of demographic variables, as well as peculiar conditions, such as investment subsidies (Korea and Taiwan) or pension system reform (Chile).

Saving transitions

Rodrik analyzes saving transitions during 1960-94 for a broad group of developing countries and concludes that countries that have registered successful growth records have indeed gone through saving transitions. Thus, saving transitions are associated with noticeable spurts both in investment and growth rates, with the correlation with the former being particularly strong. However, the average saving transitions do not produce lasting increases in growth, even when the rise in saving is permanent, which suggests either hesterisis or that growth drives saving. The results show that in countries that undergo growth transitions saving patterns continue to improve even after the growth has slowed. Granger causality tests confirm that, in the short-run, growth proceeds saving.

Box 1 summarizes the experiences of selected countries (South Korea, Singapore, Taiwan Province of China, Chile and Mauritius). Common themes emerge from these experiences, notably, the emphasis on export-oriented growth strategy, with increased private sector activity. Active state participation in commerce appears to have largely served as a catalyst for private sector activity. In the case of South Korea and Taiwan, Province of China, in addition to a targeted set of incentives for foreign investment, state owned enterprises (SOEs) played a key development role. They either entered new upstream industries or basic industries, producing key inputs for private producers downstream. Far-reaching macroeconomic and structural reform (Chile and Mauritius) also played a role in reversing financial imbalances, which boosted external competitiveness, and thus helped to attract investment. In the case of Mauritius, the export processing zones (EPZ) were instrumental in transforming the structure of the economy by reducing the heavy reliance on sugar production. In some other cases like in Singapore, where tax incentives targeted foreign investors, the new labor legislation that strengthened management bargaining power over issues of pay, benefits and other working conditions, marked a turning point.

The policies summarized in Box 1 were followed in other developing countries, but the results were starkly different, often with disastrous consequences. In many developing countries, the majority of SOEs were characterized by poor management, inefficiency, unsustainable high debts (domestic and foreign), and low profitability. However, in the case of HPACs, the success is attributed to special circumstances, including low levels of corruption, more competence as a result of high levels of educational attainment of the labor force, and consistency and commitment in the application of investment incentives. In addition, different saving instruments also played a key role, including the pension reform in Chile and the operation of the Central Provident Fund in Singapore.

Box 8.1 Saving Performance in Selected High-Growth Performing Developing Countries

Korea, Republic

Saving rates	**Policies**	**Special circumstances**
The saving rate rose steadily from 10 percent in 1960 toabout 35 percent in the late1980s. Saving transition started in 1984 and was proceeded by the investment transition in 1965. The high saving rate was largely a product of high growth, led by the investment boom in theearly 1960s.	Explicit government commitment to increase private sector growth by: (a) removing obstacles to investment; (b) providing credit to large business groups at subsidized rates of interest;(c)influencing entrepreneurs to enter new manufacturing branches;(d) creating SOEs in basic industries to produce key inputs for private producers downstream.	There was greater consistency, predictability and coherence in the application of investment incentives,bureaucratic corruption was kept to a minimum and more competence, including high levels of educational attainment of the labor force.
Taiwan, Province of China		
Saving transition started in 1970, preceded by growth,which in turn was led by the investment boom in the 1960s. The saving rateincreased gradually, overtaking the investment rate in the 1980s.	The 19-Point Reform Program (PRP) initiated in 1960 entailed a wide range of subsidies for investment. Under the Statute for Encouragement of Investmentthe (in 1960), tax incentives were expanded and targeted to specific manufacturing sectors, which were also exempted from import duty on plant and equipment. SOEs were created to enter new upstream industries. Some were later sold to the private sector.	

Box 8.1 Saving Performance in Selected High-Growth Performing Developing Countries (Cont)

Singapore

Saving rates	Policies	Special circumstances
Saving transition occured in 1971, proceeded by growth, which in turn was led by the investment boom in the 1960s. The saving rate increased gradually, overtaking the investment rate in the 1980s.	The Pioneer Industries Ordinance introduced in 1959 provided significant tax holidays to foreign invesors. In 1967 a wide range of tax incentives were rationalized and expanded. However, these policies failed to attract much foreign investment, until after 1968, when the government began to expand its own financial participation in manufacturing and other sectors. The new labor legislation in 1968 strengthened managemen bargaining power over issues of pay, benefits and other working conditions.	The central provident fund (CPF) - created in 1955 as a compulsory, individualized social foreign investment, security account played a crucial role in mobilizing saving. Contributions (from both employer and employee), which increased from 5 per cent in 1968 to 25 per cent in 1984, constitute 20 per cent of domestic saving. The CPF partly contributed to the attainment of an investment rate of 50 per cent by early 1980s. The assets of the CPF are invested in government securities.

Mauritius

Mauritius experienced two spurts of saving transitions (1971 and 1984). The first saving transition driven by an improvement in ther terms of temporary, and could not be sustained after the collapse in sugar prices in 1976. However, it set a stage for a significant jump in investment which turned out to be more durable than the saving boom. The investment rate rose from 1960s to 30 percent a decate later. An improvement in public saving amounting to 6 percent contributed to the second saving transition in 1984.	The government launched the export processing zone (EPZ) in 1970. Companies under the EPZ were granted tariff-free access to imports of machinery and inputs, free repatriation of profits, a ten year tax holiday (for foreign investors), and an implicit guwantee of wage moderation. The EPZ enabled the savings to be channeled into productive, export oriented investments, in turn setting the stage for an export boon in garments. However, in the early 1980s as the country was hit by a series of adverse shocks, the saving rate fell even further. The authorities resorted the expansionary financial policies. In the early 1980s the country followed a structural adjustment program that produced a return to high growth rates since 1985.	Economic liberalization and a number of structural reforms undertaken during the early 1980s helped to improve the trade was competitiveness of the Maurtitian economy, and as a result attracted major foreign investment intargeted manufacturing sectors. Access to the European markets as its major exports destination was an important factor in attracting foreign investment Financial sector reforms also helped to maintain the high saving rate by enhancing the operation of the sector. the central bank introduced savings bonds for non-financial institutions and the Housing Corporation introduced saving bonds to enable individuals to save for a down payment for a house purchase.

Box 8.1 Saving Performance in Selected High-Growth Performing Developing Countries

Chile

Saving rates	Policies	Special circumstances
The saving transition in 1985 was associated with a turnaround in real income growth from -1.4 percent per annum to about 8 percent. But the strength of the structural reform probably contributed significantly to the sustainability of the high saving rate.	Tight fiscal policy helped increase public sector saving. In particular, the Copper Stabilization Fund designed to avoid Dutch-disease type crises ensured that the windfall revenue from the copper boom in the late 1980s was not wasted. The success in reducing the private debt burden boosted private saving. The tax system reform in 1984significantly lowered both income and corporate tax rates, including corporations to retain earnings.	The social security was privatized in 1980. The new system is based on a defined contribution plan with a mandatory contribution equal to 10 percent of wages. Workers have individual retirement accounts managed by private pension funds that are subject to government regulation and oversight. Pension funds now account for 25 percent of private saving.

Saving, investment and growth Performance in Namibia

Structure and performance of domestic saving

The formal financial sector in Namibia is fairly diversified, and comprises: (a) the central bank Bank of Namibia established in 1990; (b) five commercial banks; (c) five nonbank financial institutions (SWABOU, Post Office Savings Bank, Agricultural Bank, National Housing Enterprise, and a Foreign Exchange Bureau); (d) 20 insurance companies (9 short-term and 11 long-term), one re-insurance company (NamRe), established in 2001; 478 pension/retirement funds the Government Insurance and Provident Fund accounts for 75 percent of the assets; (e) 19 asset management companies; (f) 9 unit trust management companies) and (g) the Namibian Stock Exchange (NSX).

The robustness and diversity of the Namibian financial sector has made it possible to mobilize savings from a large number of clients, largely in urban areas. Among the financial instruments available for savers, commercial bank deposits remain the most popular. Between 1993 and 2000, total savings and time deposits held at commercial banks and other institutions, including the Post Office Savings Bank and the Building Society grew in real terms by 44 percent and 46 percent, respectively. However, there remains a greater potential to mobilize even more resources once the financial services expand into the rural areas, which have been hitherto remained largely untapped. The Post Office Savings Bank, which has a wider geographical outreach than most of the financial institutions in Namibia, has a greater potential in mobilizing savings from the rural areas, if it can adapt its savings instruments to that market. Partly, as a result of the high concentration of pension funds and insurance companies, contractual savings have risen substantially in recent years. Namibia operates an institutionalized pay-as-you-go social security system. Total assets of insurance companies, pension funds, unit trusts and fund management companies were estimated at above US$5 billion at end-2001. Holdings of stocks have also been significant.

The ratio of broad money to GDP a standard measure of financial depth has risen steadily from about 5 percent in 1980 to above 40 percent at end-2000 (Figure 1). This suggests that interest-bearing asset holdings grew faster than non-interest bearing financial asset holdings.

Namibia participates in the Common Monetary Area[32]. Under this arrangement Namibia introduced a national currency (Namibia dollar) in 1992, which is fixed on a one-for-one basis with the South African rand; the latter also has legal tender status in Namibia. In view of the monetary arrangements, the scope for independent monetary policy in Namibia is limited. Thus, financial policies in Namibia have followed closely those in South Africa. Like in South Africa, the financial and economic environment was characterized by political and economic uncertainty during the 1980s through mid-1990s, and as a result a number of foreign companies disinvested from the two countries, while increased emigration of professional and high-income citizens exacerbated capital outflow[33]. The authorities implemented exchange controls together with a dual exchange rate (financial rand and the commercial rate) in an effort to stem the outflow of capital. Expansionary monetary policy and the sharp depreciation of the domestic currency contributed to high inflation during the period (Figure 1a). As shown in Figure 1 (bottom panel), interest rates in the early 1980s were negative, in real terms, which penalized especially small account holders at commercial banks. These factors partly contributed to the dissaving witnessed during the period. The 1990s witnessed a

32 Other members include Lesotho, South Africa and Swaziland

33 Major industiral countries, including the United States of America imposed trade and financial sanctions against South Africa in 1986, which were lifted after 1994.

significant change in the political environment in the region, culminating with Namibian independence in 1990, and a majority rule in South Africa in 1994. From the mid-1990s, monetary policy was sufficiently tightened, contributing to lower inflation, even as the exchange rate continued to be volatile, owing in part to internal and external factors.

Determinants of saving

Section two indicated that sustained growth was a major component in achieving high and sustained rates of saving. According to Sacks and Warner, the national saving rate is not a policy variable, but is rather a reflection of policy variables, tastes, market institutions, and other factors. It is heavily influenced by government saving an important policy variable and other factors, including the nature of public retirement system[34] , as well as demographic variables. Empirical studies (Elbadawi and Mwega, 1998) show how a number of these factors influence saving performance: (a) public saving are found to exert a strong positive effect on aggregate saving[35] ; (b) improvements in the external terms of trade have a positive impact on private saving; (c) aid inflows from abroad appear to increase national saving; (d) urbanization has a significant and positive effect on private saving; (e) the high dependency ratio (population aged under 15 and above 64) is expected to have a negative impact on saving; (f) the availability of domestic credit is expected to have a negative impact on saving; (g) negative real interest rates on deposits in the banking system are found to have a negative and statistically significant impact on saving. In the following sections, we will highlight how the developments in these key factors explain saving performance in Namibia during 1980-2000. The lack of data precludes detailed regression analysis.

Saving, investment and growth performance

Namibia s average saving rate of 20 percent during 1980-2000 is one of the highest among Sub-Saharan Africa countries, whose average is 14 percent. The high and stable national saving rate has been maintained by foreign saving inflows, as domestic saving has declined substantially in the last two decades. The high domestic saving rate, inspired by the high growth performance of the late 1970s

34 For example, pay-as-you-go systems tend to produce lower private savings than mandatory individualized systems as in Malaysia and Singapore.

35 Sacks and Warner find that higher rates of central government saving are associated with faster growth because as long as private saving does not decline one-for-one with public saving, an increase in the latter will raise the national saving rate and thus promote capital accumulation.

came to an abrupt halt in the early 1980s, partly as a result of external adverse shocks. As a result, the domestic saving rate collapsed from about 30 percent in 1980 to 1 percent in 1984. Between 1985 to 1995, domestic saving was characterized by high volatility, rising to about 19 percent by 1990 and thereafter falling to an average of 10 percent through 1995. It has since recovered and increased substantially in the last two years, spurred by a robust growth in both private saving and public saving.

