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Economy Watch Namibia – September 2014

SADC – EU Economic Partnership Agreement (EPA) negotiations finalised

The so-called SADC EPA group has initialled the EPA with the EU just before the 1 October 2014 deadline set by the EU. It is the first regional grouping in Africa to have successfully finalised the EPA negotiations with the EU. This has brought to an end ten years of protracted negotiations between a group of SADC countries that first consisted of the SACU member states joined by Angola, Mozambique and Tanzania. Tanzania took a logical decision and joined the East African Community for the negotiations, while Angola opted out to trade with the EU under the Everything-but-Arms (EBA) schemes that allows Least Developed Countries duty-free, quota-free access to the EU market for almost all products except arms. South Africa joined the negotiations although it has been trading with the EU under its bilateral and reciprocal Trade and Development Cooperation Agreement (TDCA).

Negotiations for a new trade arrangement were necessitated by the fact that the existing Cotonou Agreement between the EU and most of its former colonies in the African, Caribbean and Pacific (ACP) regions provided for non-reciprocal preferences, which are not in line with the World Trade Organisation's regulations. The WTO granted a waiver until the end of 2007 for the continuation of the Cotonou Agreement, which put pressure on the parties to agree on new terms. The SACU countries initialled an EPA with the EU in December 2007, which resulted in duty-free, quota-free (DFQF) access to the EU market.

Three economic sectors in Namibia benefited in particular from the DFQF access, namely beef, grapes and fish. The grape industry initially benefited from an 800 tonnes duty-free quota for seedless grapes that was allocated to ACP countries, but could only be exploited by Namibia, since it was the only country that could produce grapes during the time for which the quota was provided. Although the quota accounted for a small proportion of Namibia's current total grape exports of some 20,000 tonnes to the EU, it provided the incentives for a growing industry that employs now about 3,500 permanent and 7,500 temporary workers along the Orange river. If negotiations had failed, grape exports would have attracted an 11.5 per cent duty, which would –at least – have squeezed the profit margin of Namibian producers since they were to compete against the duty-free South African exports under the TDCA. Namibian meat exports would have received a 12.8 per cent custom duty and in addition a lump sum per 100kg of meat exports. Hoffmann calculated the potential total losses to the Namibian economy at NAD671 million annually owing to the custom duties that would have been carried by Namibian producers.

The successful negotiations solved controversial topics such as

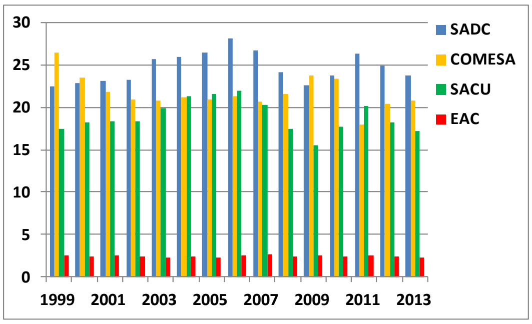
Further reading

Gerhard Erasmus – Legal and institutional aspects of the SADC EPA, tralac Working Paper No S14wp07

Jürgen Hoffmann –The possible effects on the Namibian economy of signing or not signing the EPA, tralac Trade Brief No US14TB03

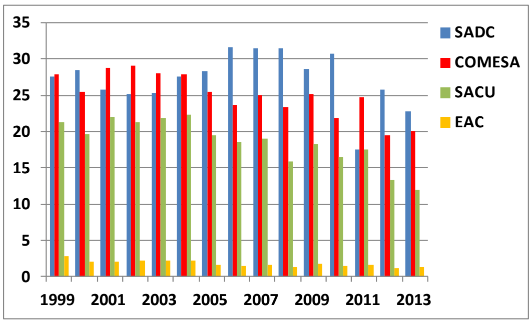
EU Commission – Economic Partnership Agreement with SADC EPA Group

