Economic aspects of NEPAD in Namibia
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**Abbreviations**

- **APRM**: African Peer Review Mechanism
- **ASEAN**: Association of South East Asian Nations
- **CMA**: Common Monetary Area
- **COMESA**: Common Market for Eastern and Southern Africa
- **DR Congo**: Democratic Republic Congo
- **FTAA**: Free Trade Area of the Americas
- **GDP**: gross domestic product
- **GNI**: gross national income
- **NAFTA**: North American Free Trade Area
- **NEPAD**: New Partnership for Africa
- **ODA**: official development assistance
- **SACU**: Southern African Customs Union
- **SADC**: Southern African Development Community
- **WTO**: World Trade Organisation
1 Introduction

A look at the discussion on NEPAD in Namibia suggests that

- There is incomplete and often selective knowledge of NEPAD, and, more importantly,
- There is no full endorsement of the NEPAD strategy, neither among policy makers nor among civil society as a whole.

These findings are the starting point for this paper. It aims to enrich the discussion on NEPAD by examining the implications of NEPAD’s strategy on Namibia’s policy and development, taking also into account advantages and disadvantages discussed in Namibia and elsewhere (see Brink {2003} for a summary). This paper focuses on the economic dimension.

In order to consider the possible economic effects of NEPAD in Namibia the frame conditions of Namibia have to be established. For this purpose, the second section of this paper presents key economic and political features of the country. Two specific important characteristics that are important to NEPAD’s focus on regional integration are then discussed: the small size of the country, both in population and economic terms, and the neighbourhood to a large neighbour, South Africa. On this basis, several possible positive and negative implications of NEPAD for Namibia are discussed. The conclusion presents the advice economists can provide to policy makers.

2 Background: Namibia’s position

2.1 Namibia: an overview

Namibia covers a large area, but is a small country in terms of population. With its 1.7 million inhabitants it represents only 0.2 % of Africa’s population. Namibia is a relatively rich country with an average per capita income of US$ 1960 (2001) - more than 4 times as high as the sub-Saharan African average (see following Table).

Table 1 Economic growth of Namibia in comparison (1990-2001)

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Namibia</td>
<td>1960</td>
<td>2.6</td>
<td>1,3</td>
<td>4,1</td>
<td>2,4</td>
</tr>
<tr>
<td>SADC</td>
<td>1655</td>
<td>2.8</td>
<td>3</td>
<td>2,7</td>
<td>2,3</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>470</td>
<td>0.7</td>
<td>1,6</td>
<td>2,6</td>
<td>2,6</td>
</tr>
<tr>
<td>World</td>
<td>5140</td>
<td>0.2</td>
<td>3,3</td>
<td>2,7</td>
<td>1,4</td>
</tr>
</tbody>
</table>
Its growth record over the last decade has also been much higher. Nevertheless, the difference to world growth is not high enough to deliver the catch-up growth to make Namibia a developed country within 30 years as envisaged in its ‘Vision 2030’. Namibia is also characterised by a high degree of inequality (Gini coefficient of 0.7) and widespread poverty (some 40% are considered as poor).

Namibia is a functioning and stable democracy with an independent judiciary, rule of law and a free press. Government’s development policy is oriented towards growth, employment and reduction of poverty and inequality. The economic policy is in line with current thinking about good economic policy, i.e. being market oriented, having a responsible macroeconomic policy set (fiscal and monetary policy), and at the same time investing highly in the development of human capital (expenditure on health and education).

Namibia borders two stable and relatively prosperous countries (Botswana and South Africa), but also three poor and less stable countries (Angola, Zambia and Zimbabwe). Namibia’s economic interaction with South Africa is by far most important. But Angola is also significant as almost half of Namibia’s population is living close to the Angolan border.

