Key Issues for Namibia’s Competitiveness

The year 2004 saw the release of the third African Competitiveness Report (ACR), wherein Namibia was ranked as the fifth (previously fourth) most competitive country out of 25 African countries. This lower ranking coincides with a lower ranking in the Human Development Report, from 122nd in the previous report to 126th in 2002, with the human development index declining from 0.610 to 0.607. From the outset, this would imply that Namibia’s socio economic performance is on the decline. While this may not be necessarily true (due to changes in the organization and compilation of the reports), it is obvious that Namibia’s objective is that of being an industrialized country as per Vision 2030. However, this will mean that the country will have to improve and maintain her competitiveness.

This policy brief will highlight issues considered to be of key importance toward Namibia’s pursuit for improved competitiveness.

Understanding competitiveness

National competitiveness should not be confused with business competitiveness. On the firm level, competitiveness concerns the ability of a company to combine resources and produce goods and services better than its rivals. This definition cannot be applied on the national level. Though countries do compete, (such as offering incentives to attract Foreign Direct Investment - FDI), it would be incorrect to view countries as antagonists. In most cases though, countries are concerned by the competitiveness of their business enterprises for the main reason that these are the primary drivers of the economy. Therefore, a nation can be said to be competitive if it has a competitive business sector.

A competitive business sector will result in higher economic growth. The importance of growth is evident in the fact that no single country has ever been able to achieve significant improvement in the welfare of its nation without growth. Unfortunately, economic growth has remained a rare and elusive phenomenon for the majority of African economies. The record has been so bad that in the leading article of the ACR report, Africa’s performance has been described as “the Economic Tragedy of the Twentieth Century” (Artadi and Sala-i-Martin, 2004).

Despite achieving an average growth rate of about 3%, Namibia still requires higher levels to achieve the status of a high income country by 2030. For instance, China, Hong Kong (China), Korea Republic as well as Thailand boasted average growth rates well over 5% during the past two decades. As history shows, these countries were indistinguishable from African countries during the mid 20th century. The main question therefore is not whether Namibia can emulate the example set by these countries, but what Namibia has to do to be competitive and achieve higher growth?

Experience shows that only countries that have undertaken huge investments have succeeded in growing their economies to levels necessary for welfare improvement. The case of the ‘Asian Tigers’ is instructive. Singapore had to adopt a policy of compulsory savings in an effort to encourage investment. Therefore, it is a worrying fact that access to financing was listed as the third most problematic factor for doing business in Namibia in the competitiveness report. This comes at the backdrop that gross national savings have averaged 25.3% (of GDP) from 1990 to 2001 whereas investment averaged 21.1% (of GDP) over the same period (Uanguta, et al, 2004). This demonstrates that Namibia has potential for further growth. The challenge that now remains is finding ways through which these excess savings could be channeled to investment. Two issues emerge:

Firstly, Small and Medium Enterprises (SMEs) need to be promoted, especially those that have potential for growth such as those involved in manufacturing and service sectors. SMEs have potential in terms of creating employment and raising income levels. While there are various ways through which credit could be extended to SMEs (e.g. Small Business Credit Guarantee...
establishing a venture capital fund could go a long way in this regard, mainly for two reasons. 1) Institutions account for about 60% of national savings (ibid). By nature, institutional savers are less risk averse compared to banks as they have long term liabilities in their books. Therefore, they are well positioned to engage in new investment opportunities as limited partners. 2) Venture capital projects are analogous to foreign direct investment in the sense that there is transfer of skills to SMEs.