EU exports to SADC, COMESA, SACU and EAC as share of total EU exports to Africa

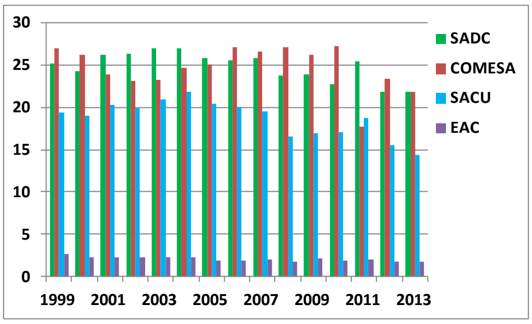


Source: tralac trade synopsis Aug 2014, based on Global Trade Atlas

EU imports from SADC, COMESA, SACU and EAC as share of total EU imports from Africa



Total EU trade with SADC, COMESA, SACU and EAC as share of EU's total trade with Africa



Controversial topics solved

Infant Industry Protection, agricultural safeguard clauses, Most Favoured Nations clauses and application of export taxes that are now permitted for a limited number of specific minerals.

Rules of origin for fishery products

Furthermore, Namibia successfully negotiated the application of the Rules of Origin to her fishery products that are caught in the 200 nautical miles Exclusive Economic Zone and processed on land rather than the 12 nautical miles zone the EU insisted on initially. While the SACU member countries and Mozambique continue to enjoy DFQF access to the EU market, the countries are only required to start the process of opening their borders for EU products once the agreement has been ratified by all countries, which could take up to a year. Most likely not much will change for the SACU countries, since they are in a customs union with South Africa and hence, the EU countries had already access to their markets through the TDCA.

Potential erosion of preferences

While the initialling of the EPA has brought relief to the affected industries, it is in no way time for complacency. The benefit of preferential access to the EU will erode over time, since the EU is negotiating free trade agreements with other countries and regional groupings. It has just signed the Comprehensive Economic and Trade Agreement (CETA) with Canada and is negotiating a mega-trade deal with the USA – the Transatlantic Trade and Investment Partnership (TTIP). The USA is involved in the second mega trade agreement, namely the Trans Pacific Partnership (TTP) with countries around the Pacific.

New standards will be set by mega trade agreements

Although Namibia (or other third parties) is not directly affected, these agreements will affect us since they ease access to these markets for other producers and have the potential to redirect trade and investment flows. Moreover, these agreements are reportedly setting new standards for investor and other protection that will set the scene for Investment Agreements elsewhere. They also open the debate concerning what services should remain public services and hence not be opened up for private domestic and or foreign investors, including health, education, and water. It is therefore necessary to follow and analyse these negotiations closely and raise concerns with the respective parties in time.

Diversify markets, increase competitiveness

Namibia needs to diversify the product range and export markets and become more competitive (and we are not making much progress on that score – see page 3). Increasing the competitiveness implies among others having access to more efficient services that play an important role in the whole production process. One case in point is the transport sector and the cabotage system that need to be reviewed, also in order to achieve our NDP4 objective of becoming the logistic hub of southern Africa.

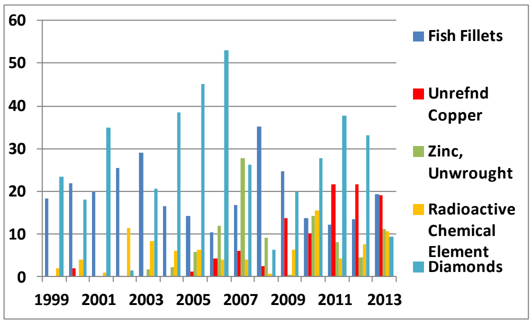
Economic growth

Economic growth in Namibia for 2013 has been revised upward from 4.4 per cent to 5.1 per cent in the final National Accounts. This is mainly attributed to a considerable adjustment by 10.2 percentage points from 4.3 to 14.5 per cent for Wholesale, retail trade and repairs that contribute some 11 per cent to GDP.