Namibia is one of Africa’s younger nation states, gaining independence in 1990. It had been colonised by Germany in the late 19th century and been occupied by South Africa since 1919. Despite political independence Namibia remains and will remain economically highly dependent on its giant neighbour South Africa. Namibia is highly economically integrated into the Southern African region. With South Africa, Lesotho and Swaziland it forms a Common Monetary Area (CMA) with the South African Rand as legal tender, while it has the Namibian Dollar as its own currency. The same countries plus Botswana form the Southern African Customs Union (SACU). SACU, in existence since 1915, is the only highly integrated economic union in Africa. Namibia is also a member of the Southern African Development Community (SADC) with 14 members. SADC covers all countries on the Southern African continent and stretches up to the DR Congo. Most SADC countries are part of a free trade area to be established over an 8 year period from 2000. Namibia is also part of the Common Market for Eastern and Southern Africa (COMESA) but notified an end to its membership from next year.

2.2 Being a small country

Smallness defines the situation and policy of the African countries. In terms of economic theory, a country is defined as small when it has to take world market prices as given. This is also the case for a country like South Africa, which is nevertheless a giant compared to its neighbours, which are by definition very small.

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2 This and the following section are based on Hansohm (2002).
Small countries are generally seen as disadvantaged. As a result, industrialised countries are moving towards higher integration among themselves – in Europe, in Asia, and in America. At the same time, globally the number of independent states has risen sharply. After 1945, the number of countries increased from 74 in 1946 to 192 in 1995. In 1995, 87 countries had fewer than 5 million inhabitants, 58 fewer than 2.5 million and 35 fewer than 500,000 (Alesina and Wacziarg 1997).

How can this be explained? Is it simply a result of the dominance of non-economic factors and thus a ‘policy error’ from an economic point of view? A simple analysis of data on country size and per capita economic product does not show any definite relationship between the two. Most countries are poor, irrespective of their size. Among the richer countries are also large and small countries. Data give one – and only one – clear message: there is no definite relationship between country size and economic success, measured in per capita GNP.

Southern Africa may tell us more. 6 countries are small in terms of the definition followed here (population of up to 3 million): Botswana, Lesotho, Mauritius, Namibia, Seychelles, and Swaziland. Two of these (Botswana and Mauritius) have a significantly higher income than all other countries. The following two (Namibia and Swaziland) are second only to South Africa. The poorest two do still have higher incomes than all other countries save Zimbabwe. If anything, these data suggest that as a small country you can do rather well.

What does economic theory say about the impact of size? Basically it suggests that there are gains in terms of size. Among the most important arguments are (see Armstrong and Read [1998] for a discussion):

1. Economies of scale (market size);
2. Indivisibilities. There is a minimal size of government. Therefore, small countries have a larger public sector. Many public goods face increasing returns;
3. Small countries have a low bargaining power. At the same time, they are faced with high fixed costs of negotiation (Andriamananjara and Schiff [1998]);
4. Higher competition;
5. Opportunities for autonomous self-sustaining internal growth (e.g. agriculture-industry linkage);
6. Lower vulnerability to external shocks.

One can reasonably argue that the enlargement of markets (as happened through the unification of Britain, France, Germany) gave a boost to economic development (Olson 1987). Nevertheless, as we have seen, not only has the number of small countries multiplied, there are also some spectacular success stories of small countries, also and particularly in Southern Africa.

Among the key advantages of small countries are:

1. They have stronger incentives to work efficiently because they need open markets. Because of their vulnerability they cannot afford the luxury of an unsuccessful economic policy for long if they do not want to be cut off.
2. The rent-seeking activities of groups engaged in import-substituting industries etc. are limited.

3. They have often a greater degree of social homogeneity, cohesion, and identity. The ethnic and language heterogeneity is supposed to imply costs.

4. They can achieve higher degrees of communal involvement and consensus in decision-making.

Additionally the recent trend towards trade liberalisation downgrades the importance of large domestic markets, as the world increasingly becomes a market. Furthermore, the increasingly legal character of the world trade system diminishes the possibilities of unilateral action and strengthens the position of smaller countries. They are also able to occupy advantageous niche positions in the global regulatory framework. As small countries become more common, a liberal trade regime will find more and more supporters.

On the downside, however, trade liberalisation also leads to the erosion of margins of preference. The balance of net benefits of trade reforms remains unclear: some think that it may be relatively unfavourable (e.g. Armstrong and Read 1998). One problem is the increasing capacity for policy making that is required.