The poor performance in the domestic saving rate can be attributed to a number of factors, including the adverse external terms of trade, slow real GDP growth, and increased fiscal imbalances, leading to public sector dissaving. Figure 2a (upper panel) shows that the poor domestic saving performance during 1980-94 was largely an outcome of the low and volatile economic growth. The deterioration in the external terms of trade during 1980-2000 amounted to a cumulative —36 percent, contributing to a substantial decline in the mining and the agricultural sectors (Figure 3)[36]. Moreover, the increase in the intensity and frequency of droughts during the period (1981-84; 1991-92; and 1997) also contributed significantly to the worsening of terms of trade against the agricultural sector, which remains a major source of income and employment for the majority of the population.

As economic conditions worsened, fiscal imbalances emerged, leading to increased public sector dissaving from 1980 through 1992. The government fiscal balance deteriorated, with the deficit, excluding grants, reaching about 13 percent of GDP during 1982-1989. Including grants, the deficit only amounted to 1.5 percent of GDP, reflecting sizeable budgetary transfers from South Africa before independence. In the post-independence period, substantial fiscal retrenchment took place, as the deficit, excluding grants was brought down to an average of 4 percent of GDP during 1990-2000, but has since risen to above 5 percent (Figure 4) in the last two years. The poor saving performance of the government sector during the early 1980s was attributable in part to increased expenditure on consumption financed by domestic borrowing[37]. As fiscal consolidation deepened, public sector saving rose gradually and contributed to a steady recovery in domestic

36 This largely reflected the slump in diamond prices, owing the prolonged recession in industrial countries in the early part of that decade. Problems in the diamond mining sector were also experienced in the 1990s, but this time the problem originated from the oversupply of diamonds sold to the market outside Central Selling Organisatiion. In addition, uranium suffered some setback from the early 1990s.

37 There is no evidence of crowding out of the private sector credit, which also witnessed robust growth during the period.

saving witnessed since 1995, which contributed significantly to a recovery in national saving and public sector capital formation.

The investment rate (measured by the ratio of gross domestic investment to gross domestic disposable income) exhibited a declining trend in the early 1980s, as it fell from a peak of about 30 percent in 1980 to 8.2 percent in 1986 (Figure 5). It recovered gradually the following year and has remained above 20 percent since 1994, significantly above the average for Sub-Saharan Africa at 17 percent. However, the saving investment balance has been persistently negative, suggesting a lack of investment opportunities (Figure 6). A number of structural problems hinder investments. In the financial policy front, the absence of institutions that provide long-term capital, suggests that investors either have to generate substantial savings or have to borrow at excessively high interest rates to undertake long-term investment projects. Actually, lending rates have been high in real terms, as shown in Figure 7. Moreover, the spread between the deposit rate and lending rate has remained persistently high, suggesting either that the high costs of intermediation or some disadvantages in lending to the private sector. In many developing countries, the insufficient legal protection of lenders is often attributed to be the cause of such a wide spread. However, in the case of Namibia, the legal impediments do not seem to be a significant factor, instead, the wide spread could be explained by lack of competition of the banking system.

Empirical evidence and the growth experiences of the high-growth performing countries reviewed in Section two indicated that saving transitions for most countries followed high growth itself triggered by high levels of investment. Although Namibia s national saving and investment rates are higher than comparable countries in Sub-Saharan Africa, its real GDP growth during 1980-2000 of about 1.6 percent was one percentage point below the average for Sub-Saharan Africa (Figure 8). The growth rate in the HPACs averaged 7 percent during 1980-94, sustained by high rates of saving and investment of 37 percent and 35 percent respectively (Figure 9). The erratic and low real GDP growth in the past two decades in Namibia appears to have contributed substantially to the poor growth performance in domestic saving. Thus, in order to boost domestic saving, attention should be given to removing factors that have inhibited economic growth and investment in Namibia.

Other factors that had a depressing effect on private saving, include negative real deposit rates that have prevailed in the early 1980s through mid-1990s (Figure 1).

Namibia s per capita income of US$ 2000 is among the highest in Sub-Saharan Africa, however, it also has one of the most skewed income distribution, with the Gini coefficient estimated 0.7. In addition, growth in per capita income has been sluggish and volatile, which had an adverse impact on private saving. Unemployment, together with the dependency ratio (population of people aged under 15 and above 65) had risen significantly throughout the two decades[38]. All these factors have a negative impact on private saving.

Policies to stimulate saving, investment and growth in Namibia

Policy initiatives in need of refocus

This section discusses selected policies and strategies, mainly aimed at boosting savings, investment and growth, highlighting the impact of selected policy initiatives towards these goals. The discussion will be limited to the following: (a) the strategy to turn several government units into full-fledged SOEs to increase efficiency and public sector saving; (b) Regulation 28 of 1995 requiring nonfinancial institutions to invest a minimum of 35 percent of funds they raise in Namibia in domestic assets; (c) the tax incentives under the EPZ regime to promote diversification of the economy and thus reduce the vulnerability of the economy to shocks; and (d) wage issues.

At independence in 1990, high unemployment, sluggish growth, high-income inequality, high levels of poverty and significant financial imbalances characterized the economy. To begin reversing the economic weaknesses, the government initiated a number of policy measures and structural reforms, some similar to those used by the HPACs, including provision of tax and nontax incentives via the EPZ regime. The Mining, Labor, Foreign Investment, and Financial Institutions Acts were reviewed and modernized as part of the overall strategy to promote private sector activity. The government established a one-stop service center to facilitate foreign investment. Within this broad strategy, the government, in an effort to enhance the operational efficiency of public services, created state owned enterprises from units of the civil service that had large commercial activity. Since 1990, 17 new SOEs were created.

Unlike the HPACs, the outcomes of the policies outlined above were starkly different for Namibia. Regarding the SOEs, the efficiency gains expected from commercializing certain government units remained illusive. A comprehensive

[38] Per capita growth is reduced when the growth of the dependent population outstrips that of the total population.

public expenditure review (PER) conducted by the World Bank in 1995, noted that the parastatal sector is probably unique in Africa in not instituting an obvious drain on the public purse . However, the situation was quickly reversed, as by the end of the 1990s budgetary transfers to a number of SOEs became necessary to maintain their operations. In the 2001/02 budget, transfers to Air Namibia and TransNamib amounted to about 2.2 percent of the GDP, thus contributing to the erosion of public saving and investment. Thus, the continued underperformance by the majority of the SOEs is a cause for concern and could contribute to unsustainable fiscal deficits[39]. Government needs to take resolute steps to address the issue of financially distressed SOEs for the following reasons: (a) government does not get the due return on its investment, as the entities cannot pay dividends; (b) with cumulative financial losses, they do not pay taxes; (c) the opportunity cost of budgetary transfers to SOEs is high such resources could be used to augment allocations to poverty-reducing expenditure and HIV/AIDS; (d) budget transfers may not be only limited to supporting the distressed SOEs operating costs, but also to meet their international financial obligations (debt service); (e) the distressed SOEs are not likely to contribute to employment generation; and (f) as their operations are characterized by high-costs and low productivity, the marginal value-added in overall GDP is minimal, or negative.

In an effort to stem the outflow of Namibian private savings to increase domestic investment, in 1995 the government introduced Regulation 28 (domestic asset requirement), which requires insurance companies and pension funds to invest a minimum of 35 percent of their total assets in qualifying domestic assets. The lack of data precludes detailed analysis of the economic and financial impacts of this policy. In accordance with the policy, insurance and pension net assets invested in South Africa declined from an average of N$1.7 billion during 1995-96 to an average of N$1.2 billion a year since 1997. Regulation should thus help to increase liquidity in the Namibian money and capital markets. As indicated in Table 1, the premiums retained in Namibia were not channelled into government securities, as the holdings of government securities by the nonbank financial institutions remained relatively low, and only started to rise in 2000. This would suggest the funds found alternative investment elsewhere, although this is not evident in the NSX indicators, especially for local companies. Local market capitalization in the NSX remained virtually unchanged between 1996 and 2000,

39 In particular, (a) a non-sustainable deficit is inflationary and can lead to excessive debt, crippling growth; (b) the size of the deficit reflects on the government s macroeconomic management skills, and hence fuels investor s perception of risk and affects their willingness to invest; and (c) large deficits mean lower public savings and force the government to borrow which can lead to crowding out of private investment.

at about N$2.2 billion, compared with the market capitalization for dual-listed companies, which grew more than four-folds to reach N$335 billion in 2000. However, as more than half of the companies listed in the NSX are dual-listed in the Johannesburg Stock Exchange, there is a possibility that the funds eventually end in South Africa.

The need to manage the funds retained in Namibia is credited with the increase in the number of related-services, including fund management companies (Volan 1999). By 2002, there were 19 fund management companies operating in Namibia (12 of which started operations after 1995); more than half of the unit trust management companies started after 1995, while the number of stock brokers has expanded to six. Notwithstanding the achievements so far, Regulation 28 is likely to be distortionary, and could thwart efforts to mobilize savings, if those savings are directed into suboptimal projects that result in lower returns for policyholders. In practice, the authorities have not rigorously enforced Regulation 28, which has thus minimized the potential negative consequences of such a policy.

Table 8.1: Namibia: Holdings of Government Securities, 1992-2001

	Commercial Banks	All banking institutions	Non-bank Fin. institutions	Public Enterprises	Private Sector
1992	75.2	76.2	18.9	0.0	4.9
1993	43.4	45.8	30.1	7.5	16.6
1994	65.1	68.6	16.9	4.6	9.9
1995	51.9	53.3	21.5	1.2	24.0
1996	62.1	66.9	4.8	2.7	25.6
1997	55.3	64.4	6.9	2.1	26.7
1998	54.6	61.0	5.3	2.8	30.8
1999	55.0	58.0	2.8	3.7	35.5
2000	59.3	60.1	15.2	4.5	20.2
2001	56.6	60.2	32.6	0.7	6.6

Source: Bank of Namibia

In order to increase Namibia's attractiveness to foreign investors, the government introduced the EPZ regime in 1995, entailing a number of tax incentives (Box 2). The main objective was to promote export-oriented manufacturing, create employment and thereby boost growth. However, as shown in Figure 10, the expected expansion in manufacturing is yet to materialize, as the structure of the economy remained relatively unchanged. In fact, the manufacturing sector declined slightly in the post-EPZ regime, partly due to adverse oceanic conditions that caused fish stocks to decline. Thus, as a strategy to promote growth and diversification of the economy, as well as to create employment and therefore raise incomes, the EPZ regime has not performed according to expectations.

Box 8.2: Namibia: The Export Processing Zone Regime

Parliament enacted the Export Processing Zone Act in 1995. As a far-reaching incentive for manufacturers, the EPZ regime was aimed to serve as a tax haven for export-oriented manufacturing enterprises, in exchange for technology transfer, capital inflow, skills development and job creation. To be eligible for EPZ status, and thus qualify for the package of tax and nontax incentives under the regime, enterprises should undertake manufacturing, assembly, re-packaging, and break-bulk operation and gear all almost all of their production for export, earn foreign exchange and employ Namibians.

The package of incentives includes the following: (a) exemption from corporate tax, import tax, sales tax, stamp and transfer duties on goods and services required for EPZ activities; (b) the benefits are of unlimited duration, and there is no geographical restriction in the location of enterprises; (c) EPZ companies are entitled to a training grant to cover a substantial part of the direct costs of on-the-job and institutional training; (d) EPZ companies can hold foreign currency accounts and can freely repatriate capital and profits; (e) legally enforced no-strike clauses; and (f) EPZ companies could also rent factory facilities at concessional rates from the Offshore Development Company, which monitors and regulate the EPZ regime, among other things.

The results of the EPZ regime have so far been disappointing. Against the target of 25, 000 jobs envisaged, only 2, 000 jobs were created. Investment inflows have also fallen short of expectations. Available data reveal that 23 companies have set up operations under the EPZ regime, with total investment estimated at US$240 million.

At issue, is whether the benefits outweigh the costs in terms of (a) forgone tax revenue (corporate tax and taxes on imports), (b) training subsidies (reimbursement for training were estimated at US$6 million during 2001/02-2002/03), (c) government transfers to cover operational costs of EPZ-related support institutions (such as the Offshore Development Corporation, and the EPZ Company), and (d) infrastructural development, including factory shells leased to EPZ companies.

The failure to attract investment, even under such lopsided tax and nontax incentives needs a fair assessment in order to identify the underlying structural issues that undermine the best of efforts by the authorities. One area that has received attention in recent studies (Motinga and Mohammed, 2002) concerns the role of trade unions on wages and job creation/destruction. Namibian wages are considered among the highest in SSA, reflecting in part the high premiums for the limited skilled labor. Also, wage setting in the mining sector may reflect high premiums associated with high risks of accidents, high skill levels, and a high degree of unionization. Moreover, wages in certain sectors (e.g. mining, the financial sector and to the great extent, the government) have been historically linked to South Africa s levels. However, educational attainment in Namibia is substantially lower than in South Africa, as well as in other countries in the subregion. Thus, the high wages in Namibia, which are generally not justified by high productivity, could act as a disincentive to investors. The militant posture adopted by trade unions in labor issues, including wage negotiations, creates a perception of labor instability. Thus, for Namibia with unemployment of almost 40 per cent, a pro-business labor legislation, like in Singapore at its early stage of industrialization, is necessary to increase the attractiveness of the country as an investment destination in all areas, including outside the EPZ regime.