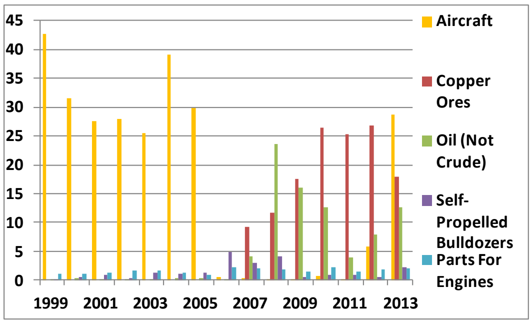
Growth prospects re-

Growth prospects remain strong for 2014 and the following

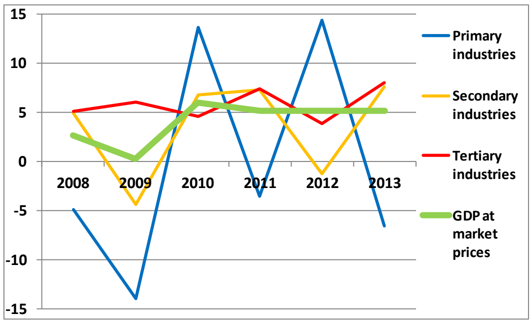
Namibia's five major exports to the EU in per cent of total exports to the EU, 1999 to 2013



Namibia's five major imports from the EU in per cent of total imports from the EU, 1999 to 2013



GDP growth 2008 to 2013 in per cent



Source: Namibia Statistics Agency

main strong for Namibia

years owing to robust growth in the construction industry that expanded by almost 30 per cent in 2013 and the commencement of production at new mines and the new brewery, to name a few. Not much impetus, however, can be expected from the global economy with the Euro zone facing stagnation and China likely to miss its growth target for 2014 of 7.5 per cent.

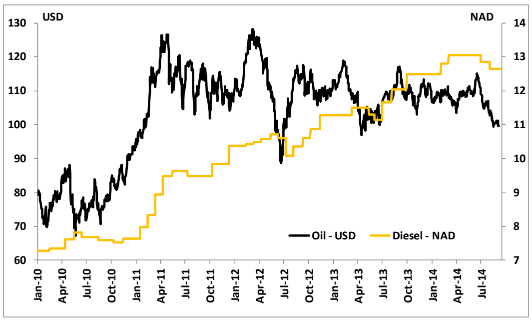
Commodity prices

Oil price under pressure, benefiting motorists

Barrel of oil – 158 litre

Oil prices have dropped further and stayed below USD100 per barrel in the middle of August and at the beginning of September. At USD99.37 per barrel on 18 Aug 2014 oil was trading at the lowest price since May 2013. Weaker than expected global growth and increased output of shale oil production in the USA played out stronger than fears of oil supply disruptions in countries such as Libya and Iraq. Motorists in Namibia benefitted this time from lower petrol prices by NAD0,30 per litre in September after diesel prices were reduced in each of the previous two months by NAD0.20 per litre. Subsequently, inflation for the operation of personal transport equipment dropped from 11.3 to 5.6 per cent between June and August 2014. Fuel contributes 5 per cent to the total inflation rate.

Oil (left scale) and diesel prices (right scale), Jan 2010 to Sep. 2014.



Source: EIA, daily data (Oil), MME: diesel

Uranium price recovers slightly

The uranium price started recovering in August 2014 and has been supported by Japan's nuclear energy regulator's decision at the beginning of September 2014 to approve the re-starting of two nuclear reactors. All Japanese nuclear reactors were shut down, after a tsunami hit the country at the beginning of 2011. Since Japan relied on additional oil and gas imports to generate electricity, the re-starting of the nuclear reactors if extended to the remaining 46 would reduce the demand for fossil fuels. However, uranium prices at USD32.75 per pound are still 5.1 and 3.7 per cent below prices at the beginning of 2014 and a year ago respectively.