The discussion above suggests on the one hand that Namibia does not have to be desperate to seek regional integration at any price. But secondly, specific gains can be made by a conscious way of cooperation and integration on the regional level.

### 2.3 Neighbouring a large country

Neighbouring South Africa, which is a comparative giant, is generally regarded in the other small SADC countries as problematic – a ‘polarisation’ effect is feared. However, evidence seems to indicate that countries may benefit from such a relationship. Furthermore, evidence rather points to the negative impacts of neighbouring countries in conflict than big countries.

There are many examples of small countries prospering through their relationship to large neighbouring countries, and actually benefiting from being in the neighbourhood of a giant - e.g. Hong Kong (next to China), Singapore (next to Malaysia), Netherlands (next to Germany).

Looking at the SADC countries, empirical evidence gives a quite clear picture. The countries neighbouring South Africa are generally doing better than those that are further from it. In particular, SACU countries did well.

Nevertheless, the negative ‘polarisation’ effect of integration with South Africa is taken as given in the small countries. However, it may reasonably be argued that the limited development of industry in countries such as Namibia is not due to neighbouring South Africa, but rather to the resource endowment and poor and dispersed population, constituting a market limitation (World Bank 1993). Polarisation should be regarded as a possibility, rather than as a certainty. Models of economic geography suggest that many factors influence the relationships between integrating regions. These include transport costs, economies of scale, production structure, and last though not least history (see e.g. Krugman 1995). Oyejide,
Elbadawi, and Collier (1997) suggest that small reductions in trade costs can be expected to increase regional concentration of production, while large reductions may not.

Recent studies illustrate the importance of neighbourhood to the success of economic development with a different focus (Easterly and Levine 1998). What these studies identify as crucial is the economic and political stability of the neighbouring countries and their growth record, which determine growth prospects, rather than their size. From this perspective, the problematic neighbour of Namibia is war-torn Angola, while assets are the stable and growing neighbours Botswana and South Africa.

For SADC, South Africa may act as a conduit through which external resources including FDI may be channelled to the rest of the region. An FTA or customs area dominated by a single large nation need not necessarily be doomed to failure – the large member can persuade its neighbours by making side payments (Jebuni, Ogunkola, Soludo 1999).

The North American Free Trade Area (NAFTA) provides lessons regarding the possible impacts of integration of a small poor country (Mexico) with large rich countries (USA, Canada). The experience suggests that all three countries have benefitted by specialising in areas of comparative advantage despite enormous disparity in size and economic development levels. However, members of NAFTA started from substantially more liberal trade systems than is the case in southern Africa, and have a much higher proportion of intra-regional trade.

The lessons that seem to emerge for Namibia are that neighbourhood to South Africa is principally beneficial and that potential and actual negative impacts should be investigated, and the result be used as a basis to further improve benefits from neighbouring a large country.

3 Implications of NEPAD

Information and analysis of the previous chapter have equipped us with a background to appreciate the economic implications of NEPAD for Namibia. As a start, the following table sets out the key elements of the NEPAD strategy.

**Box 1 The structure of the NEPAD strategy**

<table>
<thead>
<tr>
<th>Preconditions for development</th>
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<tbody>
<tr>
<td>Peace, security and democracy and political governance</td>
</tr>
<tr>
<td>Economic and corporate governance, with a focus on public finance</td>
</tr>
<tr>
<td>Regional cooperation and integration</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Priority sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
</tr>
<tr>
<td>Information and communication technology</td>
</tr>
<tr>
<td>Human development, with a focus on health and education and skills</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
</tbody>
</table>
Promoting diversification of production and exports, with a focus on market access for African exports to industrialized countries

**Mobilising resources**

Increasing savings and capital inflows via further debt relief. Increased ODA flows and private capital, as well as better management of public revenue and expenditure

Source: Gelb (2002: 29)

The following table summarises possible drawbacks and advantages of NEPAD from a Namibian perspective. These are discussed in the following in turn.

