

13 Integrating small African economies into global value chains through foreign aid: the case of Namibia

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13.1 Introduction

The aim of this chapter is to examine the broad framework which has been evolved for the reception of Aid for Trade (AFT) in Namibia. The economic situation before this period included the prevalence of poverty, the HIV/AIDS pandemic, low educational opportunities and a very highly skewed or unequal distribution of the wealth of the country, which has increased income inequalities and unsustainable economic growth, as outlined in *Namibia Vision 2030* (Namibia, Office of the President, 2004). In this regard, Namibia shares this economic dependency at the regional level, and most trade and economic relationships are mainly with Botswana, Lesotho, Swaziland and South Africa, all of which are members of the Southern African Customs Union (SACU) and Southern African Development Community (SADC). The objective is to create a free trade area in the Southern Africa region.

This chapter will examine both the legal and policy framework implemented to manage the inflow of foreign aid and technical assistance to assist Namibia's development and increase its trade capacity, within the Southern Africa region and globally. It also reviews the amounts of foreign aid inflows into the country. Finally, the sources of such inflow and a brief assessment of the effectiveness of aid in enhancing the trade capacity of Namibia will also be examined and discussed.

13.2 Economic development and foreign aid: legal and policy framework

The Namibian Constitution in Article 148 spells out the economic framework and vision to be pursued in order to sustain growth. Chapter 11 of the Constitution contains the "principles of state policy". Article 98 thereof deals with the principles of

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economic order which were set forth to guide the general economic direction to be followed by both the incoming independence government and subsequent governments of the country. These constitutional provisions were also meant to serve as broad guidelines for the crafting of the country's economic policy.

In this regard, Article 98 (1) provides that "The economic order of Namibia shall be based on the principles of a mixed economy with the objective of securing economic growth, prosperity and a life of human dignity for all Namibians." Article 98(2) provides for the various forms of ownership of property in the country. Inter alia, these include public, private, joint public-private, etc. As constitutional provisions, they are stated in very broad terms and are not spelled out in much detail. For example, the questions of foreign aid in general and AFT in particular, and their role in the economy, are not even mentioned in any specific way. This is left to other major national policy framework documents such as *Namibia Vision 2030* and various national development plans (NDPs). The country is currently in the midst of concluding the implementation of the Third National Development Plan (NDP3). The Fourth National Development Plan (NDP4) has been prepared and will be in effect from 2012/13 to 2016/2017 (NPC, 2013).

In the pursuit of its economic development agenda, as stated in *Namibia Vision 2030*, Namibia welcomes various forms of partnership. These entail "partnerships between government, communities and civil society, with the private sector, non-governmental organizations and the international community...". At the same time, paragraph 30 states several policy objectives, including that of transforming the country from its current status of an aid-receiving lower-middle-income country into "that of a provider of development assistance" (Namibia, Office of the President, 2004).

13.3 Economic context in which Aid for Trade operates

Namibia is a country with a very small population – about 2.5 million people (NSA, 2011). It is still largely reliant on the export of primary products in agriculture, such as fish and animals. The role of mining is predominant as the country is rich in diamonds and uranium and other minerals which it produces and exports. The manufacturing base of the Namibian economy is still relatively low. The country is very heavily dependent on trade, especially with South Africa (AFDB, 2009). As Namibia is a member of both SACU and SADC, Namibian exports enjoy duty free access to the economies of Botswana, Lesotho, South Africa and Swaziland. Within SADC, the target is to deepen economic integration and ensure that there is a free trade area among the economies of its 15 member states. In many ways, this is as yet a "work-in-progress", which should be a major candidate or target for the inflow of AFT funding for Namibia. The objective is to develop the country's infrastructure, such as roads, railways and ports, to facilitate intra-regional trade.

These broad observations on the nature of Namibian trade flows are borne out by a more detailed analysis of the recent patterns of trade between the country and its trading partners. In 2012, minerals such as diamonds, precious or semi-precious stones and metals dominated Namibia's exports, amounting to 29 per cent of the country's total exports compared with 28 per cent in 2011. The second largest category of exports consisted of ores, slag and ash, which accounted for 18 per cent of total exports, an increase on 15 per cent on 2011. The third largest category of exports included fish, molluscs and other aquatic resources, amounting to 14 per cent, the same as in 2011 (see Table 1).