Secondly, infrastructure coverage should be improved. Though Namibia was ranked as having the second best infrastructure on the continent (behind South Africa), the coverage thereof needs to be expanded. Currently, only towns and a few villages have access to the main electricity grid with the result that only between a quarter to a third of Namibian households use electricity for cooking and lighting respectively (GRN, 2003). The same applies to the telecommunication systems as only about 39% households have access to telephone (ibid). While almost all towns are connected by well functioning road networks, some stretches of poorly maintained gravel roads are visible in most rural areas. As of 2002, the proportion of paved roads was estimated at only 13% of 62, 237 kilometers of total road network (World Bank, 2004). The lack of coverage of these important infrastructures makes it difficult for businesses to operate smoothly especially in rural areas and could even further frustrate their ability to access and utilize savings. As a result, most small enterprises are forced to operate in towns where they have to compete with well established firms. Similarly, the lack of infrastructure coverage also contributes to the undesirable phenomenon of rural-urban migration which could possibly result in social problems such as overpopulation and crime and could even put strains on the budgets of local authorities.

Education ensures a smooth path to skills development by improving the cognitive skills of the labor force and thereby making it easier for employers as they do not have to spend longer time in the training of their employees. Ensuring universal education has been hailed as one of the foundations for rapid growth in East Asian countries (World Bank, 1993). The Namibian government should be commended for efforts toward improving the enrolment rate at the primary level—through the construction of additional classrooms particularly in the densely populated northern regions. However, there are three educational issues that Namibia would have to address in her quest for rapid industrialization.

Firstly, despite a huge chunk of the national budget (just above one fifth) being directed to education results are still disappointing. Not only is the failure rate high but the number of matriculates who meet the criteria for admission to institutions of higher learning is still low. The results for school year 2004 indicate that close to 16,000 or 54% of grade 10 learners will not proceed to the next grade in the New Year. What is worrying more is the fact that this number is higher (by 300) than that of the previous year. The situation is further compounded by the fact that as of 2002 only 36% of primary teachers were trained teachers, a figure that is less than half of the world average (UNDP, 2004). It is not surprising therefore that from a primary enrolment rate of close to 80% only about half of these proceed to secondary schools (UNDP, 2004). Similarly, inequality among schools has to be addressed as a matter of priority. Currently, most urban schools outperform those in rural areas in terms of pass rates.

The second issue concerns the curriculum. The current curriculum in the Namibian schools is what Todaro (1997) terms as “urban biased”. As such, it offers very few exit options for matriculates other than pursuing further education and searching for scanty employment opportunities in urban areas. As an alternative, Namibia should seriously be looking into the establishment of vocational curriculum in schools so as to increase exit options for school leavers.

Thirdly, it is now an obvious fact that an overwhelming majority of the unemployed are those without skills (Hansohm, 2004). In her quest for industrialization, Namibia will have to move away from her dependence on the primary sector toward secondary and tertiary sectors. But this will require skills of which the country does not possess at present. Unfortunately, the situation is not helped by the apparent mismatch between the supply and demand for labor. As a matter of fact, from 1994 to 1997 the country had an average enrolment rate of just 4% in science, math and engineering of tertiary students (UNDP, 2004). Indeed, it is not surprising that the lack of scientist and engineers was identified in the competitiveness report as one of
the notable disadvantages of the country. Meanwhile, a few suggestions for alleviating this acute shortage have been put forth. One is the issue of expatriates (Hansohm, 2004). By all accounts, the use of expatriates is only a temporary solution and should be seen as such. In the long term, Namibia should be able to develop her own skills.

Technology has been emphasized in growth literature as the missing link between the developed and the less developed countries. According to convergence literature, there is a possibility of a ‘catch-up’ scenario in the event that less developed countries are able to access and employ developed technology. In other words, less developed countries would grow at a higher rate until at such time that the differences between developed and less developed countries are negligible. Once again the experience of East Asian countries bears testimony to this (see World Bank, 1993).

Namibia was ranked second and fifth respectively in terms of technological sophistication and prevalence of foreign technology licensing in the competitiveness report. However, firm level absorption of this technology remains low as the country was ranked 15th. This is indicative of two issues. Firstly, it should be noted that the use of technology requires skilled labor force. As pointed out, investment in human capital remains a critical issue for Namibia. Secondly, the use of technology requires supporting infrastructure such as telecommunication and energy in particular. However, the emphasis should not only rest on coverage and quality, but the cost of using such infrastructure—a factor not mentioned in the competitiveness report. Indeed, it goes without saying that costs of goods and services that companies employ will be reflected in the prices of the final products. Therefore, the higher are the costs of (inputs) doing business the higher will be the prices of exports which would make the products uncompetitive, other things being equal.