**Table 2 Economic aspects of NEPAD in Namibia**

<table>
<thead>
<tr>
<th>Possible drawbacks</th>
<th>Possible advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Loss of sovereignty</td>
<td>1. Further improvements of governance</td>
</tr>
<tr>
<td>2. Dilution of priorities, overloading of limited human resources</td>
<td>2. Increased credibility of policies</td>
</tr>
<tr>
<td>3. Being part of inferior group</td>
<td>3. Improved regional neighbourhood</td>
</tr>
<tr>
<td>4. Neo-liberal policies</td>
<td>4. Promoting diversification</td>
</tr>
<tr>
<td>5. Imposed, rather than truly African policies</td>
<td>5. Mobilization of resources</td>
</tr>
</tbody>
</table>

**3.1 Loss of sovereignty**

Probably the most important concern about NEPAD is its infringement on national sovereignty. This concern is in particular expressed on the African Peer Review Mechanism (APRM). In fact, the APRM implies a high degree of submission to judgments on domestic policy (political and economic governance) by foreign instances. As the current discussion in the European Union on issues of fiscal deficit show, such judgments are even highly disputed in areas with a long history of regional integration.

However, total national sovereignty has become increasingly a fiction in these times of globalisation. Even a country like the US has agreed to be member of a body like the World Trade Organisation (WTO) whose dispute settlement mechanism can rule about national trade policies of any country and impose sanctions. Thus, even the most powerful countries have realized that to be part of international organizations and treaties bring advantages that clearly outweigh any costs implied by the loss of sovereignty. No country can any longer exist in isolation. Furthermore, those countries that are most isolated (e.g., Burma, North Korea), have to pay a high price in terms of economic welfare). In a time of increasing mobility of resources, countries compete increasingly for these resources. These include not only capital and technology, but also human resources – skilled professionals of own and foreign
nationality. By providing attractive conditions, countries manage to attract more resources, while unfavourable conditions will result in outflows of resources.

When it comes to African countries, other arguments add to these general points. In difference to very large countries like the US, Russia or China that have a large domestic market, all African countries are indispensably dependent on highly participating actively in the global economy. In difference to bodies like the Association of South East Asian Nations (ASEAN) or the Free Trade Area of the Americas (FTAA), even if we assume a full economic union of all Africa, this union would be highly dependent on the global economy for exports and imports.

3.2 Dilution of priorities, overloading of limited human resources
Namibia is a small country not only in terms of population, but, even more importantly, in terms of a very limited pool of human resources. This exacerbates the problem of small countries facing a minimum size of public administration. As explained above, Namibia is a member of WTO (and various other global institutions), CMA, SACU, SADC, in addition to Africa-wide organizations as the AU. In theory the sub-regional blocs as SADC are supposed to be building blocs of an Africa wide union, and the two levels of integration should reinforce each other. However, even about the largest country, South Africa, it is reported that its engagement in NEPAD slows down its engagement in SADC.

Namibia’s Directorate of International Trade, for instance, is clearly overstretched with its obligations to attend to matters of WTO, SACU, SADC, bilateral trade negotiations with the EU and the US: Thus, there is clearly a capacity problem to attend to NEPAD matters.

3.3 Being part of inferior group
A key point of departure for NEPAD is the inability of many African countries to accomplish the improvements in political, economic and corporate governance that have now been identified as preconditions of development. For this reason, there is the need for collective action by African states to create an external source of pressure on these weak states.

As explained above, Namibia is clearly not one of these weak states that need external pressure to achieve reasonable states of governance. Namibia is superior to most African states in terms of political, economic and corporate governance. In fact, one could argue that it might be disadvantageous for Namibia to be identified with ‘Africa’ that most outside observers (in particular investors looking for favourable locations) see as a troublesome, problematic region.

3.4 Neo-liberal policies
One of the strongest criticisms of NEPAD is that it imposes conservative economic policies – e.g. conservative fiscal policies - that may at best be suitable for industrial countries, but have proven to be unsuccessful in developing countries. These
policies are equated by many civil society groups in both developing and developed countries with standard IMF/World Bank policies.

Whether true or not, this criticism is not applicable to Namibia, as the NEPAD strategy does not imply any departure from the set of economic policy that Namibia is following anyway.

3.5 Imposed, rather than truly African policies

Related to the previous argument is the suspicion that the NEPAD programme may be written by African policy makers and institutions, but meets nevertheless what donors would like to see. In departure from previous policies that presented alternatives if not contrasts to what donors recommended, NEPAD presents what it wishes to see as a joint agreement of both African leaders and global leaders as well.