In 2012, there was a marked increase of almost 2,000 per cent in the value of exports of chemicals. Vehicles exports (mainly re-exports) recorded 60 per cent growth in value, while ores, slag and ash recorded a 45 per cent growth in value. On the other hand, a traditional Namibian mineral export, copper, dropped in value by almost 50 per cent due to the closure and rehabilitation of the country's copper smelter at Tsumeb in the northern part of the country (NSA, 2012). Table 1 illustrates movements in Namibian exports between 2011 and 2012. Values are expressed in Namibian dollars (N\$).

Table 1 Change in value of Namibia's exports, 2011-2012

HS code	Commodity descriptions	2012		2011		Percentage change in value, 2011-2012
		Value (N\$ million)	Per cent	Value (N\$ million)	Per cent	
71	Diamonds, precious or semi-precious stones and metals	12,054	28.6	10,184	27.6	18.4
26	Ores, slag and ash	7,766	18.4	5,356	14.5	45.0
3	Fish and crustaceans, molluscs and other aquatic invertebrates	5,716	13.6	5,145	14.0	11.1
79	Zinc and articles thereof	2,265	5.4	2,391	6.5	-5.3
22	Beverages, spirits and vinegar	1,982	4.7	1,663	4.5	19.2
74	Copper and articles thereof	1,550	3.7	2,992	8.1	-48.2
87	Vehicles	1,524	3.6	952	2.6	60.1
2	Meat and edible meat offal	1,493	3.5	1,388	3.8	7.6
25	Salt, sulphur; earths and stone; plastering materials, lime and cement	837	2.0	744	2.0	12.4
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare earth metals, of radioactive elements or isotopes	772	1.8	37	0.1	2,009.9
	Other products	6,210	14.7	5,987	16.3	3.7
	Total	42,170	100.0	36,838	100.0	

Source: Namibian Statistics Agency (NSA), 2012

In 2012, Namibia's main imports consisted mainly of mineral oils and their products, which accounted for 13 per cent of total imports. This represented an increase on the 9 per cent recorded in 2011. The increase in value of oil imports can be explained by the recent marked depreciation of the South African rand to which the Namibian dollar is pegged. The importation of vehicles was the second most important category, at 11 per cent of total imports (down slightly on 2011). Boilers, machinery and various mechanical appliances occupied third place at 9 per cent of total imports, a decrease from the 10 per cent recorded in 2011 (see Table 2).

The pattern of Namibian exports in 2012 shows some interesting changes. In 2012, South Africa remained the main destination for Namibian exports; that country imported goods worth N\$7 billion. This was followed by the United Kingdom, which imported N\$ 5 billion worth of Namibian exports, then Angola and Belgium (N\$ 3 billion each). In percentage terms, this represented 16 per cent of Namibian exports going to South Africa, 12 per cent to the United Kingdom, and 9 per cent to Angola and Belgium. In 2011, the export figures were 18 per cent to South Africa, 17 per cent to the United Kingdom, 9 per cent to Angola and 6 per cent to Belgium. The

Table 2 Change in value of Namibia's top imports, 2011-2012

HS code	Commodity descriptions	2012		2011		Percentage change in value, 2011-2012
		Value (N\$ million)	Per cent	Value (N\$ million)	Per cent	
27	Minerals, fuels, mineral oils and products of their distillation	7,802	13.1	4,333	9.0	80.1
87	Vehicles	6,779	11.4	5,861	12.2	1,507.0
84	Boilers, machinery and mechanical appliances; parts thereof	5,289	8.9	4,979	10.4	6.2
71	Diamonds, precious or semi-precious stones and metals	3,139	5.3	2,617	5.4	20.0
85	Electric machinery and equipment and parts thereof	2,937	4.9	2,621	5.5	12.1
26	Ores, slag and ash	2,926	4.9	1,652	3.4	77.2
89	Ships, boats and floating structures	2,454	4.1	112	0.2	2,095.6
73	Articles of iron or steel	2,329	3.9	2,148	4.5	8.4
30	Pharmaceutical products	1,300	2.2	1,350	2.8	-3.7
22	Beverages, spirits and vinegar	1,289	2.2	1,188	2.5	8.4
	Other products	23,264	39.1	21,204	44.1	9.7
	Total	59,407	100.0	48,064	100.0	

Source: NSA (2012).

decrease in Namibian exports to its traditional export destinations such as South Africa and the United Kingdom is explained by the fact that there was a relatively steep increase in exports to Botswana in this period, amounting to almost 10 per cent of Namibia's exports in 2012, from a very low base of less than 5 per cent in the previous year. Exports of diamonds, precious or semi-precious stones accounted for much of this increase in exports to Botswana. Furthermore, in 2012, there was a significant increase in Namibian exports to Switzerland, amounting to about 4 per cent of total exports (NSA, 2012).