The importance of trade cannot be overemphasized. No country has successfully transformed into an industrialized country without access to the international market. The experience of countries such as Germany and the ‘Asian Tigers’ during the post war period have demonstrated the possibility of achieving and realizing the benefits of export-led growth (see World Bank, 1993). Thus by increased involvement in trade not only will Namibia be able to achieve higher growth through access to the international market for her products but would also benefit in terms of accessing foreign technology by attracting foreign direct investment (FDI). On a negative note, Namibia’s reliance on commodity exports implies that she is a price taker and thus subject to the vagaries of international trade which makes it very hard for planning purposes. To reverse this trend, the country should intensify efforts to diversify the local market.

Current literature (Easterly, 2003 for instance) argues that good policies alone are not sufficient to stimulate economic growth. Indeed, a good policy without supporting institutions is analogous to a case of attempting to land a plane without a landing strip. Therefore, in order to further improve her business environment Namibia needs adequate institutional capacity. In the competitiveness report, the country was ranked fourth and sixth in terms of judicial independence and property rights. Obviously such a ranking augurs well for business in the sense that investments are maintained by law. However, the country has to address issues such as organized crime, irregular payments in tax collection, favoritism in government decisions—factors mentioned as unfavourable to Namibia’s competitiveness in the report.

Through adequate education and employment on merit with appropriate incentives, it is possible that the country would go a long way in addressing some of these bureaucratic problems. More educated civil service has the advantage of being insulated from political pressure and thus limiting chances of corruptive behavior. The government would have to look into the possibility of outsourcing or privatizing the revenue collection service. In this regard, the government should be looking at the success story of South Africa which after privatizing has since improved revenue collection immensely.

In the 2001 report of the Commission on Macroeconomics and Health, it was pointed out that “societies with a heavy burden of disease tend to experience a multiplicity of severe impediments to economic growth” (WHO, 2001). It is not surprising therefore that countries the world over emphasize the importance of disease prevention. In this regard government efforts towards this cause should be commended and encouraged. Current statistics show that at least 77% (up from 72% in 1990) of Namibians have access to clean water, whereas the success rate in TB treatment stands at 88% (World Bank, 2004). Meanwhile, despite all efforts the average life span of the Namibian population is now eleven years shorter than in 1980 at
only 42 years. This is a worrying trend particularly in view of the findings of the abovementioned Commission that each 10% improvement in the life expectancy at birth would improve growth by 0.3 to 0.4 percentage points annually, other things being equal (Whiteside, 2004).

It is without doubt that the situation is being compounded by the onset of the HIV/AIDS pandemic. While current efforts to provide antiretroviral drugs are commendable, prevention remains the safest option and any efforts towards this should be greatly encouraged at all levels, particularly among vulnerable groups such as women and children in rural areas. Schools still remain a key platform in terms of sex education and this should be taken advantage of.

Namibia has set herself an objective of achieving the status of an industrialised nation by year 2030. To attain such status, the country will have to consistently grow at a higher rate (as in the case of the ‘Asian Tigers’), which also means the country will have to improve her competitiveness. Though the country was ranked fifth in the latest African Competitiveness Report, this does not necessarily imply Namibia performed poorly. However, it is possible that the country could further improve her performance. This could be achieved by better utilisation of savings, improving the education standard, technology absorption, adequate institutional capacity, and investment in health.

Policy Recommendations

- Establishing a venture capital fund should be seen as an alternative way of utilising savings for investment. Infrastructure coverage should be further improved.
- Educational output need to be improved significantly, while the curriculum should be designed to increase exit options for matriculates.
- Technological absorption should be improved.
- Namibia should move away from dependence on primary exports.
- Institutional capacity remains a critical area in policy implementation and needs to be taken seriously.

References and further reading


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NEPRU 2005