This concern points in fact to a dilemma that African leaders have: They need to convince donors that NEPAD does in fact reflect their own genuine convictions rather than having merely been written in order to please donors and so open the access to new donor funds once more. Given the long history of imposed economic reform policies as conditions for donor funds that have not worked (for either or both unrealistic programmes or insufficient commitment), this is a difficult task. Initially, donors will not be able to distinguish between commitments that are made to please donors and genuine commitments. Commitments by African leaders alone will not be enough, they will have to establish a track record of fulfilling commitments.

3.6 Further improvements of governance

Despite the fact that Namibia does not belong to the weak states, it can gain from committing to NEAPD mechanisms as from any international agreements. Although Namibia has improved its standards of governance considerably, there are still many areas where improvements can be made (particularly in corporate governance). Furthermore, even to maintain present standards, international comparison and observation can help. This is particularly true in Namibia that has still a weak civil society and weak parliamentary opposition.

3.7 Increased credibility of policies

As explained above, Namibia has a good set of policies and a good standard of political, economic and corporate governance. Nevertheless, enshrining these principles and standards through NEPAD can be positive. This is because international agreements that are voluntary, credible and impose costs from refraining from them are superior to national policies that could be changed at any time. Of course, this positive assessment of NEPAD depends on its credibility that it still has to gain.

3.8 Improved regional neighbourhood

As explained above, the state of neighbouring economies has high influence on the fortune of states. For Namibia, the neighbourhood to South Africa and Botswana is
positive. But the troublesome economies of Angola, Zambia, and Zimbabwe result in lower growth rates in Namibia than it would have otherwise.

Thus, it is in Namibia’s own self-interest to assist these countries and the region as a whole. This assistance could take the form of encouraging countries in the region to join the club of NEPAD, of leading by example, and of assisting through advice and peer review.

3.9 Promoting diversification

NEPAD’s strategy aims to promote diversification of production and exports with a focus on market access for African exports to industrialised countries. Market access is to be improved through trade negotiations as an African bloc.

Like that of most other countries, Namibia’s production and export structures are highly specialized on a few raw materials. Market access in industrialized countries can be improved through trade negotiations as part of a bloc. Although there is scope for intra-African trade liberalization as trade barriers are still high, the scope for diversification of production through trade within African is limited because of low incomes and similar production structures.

3.10 Mobilization of resources

The NEPAD strategy aims to increase savings and capital inflows via further debt relief, increased ODA flows and private capital, as well as better management of public revenue and expenditure.

This element is only partly relevant for Namibia. Savings are high and investment is picking up. Namibia has little foreign debt and aid on a per capita basis is already very high. The chronic imbalance between high savings and lower investment, resulting in an outflow of resources, can be expected to change because of an increased credibility of Namibian policies.

4 Conclusion

The discussion in chapter 3 suggests that most of the concerns do not stand up to close examination while significant gains can be made through NEPAD. However, a careful engagement that matches existing engagements, avoiding to compromise them, is called for.

The comparison between the discussions of NEPAD in Namibia and the factual analysis of economic aspects of NEPAD confirms the observation that there is insufficient and selective knowledge about NEPAD. The desirability for more intensive information about and open discussion on NEPAD in Namibia does also emanate from another angle: a participation of NEPAD and its principles by a country can only be valid if and when it is underpinned by support of the public, the civil society. External pressure for endorsement of NEPAD on any country can only assist in a sustainable way to improve standards of governance when it is accompanied by internal demand.
Economic policy researchers and research institutes can help this process in many ways. Among these is increased cooperation. Various networks have come into existence, for instance the Southern and Eastern African Policy Research Network (SEAPREN). Another way is the monitoring of the progress of regional integration (see e.g. the Monitoring Regional Integration Yearbook).

NEPAD may provide an opportunity for Namibia to present itself and its exemplary progress in governance to the wider world. Together with other states advanced in their development of governance as Botswana and South Africa, perhaps Mozambique, Namibia could lead the way as an example of good governance and integration.

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