The success of the EPZ regime in Mauritius suggests that tax and nontax incentives, although are a necessary condition, are not sufficient to stimulate investment. Complimentary reforms are also needed. Mauritius undertook significant structural reform, supported by multilateral financial institutions and donors during the 1980, which helped consolidate macroeconomic stability. The country targeted certain industries, including the garments, for which specific investors and markets for the goods were clearly identified. Further, the export-oriented growth strategy benefited from the high domestic saving rates spurred by a favorable terms of trade (sugar boom of the 1970s).

Policy initiatives in need of consolidation

Notwithstanding the policy weaknesses highlighted above, significant progress has been achieved in a number of areas, including macroeconomic stability, political stability, governance, and efforts to address poverty.

There are many positive developments that have reversed economic and financial imbalances during 1980-through 1994. For example, the fiscal consolidation has seen the budget deficits remaining below 5 percent of GDP for most of the last seven years. Moreover, the increased public sector saving during the period contributed to the recovery in domestic saving. In this regard, the recent policy initiative on the Policy Frameworks on State Owned Enterprises constitute a positive step in the right direction. Under the initiative, the revenue leakages through transfers to financially distressed SOEs will finally be addressed, either through liquidation or divestiture to raise funds to strengthen those that are retained.

The failure to attract significant investment under the EPZ regime can be attributed to a number of factors outside Namibian policy-makers influence: (a) economic liberalization under the structural adjustment programs in the l980s and 1990s has removed significant disadvantages in many developing countries, making the incentives under the EPZ regime redundant; and (b) despite opening up their markets, many developing countries continue to experience difficulties in accessing developed country markets. In the context of many inherent disadvantages that characterize the Namibian economy, the EPZ regime offers the second-best solution and only modest achievements could be expected. However, a review of all the initiatives, including the Special Industrialization Program, Trade and Investment Development Program, Credit Guarantee Scheme, with a view to consolidating, refocusing, and better targeting is urgently needed. Moreover, there is a need for better targeting (both products and markets) and consistency in the application of incentives, as well as complimentary efforts by the rest of the government sector. For example, has the education system implemented changes in order to contribute to the attainment of the EPZ strategy?

Development of human capital has received the highest priority in terms of budgetary allocations since independence. Total allocations to health and education in the 2000/01 budget amounted to about 40 percent of total expenditure and net lending. This ranks among the highest in Sub-Saharan Africa, where during 1995-2000 spending on the two sectors averaged about 20 percent against Namibia s 34 percent. Ranis and Stewart (2002) point out that human development should occur prior or simultaneously with improvements in economic growth, as policies that emphasize economic growth alone are futile in sustaining high levels of human development.

Conclusions and Policy Implications

The purpose of the paper was to assess the adequacy of saving rates in Namibia and to draw future policy implications to increase the saving rate. While raising the saving rate is not a sufficient condition for achieving sustained growth, it does appear to be a necessary condition for higher sustained growth. Evidence abounds that the high growth performing countries in the last two decades also enjoyed sustained and high levels of saving. In contrast, the poor growth performance in SSA, including Namibia was mirrored by dismal performance in saving and investment.

The key findings include the following. The saving rate in Namibia has been sluggish and volatile, reflecting poor performance in domestic saving, which, in turn, reflects the lackluster performance in investment and growth during the last two decades. Owing to a number of adverse external shocks, including unfavorable external terms of trade, private investment in mining in the early 1980s significantly declined. Growth in agriculture was also severely constrained by the drought. With growth in the two key sectors (which accounted for 40 percent of GDP at the time) severely constrained, financial imbalances emerged. From the mid-1990s, significant progress has been achieved in reversing the economic and financial imbalances. Fiscal retrenchment has contributed significantly to improvement in government saving and capital formation, which have boosted private sector saving. Continued fiscal policy prudence thus remains key to further macroeconomic stability and sustained economic growth, which should lead to sustained high domestic saving and investment.

Efforts to curtail the outflow of Namibian contractual saving to South Africa, and thus channel them into domestic investment have had mixed results. Preliminary data indicate some success in some areas, including the emergence of fund management companies, as well as increased activity in the domestic money and capital markets. Although the insurance companies and pension funds operating in Namibia are largely foreign owed and thus likely to reflect a strong home bias in their investment, measures to channel these savings into suboptimal domestic investment may be counter-productive. There are advantages of risk pooling when the savings are invested in a large and deep financial market.

Regarding the type of saving instruments, a number of options could be explored, along the lines followed by the high-growth performing countries. These include the social security reform and the introduction of savings bonds, especially targeted at different segments of the market. Moreover, given the geographical outreach of the Post Office Savings Bank, this institution is well placed to effectively mobilize saving, especially in the rural areas. Microfinance institutions (MFIs) remain underdeveloped in Namibia and if linkages with the formal financial sector are sufficiently strengthened, MFIs can become an important source of domestic saving.

Notwithstanding notable progress in reversing the economic and financial imbalances that characterized the economy during 1980-94, growth has been low to trigger a transition to high and sustained saving rate. Moreover, policies to diversify the economy through the creation of export processing zones have not performed according to expectations. Consequently, growth continues to rely on the performance of the primary sectors (mining, fishing and agriculture), which remain highly susceptible to external shocks.

Moreover, Namibia is one of the few SSA countries, which is characterized by a negative investment-saving balance, suggesting the lack of investment opportunities (or rather reluctance to invest). This is especially true in the latter part of the last decade, when the domestic saving rate started to pick up in response to improvement in public sector saving. There is a need to address the factors that hinder investment. In the absence of financial institutions that provide long-term capital, the Stock Market should have been an ideal place for companies to raise relatively capital for long-term investment projects. Only a few local companies have benefited from the establishment of the Stock Exchange; currently there are 14 local companies listed in the NSX, compared with 15 in 2000.

From the mid-1990s, Namibia s key macroeconomic and financial indicators high degree of openness, modest current account deficit, single digit inflation, and smaller fiscal budget deficits have been favorable to growth. The combination of these factors, together with a less corrupt bureaucracy (Transparency International has consistently ranked Namibia as one of the least corrupt countries in Africa, second to Botswana), should boost private sector activity. In this connection, the Namibian authorities need to act resolutely to remove the remaining impediments to growth. Investor-friendly legislation could actually mark a turning point in attracting investment, as experiences in Singaporean have shown.

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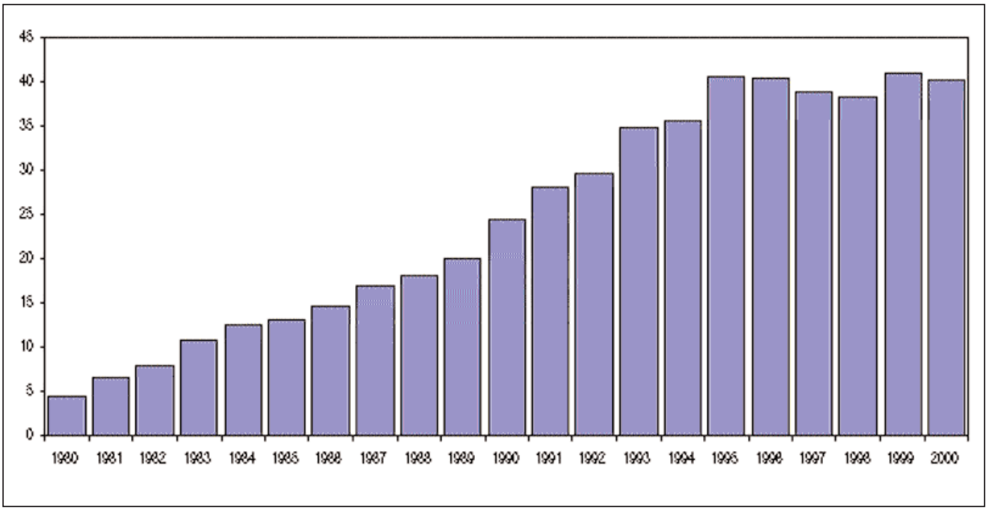
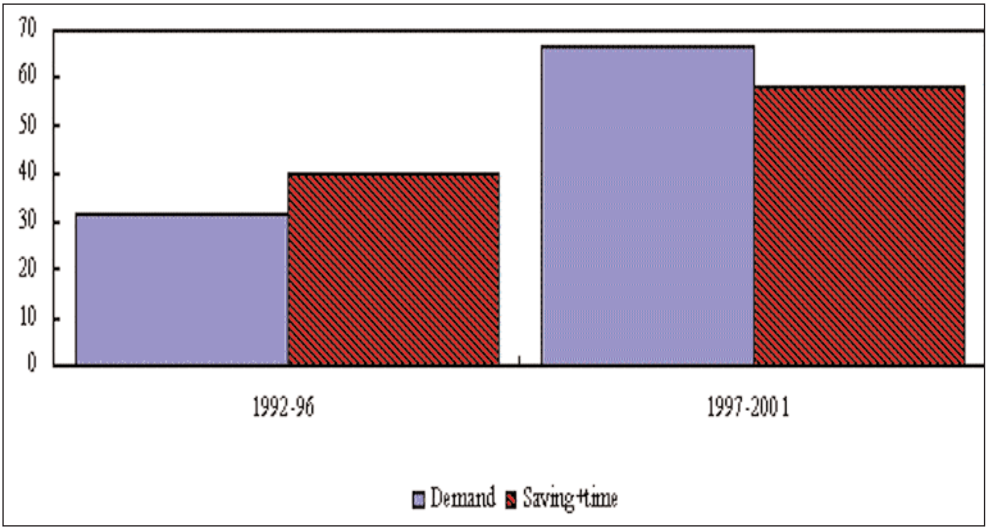
Appendix A1

Figure 1. Namibia: Financial Indicators, 1980-2000e
Financial Deepening (Broad money in percent of GDP)

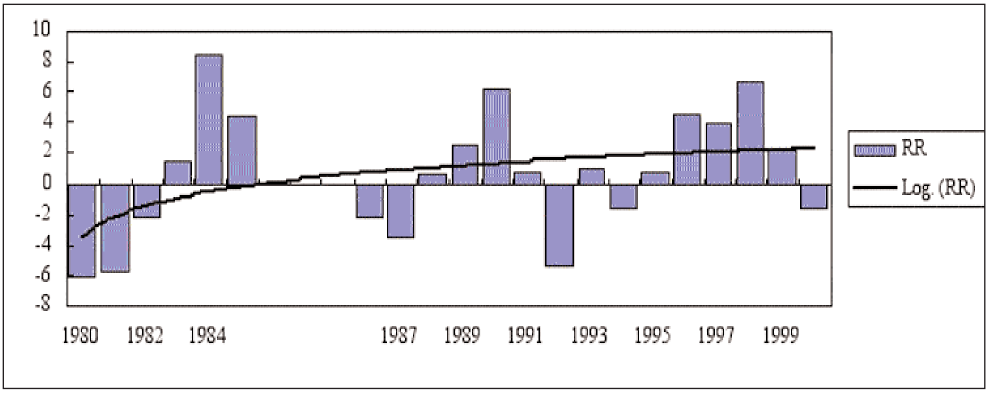


Namibia: Financial Indicators, 1980-2000e

Demand deposits and savings +Time deposits, 1992-2001 (in % of total deposits)