In 2012, the value of Namibian imports amounted to about N\$ 59 billion, compared with N\$ 48 billion in 2011, an increase of about N\$ 10 billion or 22 per cent. The major countries from which Namibia imported goods were South Africa (N\$ 41,571 billion), Switzerland (N\$ 3,513 billion) and China (N\$ 2,372 billion). Other trading partners from which Namibia imported goods were export processing zones (N\$ 1,473 billion), the United Kingdom (N\$ 1,434 billion), Germany (N\$ 1,189 billion) and Botswana (N\$ 931 million). As far as intra-SADC trade is concerned, there is an encouraging development: there was a marked increase in Namibian imports from neighbouring countries such as Zambia and Botswana. In the case of Zambia, the increase in the volume of exports to Namibia was from N\$ 92 million in 2011 to N\$ 947 million in 2012 (see Table 3). The reasons for these positive developments are, perhaps, the improvements in road infrastructure connecting these neighbours and a more serious commitment to the implementation of the SADC trade protocol.

Table 3 Namibia's major import partners, 2012 and 2011

Country	2012		2011	
	Value (N\$ million)	Per cent	Value (N\$ million)	Per cent
South Africa	41,571	69.9	36,491	76.0
Switzerland	3,513	5.9	1,992	4.1
China	2,372	4.0	1,456	3.0
Export processing zones	1,473	2.5	1,124	2.3
United Kingdom	1,434	2.4	1,628	3.4
Germany	1,189	2.0	1,034	2.2
Zambia	947	1.6	92	0.2
Botswana	931	1.6	235	0.5
The Netherlands	667	1.1	99	0.2
Singapore	449	0.8	30	0.1
Other countries	4,958	8.3	3,844	8.0
Total	59,505	100	48,025	100

Source: NSA (2012).

In the context of Namibia's pattern of trade with economic blocs, it is worth noting that, during 2012, the bulk of Namibian exports went to SADC member states – goods worth N\$ 15.750 billion, representing 32 per cent of total Namibian exports for the year. In the preceding year, Namibia exported goods worth N\$ 11.738 billion to SADC member states, representing 29 per cent of its total exports. Non-SACU SADC countries, such as Angola, account for about 38 per cent of Namibia's exports to SADC member states. During 2012, Namibian exports to the Common Market for Eastern and Southern Africa (COMESA) grew to about 5 per cent of total exports. Meanwhile, Namibian exports to the European Union (EU) dropped from 38 per cent in 2011 to 31 per cent in 2012 (NSA, 2012).

Regarding trade with economic blocs, Namibia sourced the bulk of its imports in 2012 from SADC countries. The value of total imports from this bloc was N\$ 44.444 billion compared with imports from SACU countries at N\$ 42.669 billion (this represents 20 per cent of growth in total imports from SADC countries and 16 per cent from SACU member states over 2011). It should be noted, however, that, unlike Namibia's exports to SADC, which have diversified destinations, Namibia's imports are almost exclusively derived from SACU member states and one country, South Africa, in particular (from which Namibia sourced 70 per cent of its imports in 2012). Among the sources of Namibian imports, the EU came a distant third, representing only 5 per cent of total imports (NSA, 2012).

13.4 The structure and sources of Aid for Trade in Namibia

In recent times, the most significant study of the issue of AFT in Namibia is a 2011 report jointly commissioned by the Ministry of Trade and Industry (MTI) and United Nations Development Programme (UNDP), entitled *Integrating Globally: Namibia's Aid for Trade Framework and Strategy*. According to this detailed study, in 2009 Namibia's main AFT donors were Japan (US\$ 37 million), Germany (US\$ 17 million), the EU (US\$ 5 million), France (US\$ 4 million) and Spain (US\$ 2 million). In the period 2006-2009, both the AFT donors and the amounts of funding varied as other countries which provided such funding included Canada, Denmark, Finland, Norway and the UK.