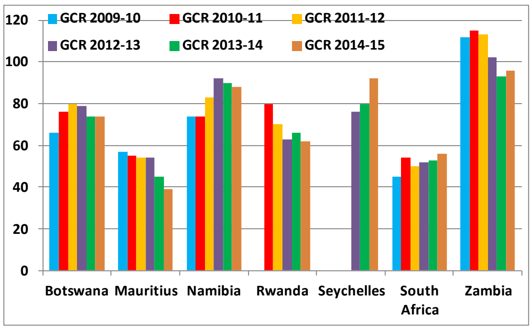
Uranium prices in USD per pound, Jan. 2005 to Sep. 2014

Source: Ux Company, daily data

GCR and NDP4

The World Economic Forum released its annual Global Competitiveness Report (GCR) 2014-15 at the beginning of September. 144 countries took part in the survey compared to 148 last year. It is one of the global rankings that receive much attention from Governments, the private sector (in particular potential investors) and the media alike. This is no different in Namibia - may be even more so, since some of our national priorities are linked to the results of the GCR.

Namibia's GCR ranking compared to other countries, 2009/10 to 2014/15



Source for all graphs: World Economic Forum

Overall ranking improved because some countries did not participate

Namibia improved her ranking from 90 to 88 out of 144 countries. This is, however, not the result of an improvement in the country's competitiveness, but was caused by the absence of three countries in the current survey that were placed higher than Namibia in the previous one (Brunei Darussalam, Bosnia and Herzegovina, and Ecuador). If these countries had taken part again, Namibia would have dropped one place on the global scale. The country moved one place up to rank 5th among SADC member states because Seychelles dropped 12 ranks to place 92. Despite this improvement on the regional scale, Namibia has still quite some way to go to achieve the Desired Outcome of the Fourth National Development Plan of being the most competitive economy in SADC by 2017.

Since the ranking is very much influenced by the participation of

Namibia's global ranking in the three main pillars over time.

Score improved slightly

other countries and their performance, more emphasis should be placed on the score. Namibia's score improved marginally from 3.93 to 3.96 out of 7. While the country's score in the first two of the three main pillars remained the same – Basic requirements 4.4, Efficiency enhancers 3.7 – the score for Innovation and Sophistication factors showed a slight improvement from 3.3 to 3.4. This resulted in a substantial improvement in the ranking – up from 102 to 91. Namibia received the lowest scores in the pillar 'Market size' (2.7) and there is little we can do about it, although the country's membership of a Customs Union implies a potentially much larger market. The other areas consist of 'Innovation' (3.1), 'Higher education and training' (3.2) and 'Technological readiness' (3.4).

Weaknesses…

…and strengths

The country scored highest regarding 'Macroeconomic environment' and 'Health and primary education' with 4.6 each. However, the score for the latter one is still far below other countries and places Namibia at 115th out of 144. Other highlights include 'Financial market development' (4.4, place 46), 'Labour market efficiency' (4.3, rank 55) and 'Institutions' (4.2, rank 50).

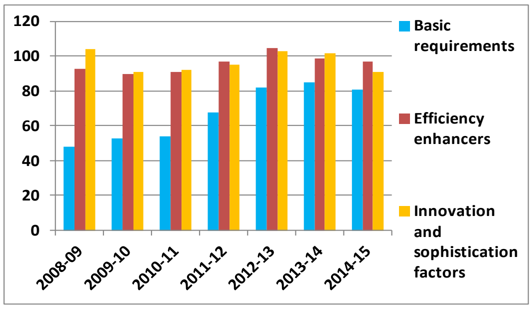
Link to NDP4

Besides aspiring to become the most competitive economy in SADC, Namibia also aims at improving the 'Availability of latest technologies' score to 6.0 during the NDP4 period. The current score remained at 5.2. The Desired Outcome in NDP4 for the tourism sector is also linked to the country's competitiveness and aims at Namibia being the most competitive tourism destination in Africa according to the biannual Travel and Tourism Competitiveness Index with a score of 4.4 out of 7. Quite a number of indicators in both indices are the same. The factors holding back Namibia are mainly the education and training sector and the availability of technologies and other infrastructure, which will most likely result in missing the target.