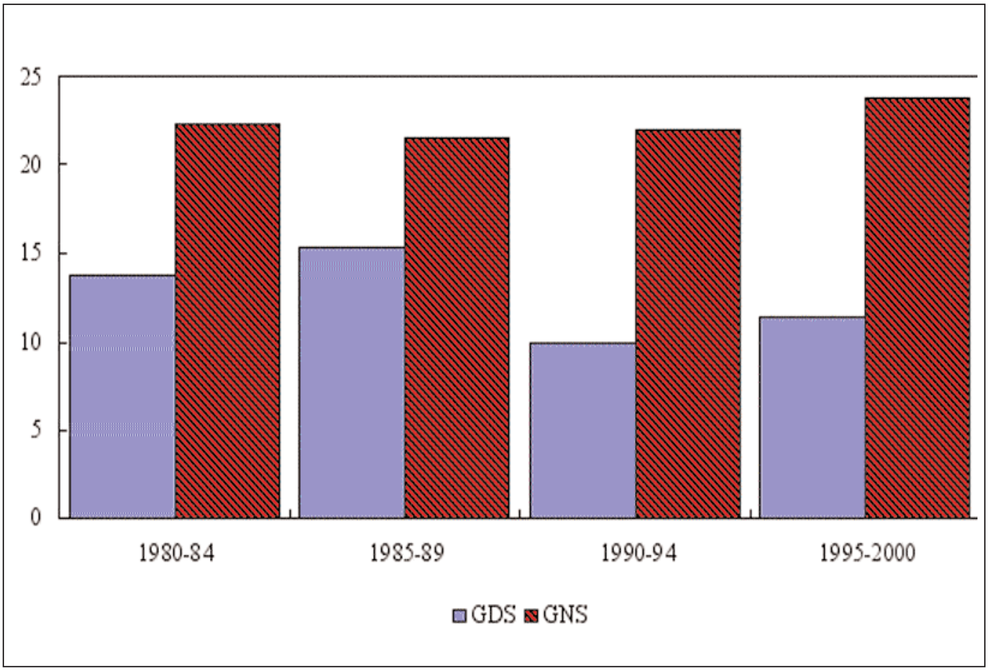
Namibia: Financial Indicators, 1980-2000e
Real Deposit Rate



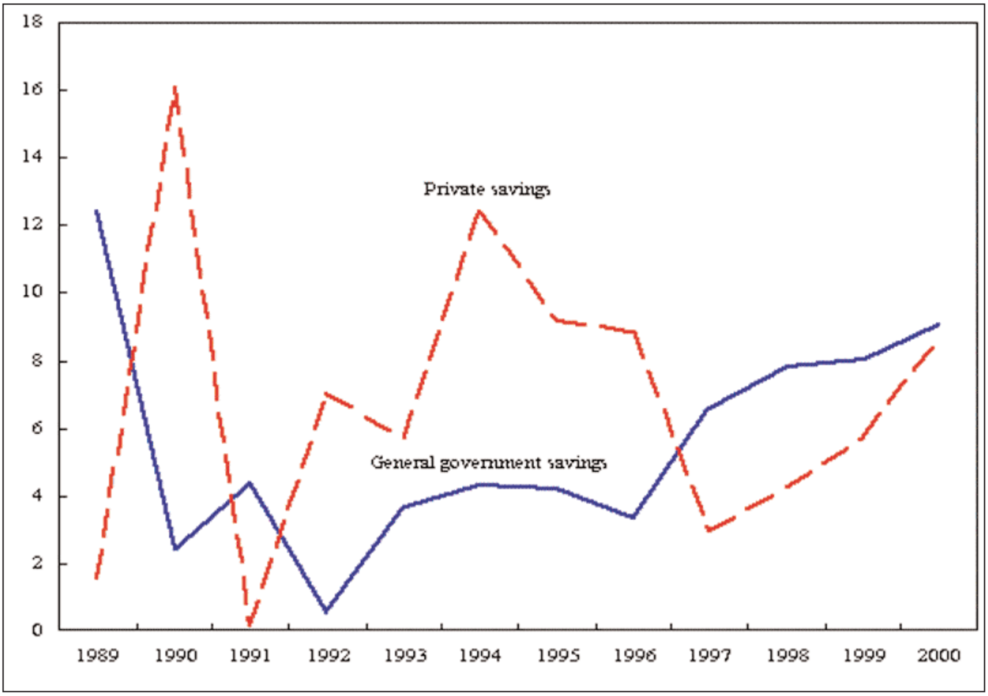
Source: Internatiional Financial Statistics

Appendix A2

Figure 2 Namibia: Gross Domestic and National Saving, 1980-2000
Evolution of Gross Domestic Saving and Gross National Saving, 1980-2000
(in percent of Gross Disposable National Income)



Public and Private Saving (in % of Gross Disposable National Income), 1989-2000



Terms of Trade Changes, 1981 - 2000

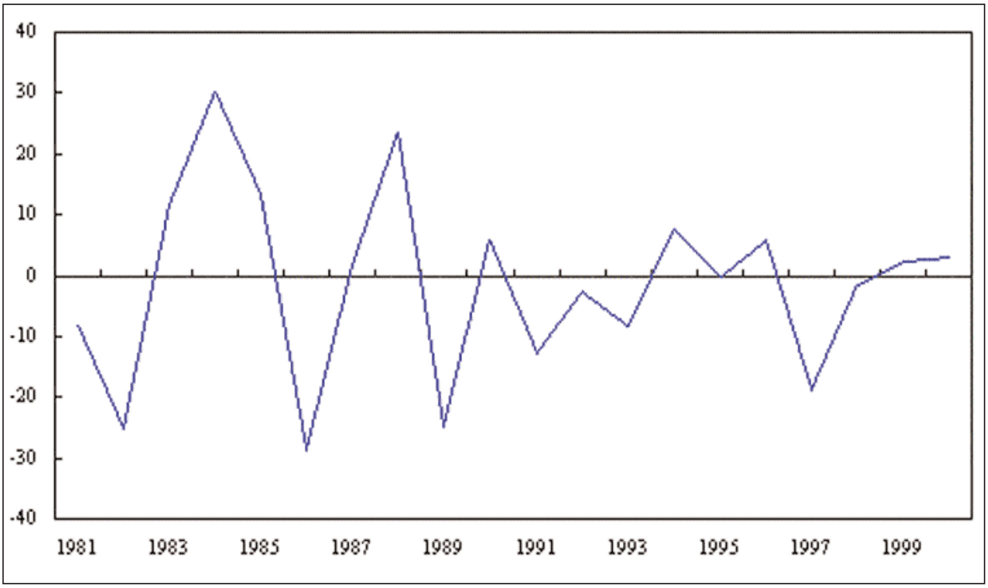
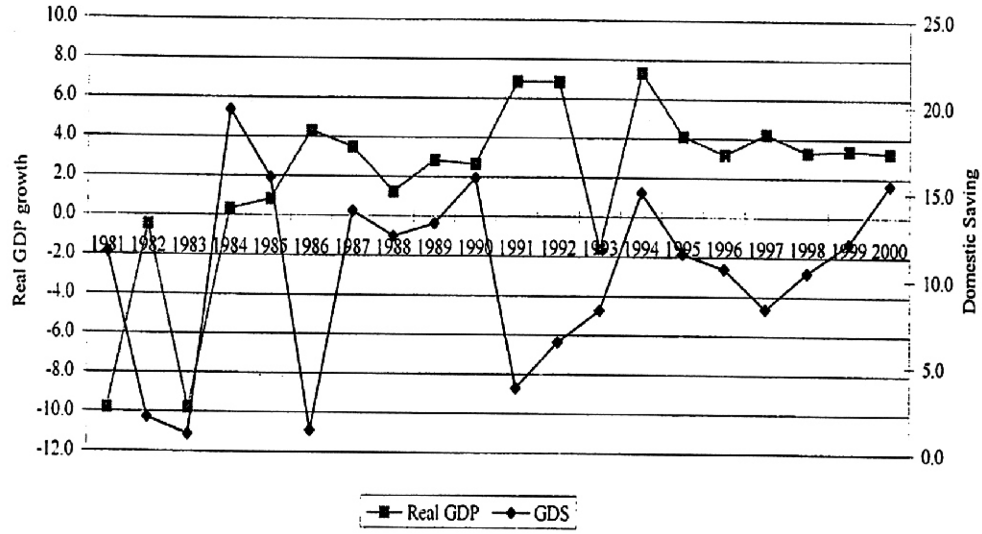
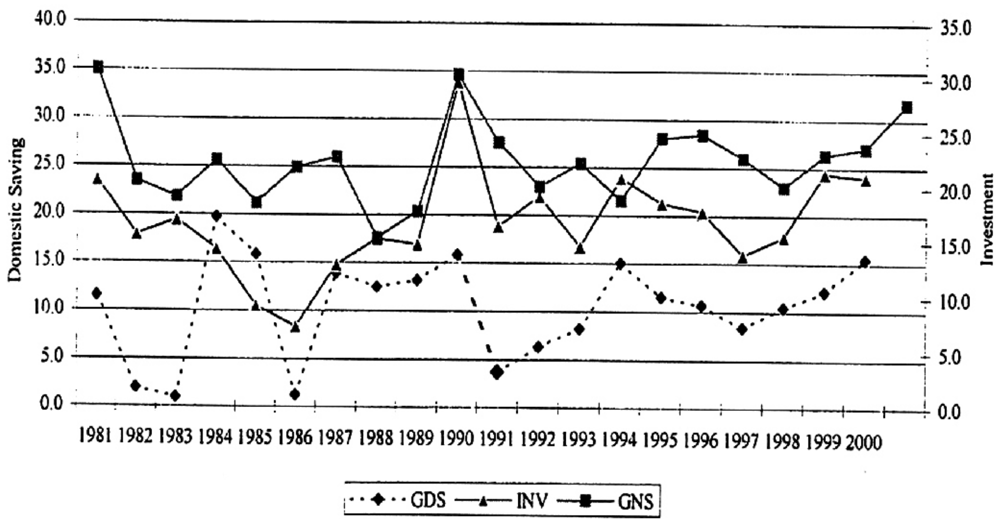


Figure 2a. Namibia: Real GDP Growth, Domestic Saving and Investment, 1981-2000

Real GDP Growth and Domestic Saving, 1981-2000



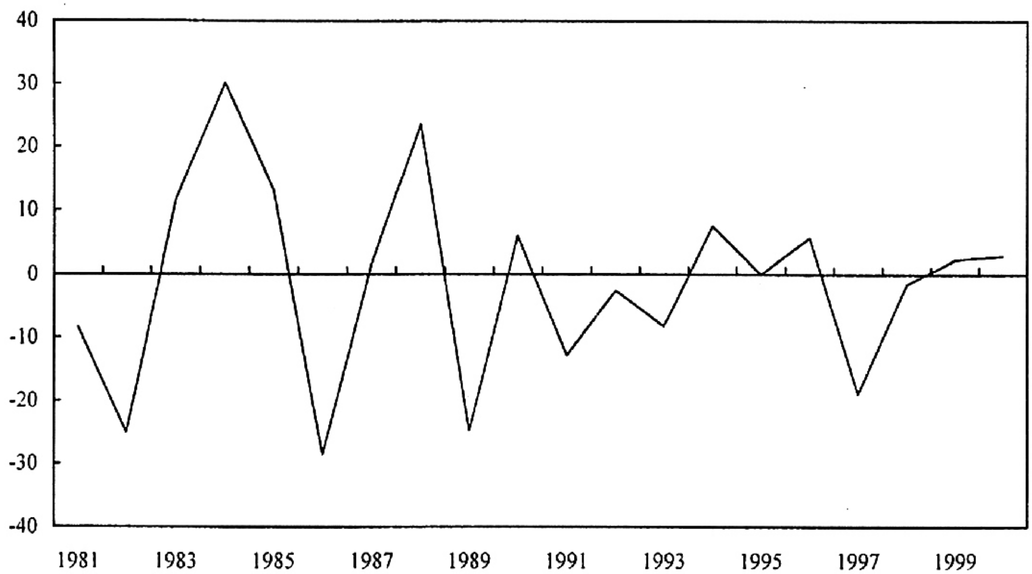
Gross National and Domestic Saving and Investment (as percent of Gross National Disposable Income), 1981-2000



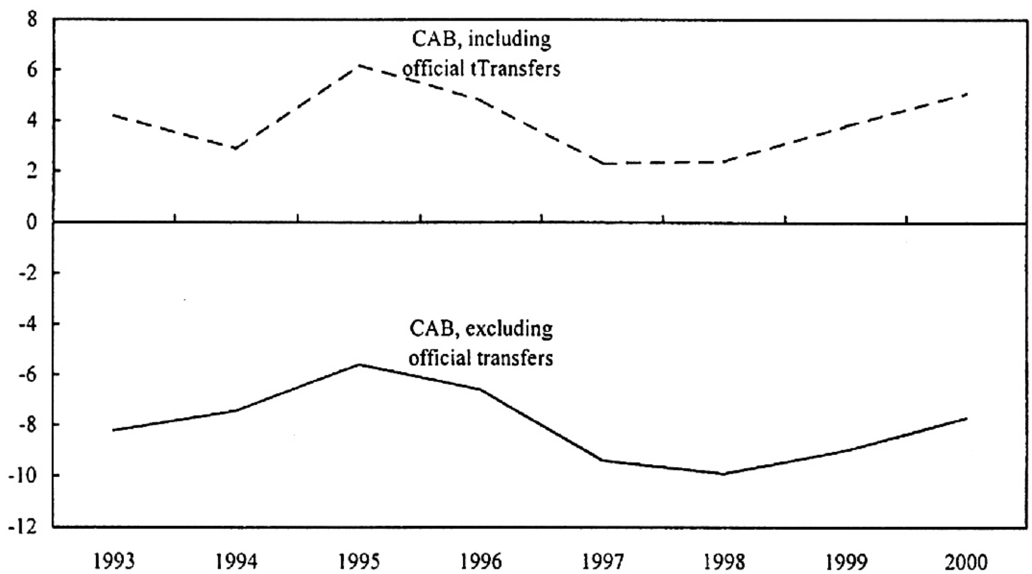
Source: International Financial Staitistics.