The study identifies that, while US\$ 130 million was committed to Namibia to support various areas of trade, only the considerably lesser amount of US\$ 61 million was actually disbursed. It does not proffer any reason for this. However, in view of the widely known lack of capacity in the country, this situation could be due to an inability on the part of the relevant recipient sector ministries to properly plan the expenditure of such an amount. The disbursements were used to develop economic infrastructure (US\$ 48.7 million) and to build productive capacity

(US\$ 12.5 million). In addition, US\$ 232,000 was disbursed for the development of trade policy and regulation. However, further understanding the breakdown and analysis of these figures in terms of their effectiveness in actually boosting national trade capacity and actual trade is very difficult. In this respect, the report states that:

(...) due to [the] lack of [a] national Aid for Trade coordinating and monitoring mechanism it is difficult to ascertain the following: whether these were additional resources and were predictable; to what extent were they aligned to national development objectives and priorities; whether the identification and formulation of these Aid for Trade investments was participatory and inclusive; and what were their development impacts" (MTI and UNDP, 2011).

Table 4 shows AFT commitments to and disbursements in Namibia, focusing on the period 2006-2009.

Table 4 Aid for Trade flows to Namibia, 2000-2009 (US\$ thousand, 2009 constant prices)

Areas	Commitments					Disbursements			
	2000-05 average	2006	2007	2008	2009	2006	2007	2008	2009
Trade policy and regulations and trade-related adjustment									
Trade policy and administrative management	1,148	...	80	146	201	...	80	129	231
Trade facilitation	35	170	3	...	...	170	3	...	...
Regional trade agreements (RTAs)	...	8	63	...	...	8	63	...	...
Multilateral trade negotiations	...	...	106	...	6	...	106	...	1
Trade-related adjustment	...	...	...	...	...	...	...	...	...
Trade education/training	67	...	861	213	...	...	861	213	...
Sub-total	1,250	178	1,113	358	207	178	1,113	342	232
Economic infrastructure									
Transport and storage	14,825	106,422	2,804	13,160	4,585	5,373	10,327	16,236	52,939
Communications	599	221	222	12,451	116	431	513	6,990	-8,716
Energy supply and generation	1,136	229	17	49,906	84	1,193	770	732	4,487
Sub-total	16,559	106,872	3,043	75,517	4,785	6,996	11,610	23,957	48,710

Table 4 Aid for Trade flows to Namibia, 2000-2009
(US\$ thousand, 2009 constant prices) (continued)

Areas	Commitments					Disbursements			
	2000-05 average	2006	2007	2008	2009	2006	2007	2008	2009
Building productive capacity									
Business and other services	1,351	2,781	2,109	1,539	1,041	2,567	2,654	1,178	1,491
Banking and financial services	420	43	10,140	7,946	1,802	991	317	3,067	2,732
Agriculture	5,027	5,140	5,237	2,116	46,768	4,556	4,718	3,522	3,243
Forestry	1,472	1,117	1,366	777	1,082	1,422	1,817	1,166	1,328
Fishing	4,757	1,942	1,403	336	1,474	2,537	1,509	355	1,476
Industry	1,916	6,725	435	912	9,032	2,760	2,241	1,592	2,057
Mineral resources and mining	556	...	53	50	38	307	393	174	39
Tourism	376	212	6,918	2,694	64,570	328	6,919	200	164
Sub-total	15,876	17,960	27,662	16,372	125,806	15,468	20,568	11,255	12,530
Focus on trade development									
Principal objective	...	7,274	834	112,567	...	7,071	1,260	1,428	...
Significant objective	...	344	11,450	3,002	...	344	3,151	2,549	...
Sub-total	...	7,618	12,284	115,569	...	7,415	4,410	3,977	...
Total Aid for Trade	33,685	125,011	31,817	92,247	130,798	22,643	33,291	35,554	61,472

Source: MTI and UNDP (2011); calculations based on OECD-DAC, Creditor Reporting System (CRS) database.

Examining AFT funds received by Namibia in 2009, the categories to benefit most were economic infrastructure (79.24 per cent) and building productive capacity (20.38 per cent) (MTI and UNDP, 2011).