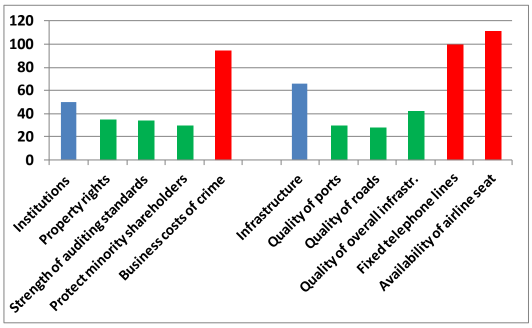
Way forward

Ongoing reforms initiated by MTI such as the establishment of the Business and Intellectual Property Authority (BIPA) as a one-stop shop for business and Intellectual Property Right registration will improve Namibia's competitiveness over time. The establishment of the Namibia Commission of Research, Science and Technology and the upgrading of the Namibia Business Innovation Centre to an Institute indicate that the area of research receives much more attention. However, in order to support research in Namibia the restrictive regulations governing this area need to be reviewed as a matter of urgency.

While these and other areas such as infrastructure receive attention, we need a much stronger prioritisation in budgetary allocation and stronger policy coherence if we want to catch up with other economies in the region and globally. There are areas that could be improved more easily such as 'Customer orientation', in which the country ranks 134 out of 144.

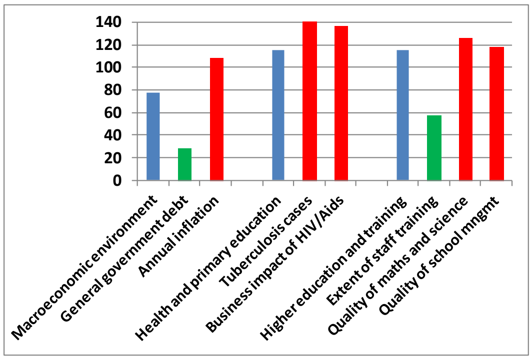


Score of some selected indicators for Institutions and Infrastructure

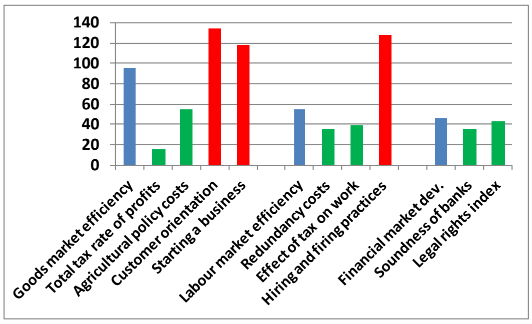


Note: The blue bar illustrates the score for the respective sub-pillar while the green and red bars highlight the strength and weaknesses within these sub-pillars.

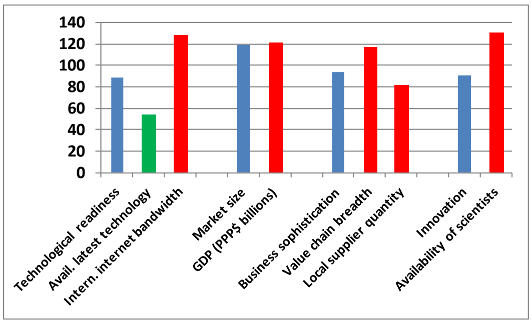
Score of some selected indicators for Macro-economy, Health and Education



Score of some selected indicators for market efficiencies



Score of some selected indicators



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