Appendix A3
Figure 3. Namibia: External Sector Indicators, 1981-2000

Terms of Trade Changes, 1981-2000

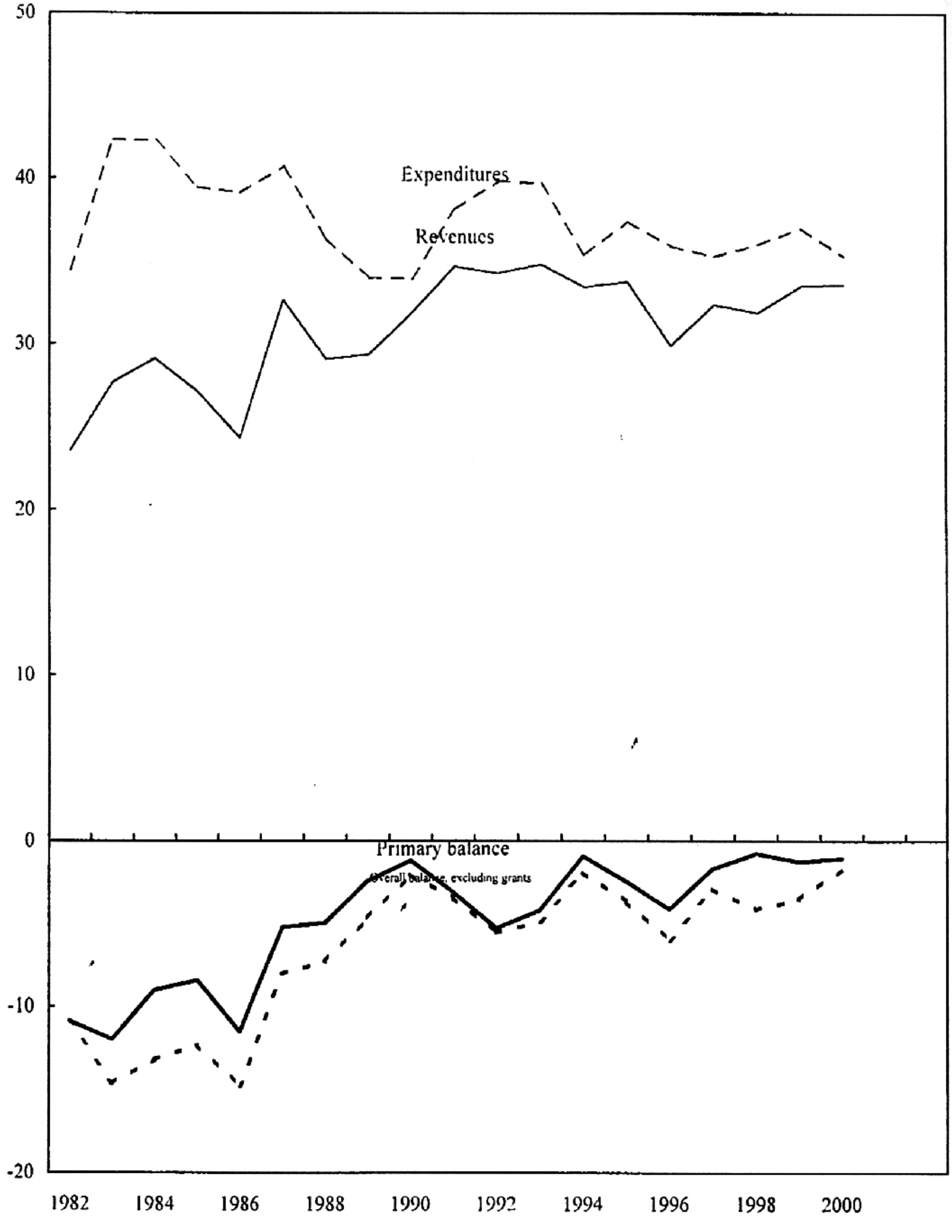


Current Account Balance (in percent of GDP), 1993-2000



Source: Namibian authorities and IMF staff estimates.

Appendix A4
Figure 4. Namibia: Central Government Financial Indicators, 1982-2000

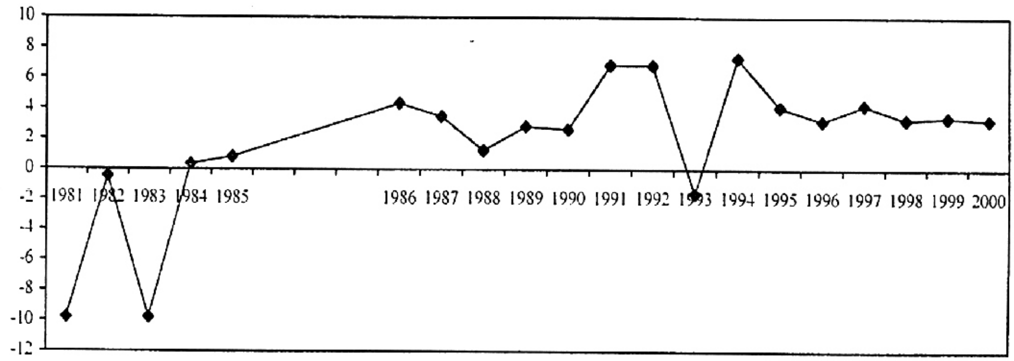


Source: Namibian auhorities and IMF staff estimates.

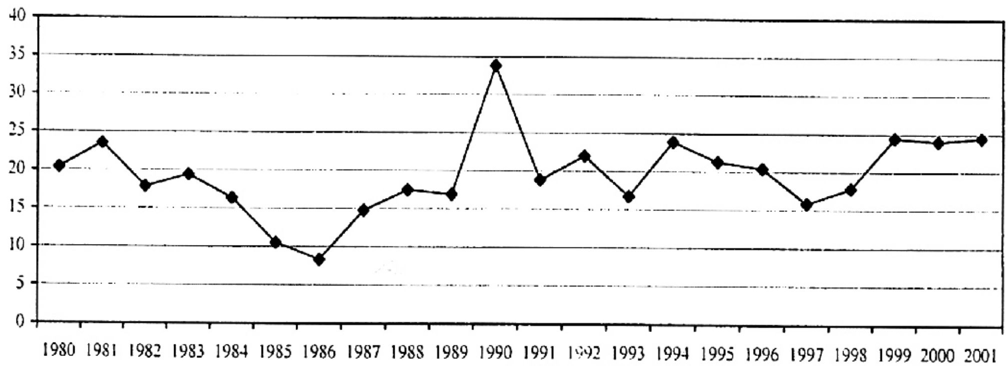
Appendix A5

Figure 5. Namibia: Real GDP Growth, Investment, and Sectoral Shares, 1980-2000

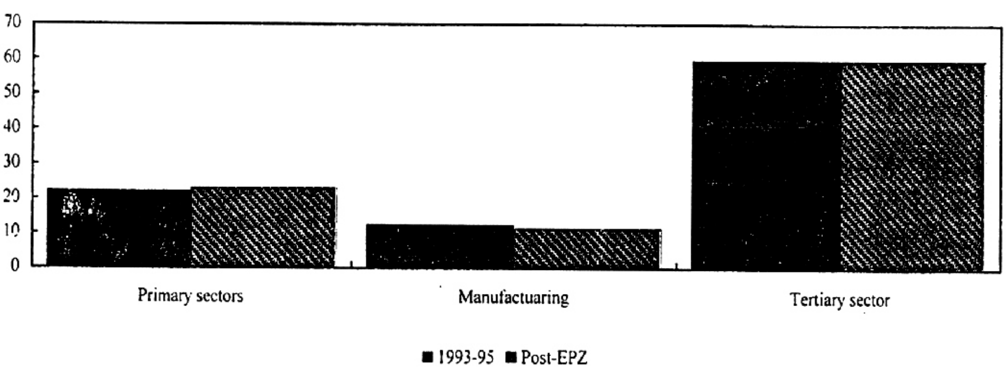
Real GDP Growth, 1981-2000



Total Investment (in percent of GDP)

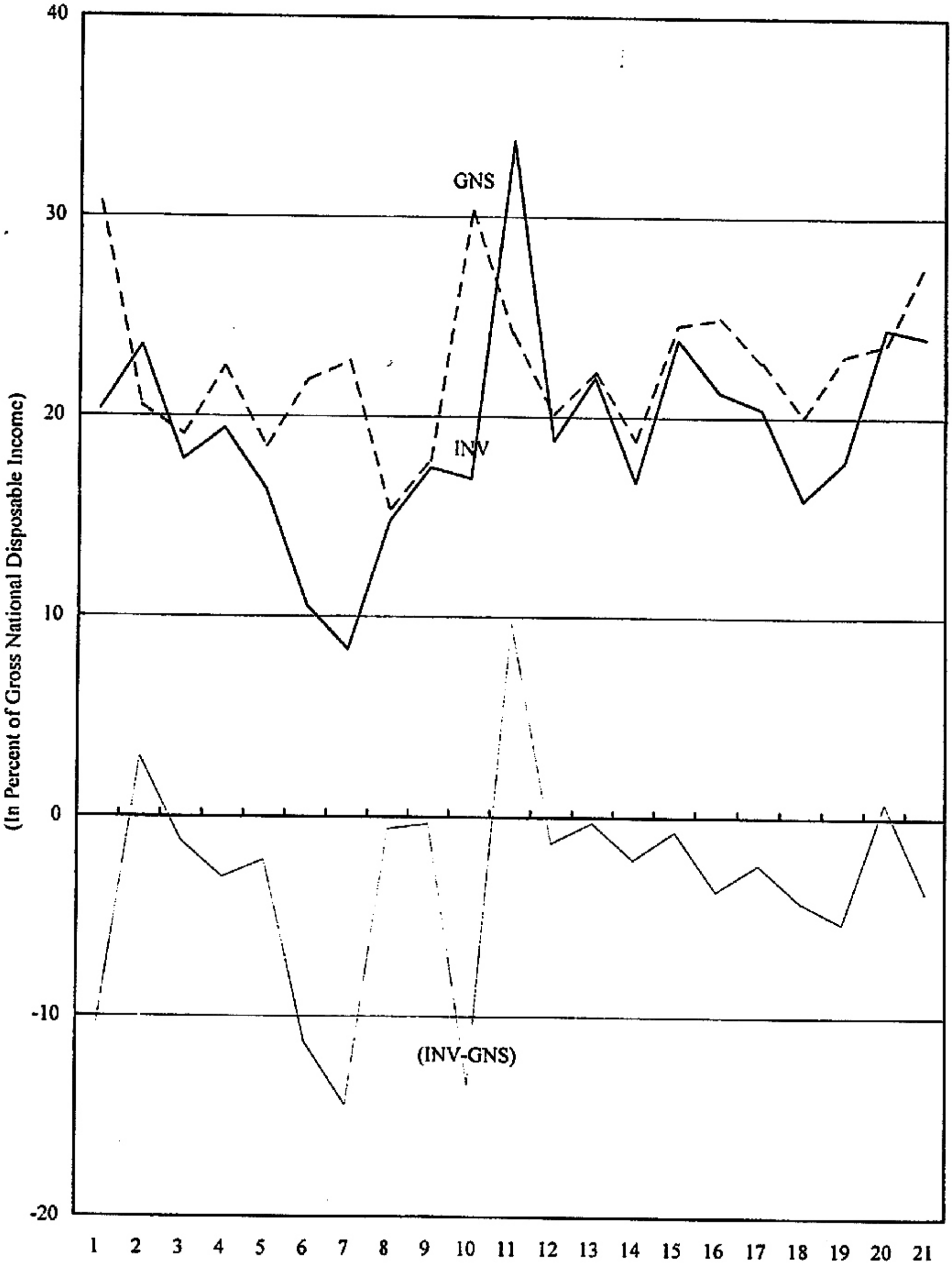


Sectoral Shares in the Pre-and-Post EPZ Regime



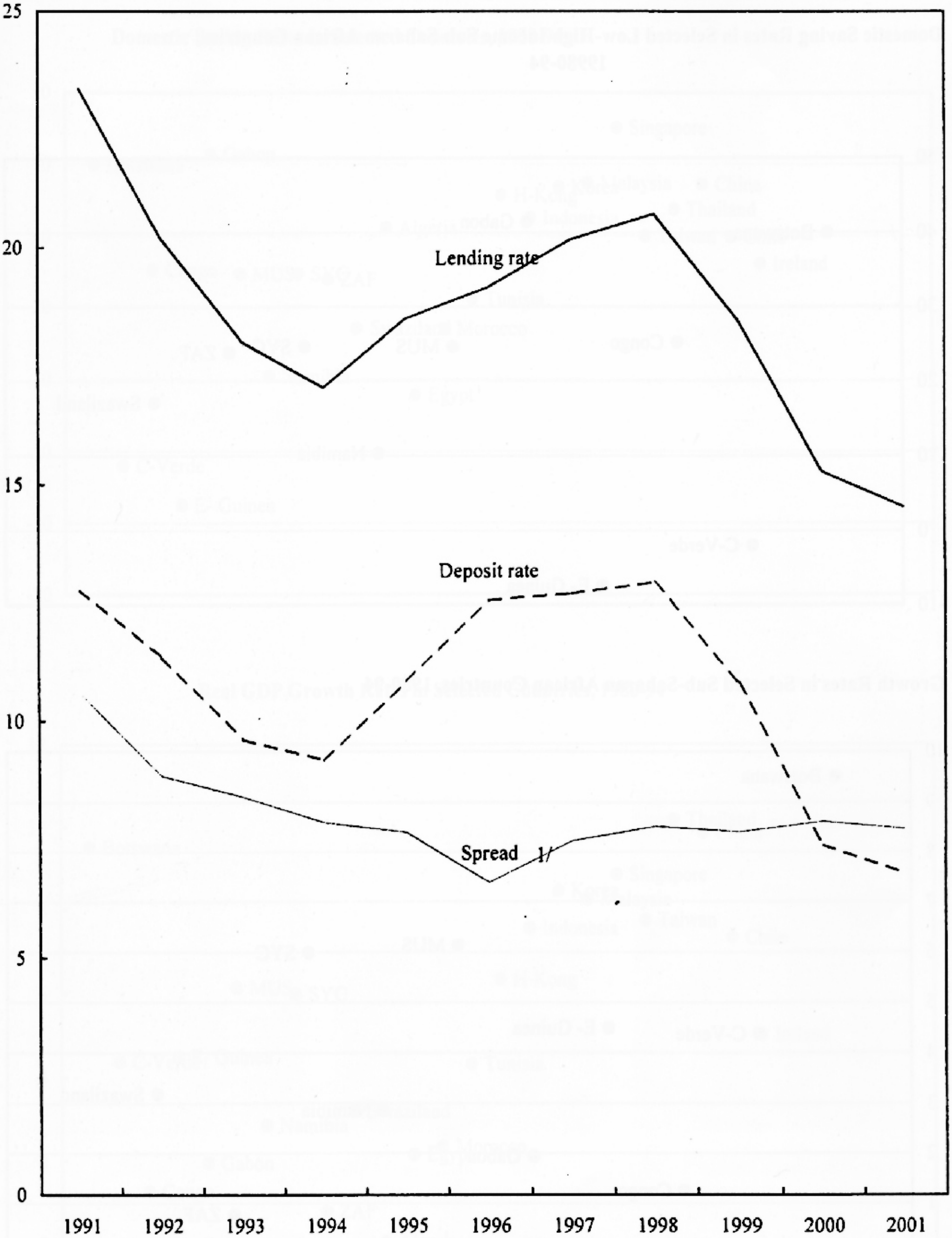
Sources: Namibian authorities and IMF staff estimates.

Figure 6. Namibia: Gross National Saving and Investement, 1980-2000



Source:

Figure 7. Namibia: Interest Rates, in Real Terms, 1991-2000

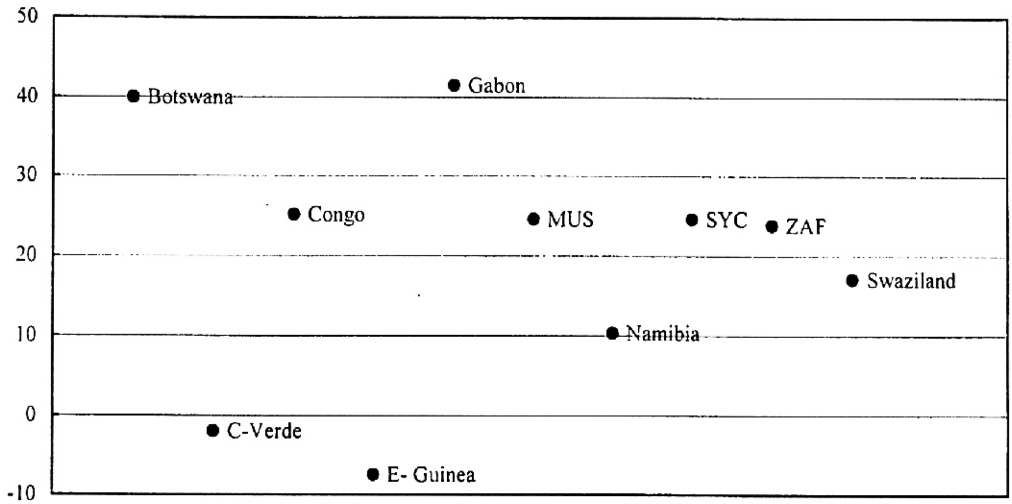


Source: International Financial Statistics and own computations.

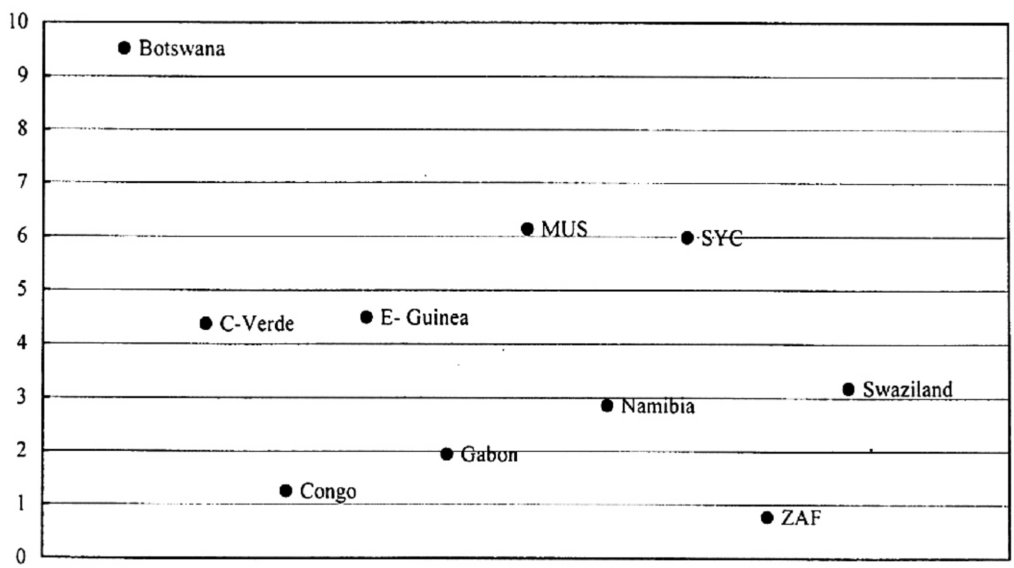
1/ The spread repersents the difference between deposit rate and lending rate.

Figure 8. Namibia: Saving and GDP Growth for Selected Sub-Saharan Countries, 1980-94

Domestic Saving Rates in Selected Low-High Income Sub-Saharan African Countries, 19980-94

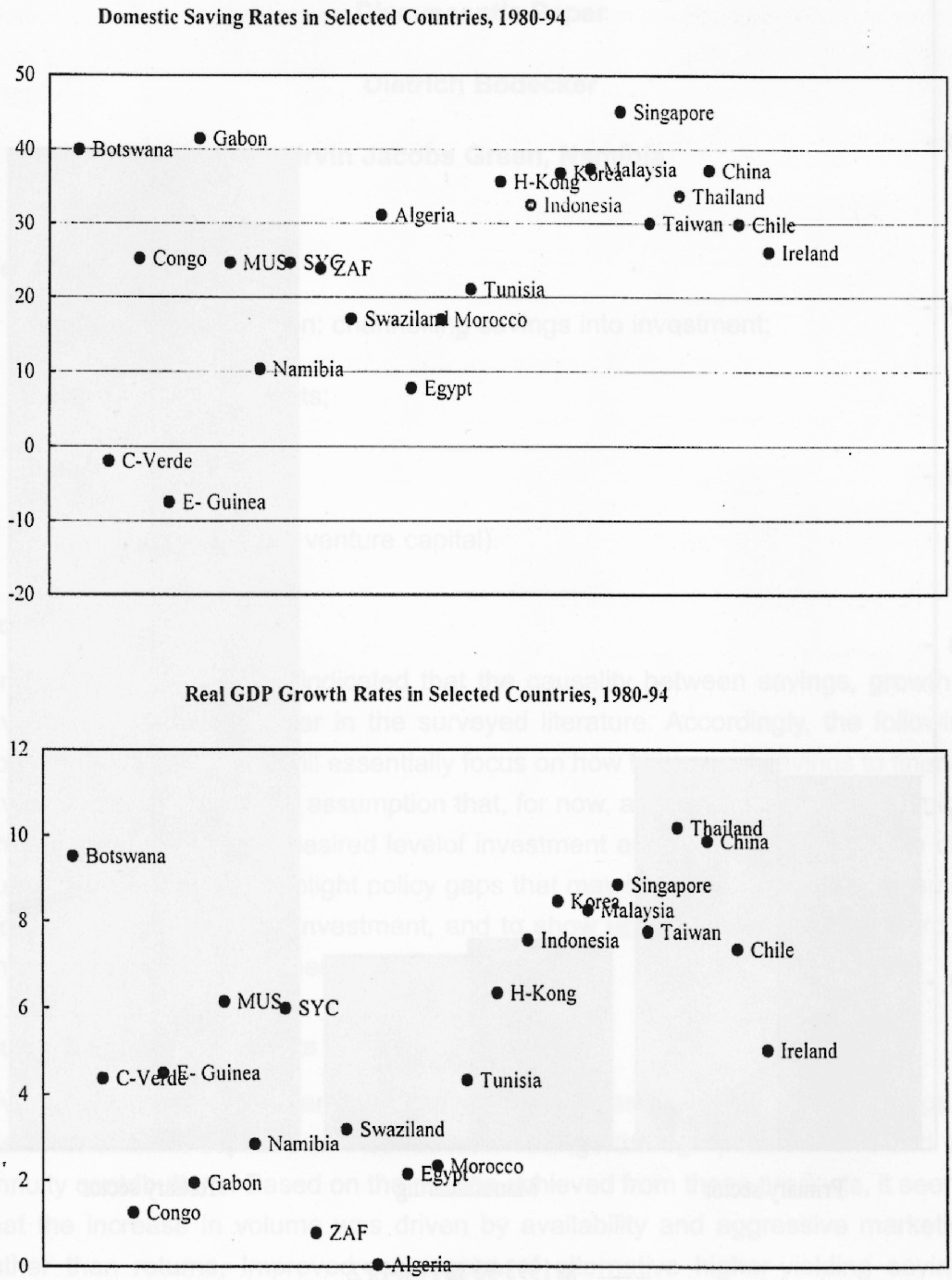


Growth Rates in Selected Sub-Saharan African Countries, 1980-94



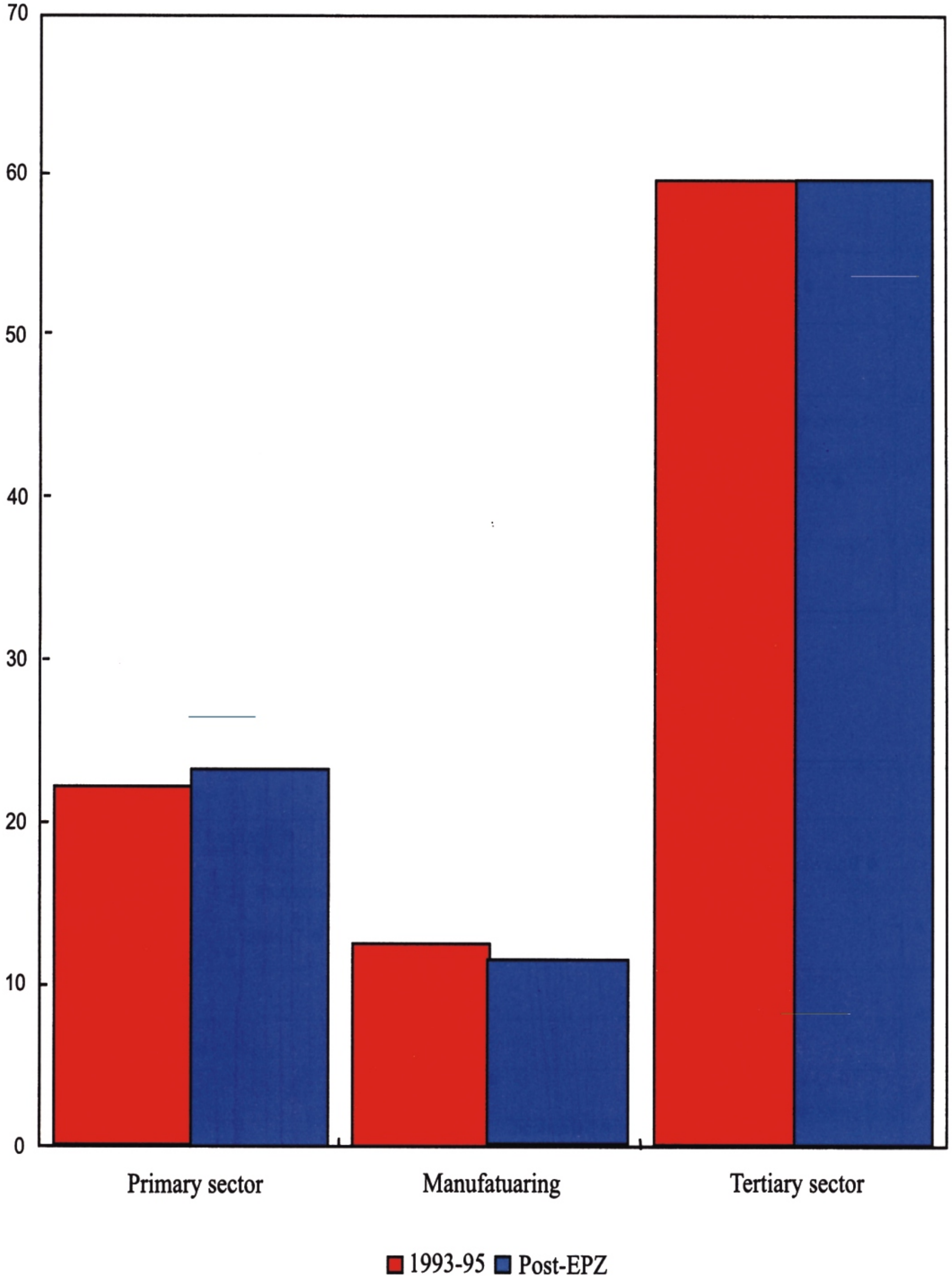
Source: World Bank Savings Data.
Notes: South Africa (ZAF), Mauritius (MUS), and Seychelles (SYC).

Figure 9. Namibia: Domestic Saving and Real GDP Growth Rates in Selected Countries, 1980-94



Source: World Bank Savings Data.
Notes: South Africa (ZAF), Mauritius (MUS), and Seychelles (SYC).

Figure 10. Namibia: Sectoral Shares in the Pre-and Post EPZ Regime



Source: Namibian authorities and International Financial Statistics.

9 Financing Growth in Namibia: Policies & Strategies

Discussant s Paper

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Contents

- Focus of the discussion: channelling savings into investment;
- Current savings conduits;
- Investment incentives;
- Alternatives (including venture capital).

Focus

Dr Tjirongo s intervention indicated that the causality between savings, growth & investment remains unclear in the surveyed literature. Accordingly, the following comments on thesubject will essentially focus on how to channel savings to finance investments, based on the assumption that, for now, aggregate savings in Namibia are sufficient to fund the desired levelof investment and facilitate growth. The discussion will attempt to highlight policy gaps that may impede the desired transmission of savings into local investment, and to show up alternative ways forward to finance productive investment.

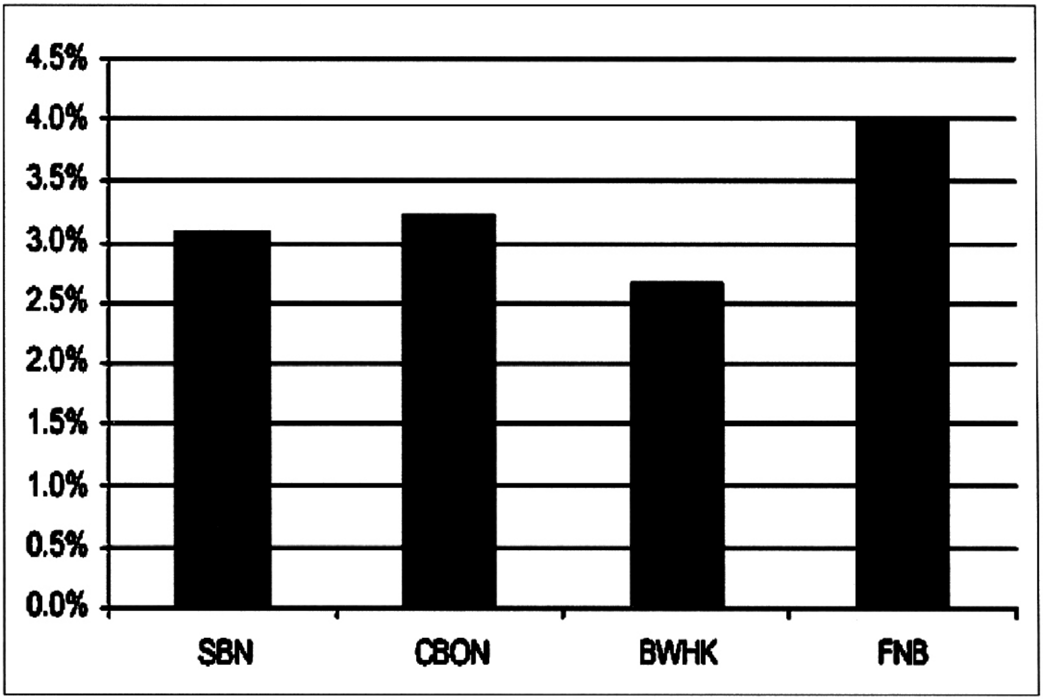
Current Savings Conduits

Over the past years, the Namibian financial sector has raised significant savings in the form of bank deposits and contractual savings through pension fund and life annuity contributions. Based on the returns achieved from these products, it seems that the increase in volume was driven by availability and aggressive marketing rather than returns. Improved awareness of alternative higher-yielding savings products could therefore well result in a diversion of savings away from bank and insurance products.

Appropriateness of Existing Conduits

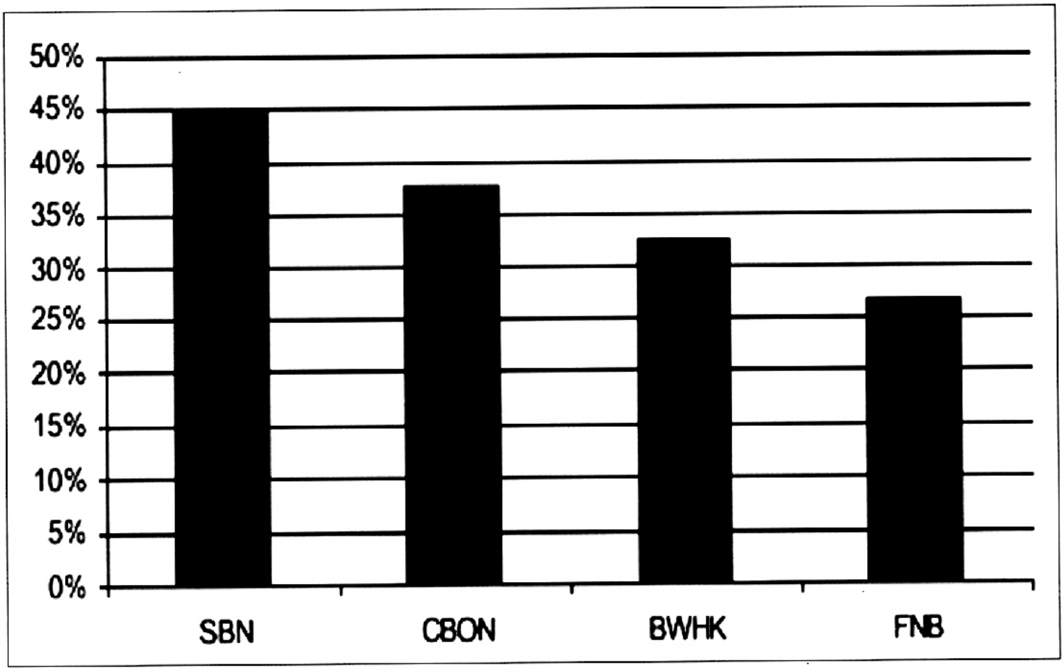
On the assumption that growth-enhancing investment in Namibia will require risk finance to facilitate more start-up and early-stage projects, it would appear that the current form of savings generation diverts savings rather than channelling financing towards such needs. The banking sector seems hesitant to target risky exposures, and, looking at the returns generated across that sector, is not under competitive pressure to diversify its lending portfolio in that direction.

Chart 9.1: ROA, Namibian Banks



Source: Bank Annual Reports, IJG

Chart 9.2: ROE, Namibian Banks

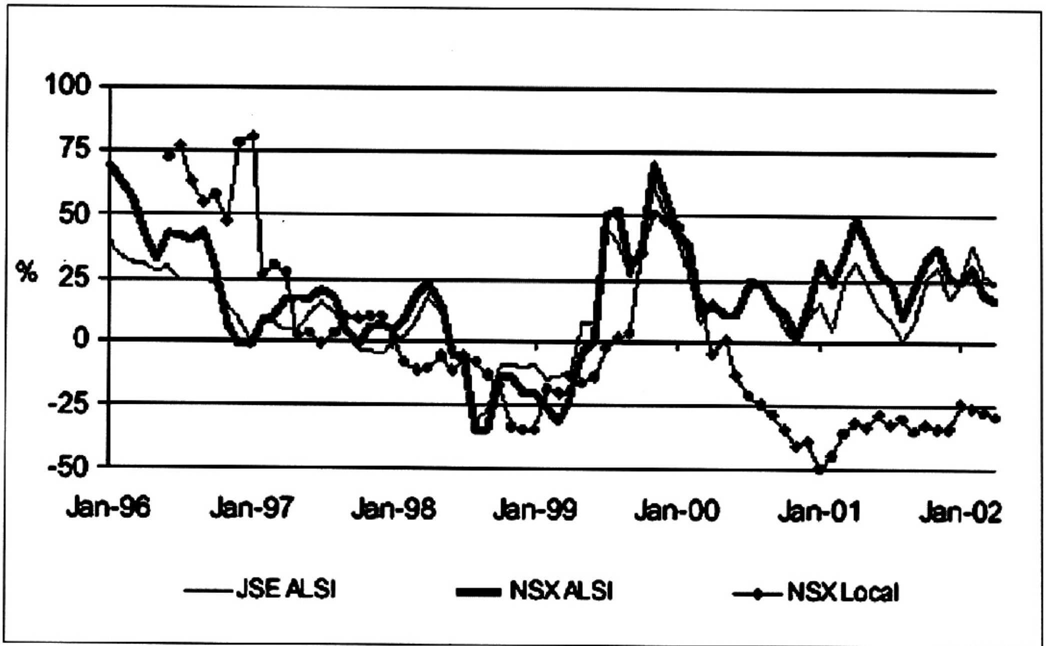


Source: Bank Annual Reports, IJG

Likewise, fund managers responsible for the investment of contractual savings are not geared for the assessment and monitoring of private equity investments, and, based on returns from Namibian equities and bonds, have not been under pressure to seek the additional upside from higher-risk investments.

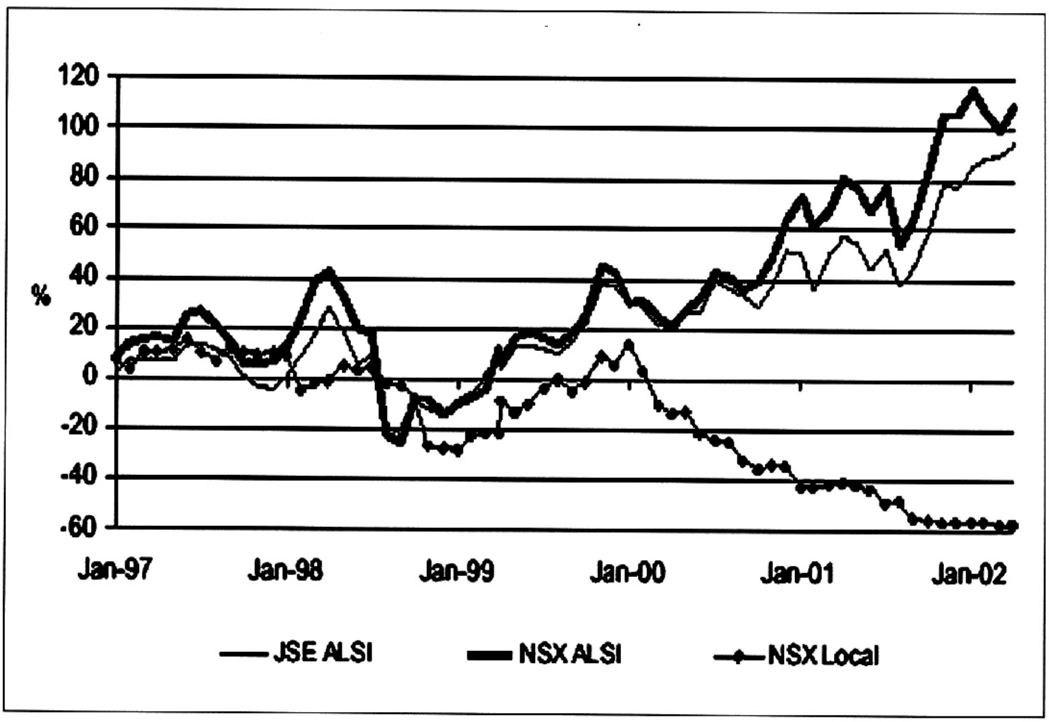
Despite the widely perceived negative impact of domestic asset requirements on returns (Regulation 28 and 15 (IV) of the Pension Funds Act and the Long-term Insurance Act, respectively; collectively called Regulation 28), total return comparisons between the NSX and JSE show that the universe of stocks available on the NSX was sufficiently wide to generate returns that actually surpassed those on the JSE. However, one needs to take into consideration the high weight of single stocks like Anglo-American on the NSX, which make an index-replicating investment difficult, if not impossible, due to statutory exposure limits.

Chart 9.3: 12-Month rollig total returns



Source: IJG, Deutsche Securities

Chart 9.4: Cumulative total returns



Source: IJG, Deutsche Securities

However, Regulation 28 did not halt the outflow of contractual savings to South Africa. To generate the trading volumes needed to support the growth of functional intermediaries in the form of asset managers and stockbrokers, a compromise was reached to allow dual-listed JSE stocks to qualify as local assets for the purpose of Regulation 28, although only a marginal proportion of their capital was used for their Namibian operations. While the compromise has indeed resulted in the creation of more non-bank financial intermediaries, it has at the same time diverted attention away from the capital-raising function of the NSX.

Appropriateness of Existing Investment Incentives

Since a large proportion of savings generated in Namibia does not find its way to local entrepreneurs or projects, one question that arises is how local intermediaries stance toward cash-flow based financing could be improved. It is in this context that some current investment incentives can be interpreted to be counter-productive.

It can be argued that Namibia s acute shortage of entrepreneurial and technical skills (both in the business and the financial sector) is the most serious impediment to the provision of adequate finance for investment. Based on the assessment that Namibia may have reached a plateau in FDI flows (foreign savings via FDI already represent about 20% - 25% of domestic savings), one solution may lie in the opening of local capital markets to fund foreign entrepreneurs local projects. Banks may well be more comfortable to accept the risk of a borrower that has the backing of a larger Group. However, current local borrowing restrictions imposed in an exchange control context impede the use of local savings by foreign entrepreneurs.

Likewise, Namibia s current EPZ regime raises obstacles to the use of local funds. Partly because of the EPZ constraints on local borrowing, local investors lost the opportunity to invest in a world-class mining project by funding part of Anglo-American s Skorpion zinc mine and refinery. Instead of a direct exposure to the Skorpion mine, investors have to accept a diluted exposure via Anglo-American shares.

Alternatives

The NSX has tasked the Institute for Public Policy Research (IPPR) and the Namibian Economic Policy Research Unit (NEPRU) to suggest the way forward for the NSX and related intermediaries, based on the realisation that the NSX does not fulfil its role to facilitate the raising of capital by companies.

One proposal that had already been mooted some time ago is to reduce the current domestic asset requirement, while simultaneously raising the pure local content of such requirements. Over time, dual-listed shares would be phased out for local asset status and would lose their significance on the NSX.

The proposed changes would significantly alter the face of the sector, with more emphasis on generation of deal-flow and raising of capital instead of the current volume-driven focus on trading in dual-listed shares.

How viable will a local financial intermediation industry be on that basis? A lot will depend on the competency of the relevant intermediaries, as well as the attractiveness of new savings conduits that are specifically targeted at the collection of funds for high-risk investment. One impediment to raising such savings could be the existing private sector debt burden at about 46% of individuals net disposable income.

Venture Capital

Venture capital/ private equity (VC) is seen as key to bridging the gap between savings generation and investment in Namibia. VC addresses both the provision of risk finance as well as the necessary input on running a business in order to overcome the shortage of business skills. Financial support is adapted to the size and project life cycle of the firm.

One caveat to using VC in a bank-centred financial market is the difficulty to use an initial public offering (IPO) as an exit mechanism for the VC provider. However, this constraint can be overcome by implementing alternative reward mechanisms that put the owner-manager under pressure to buy out the VC provider, or by using a foreign stock exchange for the IPO (size of the firm permitting).

Channelling Funds into Venture Capital

Regulators and politicians will have to decide whether to use incentives or regulation to promote a VC industry. Since regulation tends to entice the entities concerned to find ways of circumventing the regulation, incentives might be the preferable route.

The remaining discussion offers an outline of government s potential role as a sponsor of the VC industry, the use of tax incentives to promote the appropriate savings vehicles, and the impact of Namibia s legal framework on the VC market.

Venture Capital: Government as Sponsor

Attractive risk-adjusted returns are a key factor to attract savings into a VC fund. In this context the Ministry of Trade & Industry and the Bank of Namibia have recently launched a joint initiative to start a N$75m VC programme that will combine private sector funding with low-cost government loan gearing. The low-interest loan is to provide up to two thirds of the VC fund s capital, with the remainder coming from private equity investors and the fund manager. The programme goal is two-fold, with the general VC aim supplemented by empowerment criteria for the fund to qualify for the gearing.

Venture Capital: Tax Incentives

Tax credit programmes could play a useful role to encourage the flow of private sector savings into VC. Depending on the details of the programme, tax credits can significantly lower the entry costs for VC investors and ultimately offers enhanced returns. In Canada the government introduced tax credits to boost mineral exploration after that industry entered into a deep recession in the early 1970 s and again in the early 1980 s. The incentive programme increased the quantity of mineral exploration as well as the involvement of junior mining companies.

The Namibian junior mining industry has thus far not shown the same success. Historically exploration work was largely performed by major mining houses, and interest by the same has waned lately. To promote the junior mining sector in Namibia, IJG and NIB Namibia joined forces to create the N$100m private equity vehicle AFMINCO, the African Mining Development Company. Efforts to source private sector funding for this venture have not yet had the desired success, but the promoters remain optimistic that the first commitments are forthcoming. Tax incentives like those implemented in Canada would certainly have made fundraising easier.

10 Conclusion And Issues Emanating From the Symposium

Namibia has relatively high savings measured as a ratio of GDP, particularly when compared to other Sub-Saharan African countries. However, the key problem seems to be that of the availability of appropriate instruments to translate available savings into investments and hence realize the growth potential of the economy. All the papers presented agreed on the theme that investment (both domestic and foreign) is a necessary condition for economic growth in any country.

We summaries the issues emanating from the symposium below:

Domestic saving is very crucial for financing investment and economic growth.

Generally, it is argued that high domestic savings are very important in generating investment and therefore economic growth. It is interesting to note that Namibia does not suffer from the low level of savings or unavailability of funds, but from a lack of appropriate vehicles to translate savings into investment. As a result there is a need to analyse the nature of savings and the various savings instruments available in the Namibian economy. It is particularly imperative to analyse the extent to which such savings (given their nature) can be translated into productive investments. In addition, Namibia s savings pattern has been predominantly in the forms of bank deposits and contractual savings through pension funds and life annuity contributions. Consequently, there is a need to develop alternative higher-yielding savings products, which could result in the diversion of savings away from bank, and insurance products. Furthermore, it is suggested that government should create policies that would enhance the development of appropriate savings instruments.

A lack of well-trained human capital is a hindrance to Namibia s investment and growth process.

It is generally known that the main impediment to the investment process is low level of savings. However, in the case of Namibia saving is in abundance. What is lacking in Namibia is the availability of skilled human capital. It is therefore important to address the skills deficiency problem the country is currently faced with in order to translate available savings into productive investment and also to attract more foreign direct and portfolio investment. An issue for consideration here is to assess the contribution of various forms of education and training to the growth process (i.e. which form of education basic and or secondary education versus vocational and university education) Namibia should concentrate (in terms of government expenditure allocation) on, in order to accelerate its economic growth process. In the interim, the country should consider importing skills from the region and abroad to address the skills deficiency problems.

Trade and Regional Integration Policies are very crucial for economic growth process

It has been argued that exporting countries not only grow faster, but technological progress is more rapid and exporting firms are more efficient. Consequently, Namibia s export-orientated trade policy was noted as a good policy option undertaken by the government, given the limited size of the domestic market and the nature of products that the country produces. Therefore, it was noted that Namibia should continuously play an active role within the various fora on trade policy issues such as WTO and in the regional integration blocks such as SACU, SADC, and COMESA etc.

Industrial Policy

It was noted that Namibia has one of the most coherent industrial policies in the SADC region which emphasizes, decentralization, the establishment and growth of the export processing zones (EPZs) and the promotion of small and medium sized enterprises (SMEs). The forum noted that the export processing zones (EPZs) is not the only option in promoting Namibian exports, it must be complemented by the scheme that supports processing of primary products which can make Namibia to have comparative advantage. However, it was suggested that this should be supplemented with a vigorous promotion of Namibia as a tourist destination, possibly in collaboration with other countries in the region. In this regard, a suggestion has been made to extend the existing incentives offered to manufacturing enterprises to other sectors of the economy and especially the tourism sector.

Namibia should leapfrog onto the innovation-driven stage of economic growth and development.

Generally, economies go through three stages of growth process; namely factor-driven, investment—driven and innovation-driven growth. It was noted that Namibia is at factor-driven growth stage that depends on the country s raw material. The data analysis reveals that the economy has reached a growth plateau since 1997 with growth rates averaging only 3-4 per cent. Therefore, if the country is to realize high growth rates, it needs to leapfrog into the innovation-driven growth phase. The innovation-driven growth process involves the transformation of economic structures, from production technology to the provision of producer and consumer services, which enhances long-run growth in output and in real consumption per capita.

The country can achieve innovation-driven growth through concentration on the service sector of the economy and placing special emphasis on pro-poor service sectors such as transport and tourism, which are traditionally labour-intensive. In addition, the country can reach this stage through a substantial investment in human resources in the areas that would assist Namibia to reach the innovation-driven growth stage. However, it has been noted that the services sector already play a critical role in the economy contributing 53 per cent of GDP (with government services accounting for 21.2 per cent and private and parastatals sectors accounting for 32.8 per cent of GDP). The focus on developing the service sector should be to create a unique experience, however caution was also given that the country should not neglect agriculture in the process of developing the services sector, because of the linkage effects.

It is therefore, suggested that Namibia can look into the possibility of establishing 24 hours call services centers to South African and other foreign companies, which are labour-intensive.

Borrowing constraint in financing productive investment.

The establishment of the Development Bank of Namibia (DBN) was noted to be a step in the right direction that would essentially go a long way in addressing the lack of sufficient long-term finance. Attempts must also be made to establish other financing institutions such as the venture capital in addressing the borrowing constraint. The major cause of borrowing constraint in Namibia has been cited to be the dominance of contractual saving which is inherently rigid for lending. Therefore, Namibia can learn from other countries such as Chile and Singapore that have managed to make contractual savings flexible and translate into investments of a long-term nature. It has also been suggested that foreign entrepreneurs should be allowed to have access to local funds and one solution may lie in the opening of local capital markets to fund foreign entrepreneurs local projects. This raises the issue of EPZ companies having access to the use of local capital markets.

Finally, the consensus seems to have converged on the view that savings and investment are necessary but not sufficient conditions for economic growth in Namibia. Savings need instruments to be translated into investment. In this regard, efforts must be geared towards developing new saving instruments that will transform the existing saving into investment. Investment horizons can also be expanded through vigorous effort in developing the potential sector in Namibia, such as services. In order to be competitive in the service sector there is need for the country to address the skill deficiency problem.