Although it is difficult to ascertain evidence explaining the criteria for identification of the above sectors or categories as suitable candidates for receiving AFT funding, a closer analysis of the detailed breakdown of the subcategories (shown in Table 4) would indicate that, in general, they are critical elements for the boosting of Namibia's capacity to participate in both regional and global trade.

With regard to the need to develop the necessary trade infrastructure such as inter-regional roads (both by sea and land), there is huge deficit in funding. Namibia also requires assistance to develop capacity in trade negotiations at regional and global levels. In this regard, in its country report on Namibia for 2009, the African

Development Bank (AFDB) identified the following areas of trade that it would be prepared to support:

- partnerships for trade and regional integration;
- the development of regional infrastructure;
- the facilitation of cross-border investment and capacity-building in trade and regional integration.

In respect of the last, the AFDB states:

The Bank will assist Namibia and other countries in SADC in building capacity in the following areas: (i) core competency in training, knowledge and institutional and managerial skills transfer for those involved in trade and regional integration negotiation; (ii) developing trade information documentation; and (iii) improving response capacity of existing and/or future exporters to meet the challenges and take advantage of the opportunities created by trade and regional integration agreements through improved information (awareness) and direct export development support (AFDB, 2009).

13.5 Problems in the development of Aid for Trade policy in Namibia

Specific problem areas in the development of AFT policy in Namibia were identified in the 2011 study discussed above (MTI and UNDP, 2011). A general consideration is that there are few opportunities for dialogue and consultation between the Namibian Government and donors, both in general and, more specifically, regarding AFT funds. The country does not have an overarching body or mechanism for the development and coordination of AFT policy because the national committee established for this purpose remains inactive. Therefore, a key challenge is to have more interaction among actors at the national level to identify priorities for implementation. In addition, there is, as yet, no comprehensive study of the AFT needs of the country. This makes it very difficult to identify specific national projects which can effectively serve Namibia's development needs in the area of trade and play the role of catalyst in boosting trade and economic development. On the whole, there is limited coordination among aid donors with a view to harmonizing their efforts in mobilizing aid assistance for the country (MTI and UNDP, 2011).

In the process of conducting this study, it emerged that there are at least four different agencies in Namibia which deal with various aspects of foreign aid flows into the country: the Ministry of Trade and Industry, Ministry of Finance, National Planning Commission and Namibia Statistics Agency. It proved extremely difficult to

source reliable data from these bodies on recent aid flows into the country, their breakdown, disbursement, expenditure and outcomes. It is, therefore, crucial to establish a process for an open and transparent national dialogue on the exact role of foreign aid in general and AFT in particular in the Namibian economy.

13.6 Conclusions and policy recommendations

This study has shown that Namibia contributes to both global and regional trade and, consequently, global value chains, by exporting to its traditional trading partners in Europe and the SADC region. There is, however, a notable weakness in the country's capacity to maximize its potential participation in both global and regional value chains. The reason for this is that the bulk of its export base is still unprocessed minerals and primary agricultural products. The manufacturing sector has remained largely undeveloped. As a result, there are supply-side constraints which inhibit the production of high quality products which would enable Namibia to effectively compete in both the global and regional markets.

Since the launch of the AFT initiative at the Sixth WTO Ministerial Conference in Hong Kong in 2005, Namibia has received financial and technical assistance aimed at boosting its regional and global trade, and developing its economic infrastructure and trade negotiation capacity. The purpose has been to advance the country's development goals as crystalized in *Namibia Vision 2030* and the various NDPs.

In this regard, it is submitted that the following policy recommendations will go some way towards attaining the goals of greater economic growth, the reduction of unemployment and the creation of higher living standards for the population. On the whole, Namibia has succeeded in establishing a relatively peaceful and secure environment in which to do business. However, while investment has flowed into the natural resource sector, the country has not succeeded in attracting substantial investment into the manufacturing sector. The Foreign Investment Act of 1992, which has been amended a number of times, requires a comprehensive review in order to create a more competitive environment to attract foreign investors into the manufacturing sector, if the country is to achieve its goal of becoming an industrialized nation by 2030. A well-coordinated programme on the effective use of foreign aid could assist in channelling resources to MTI to enable it to speedily complete the process of reviewing the country's investment laws.

This study has demonstrated that Namibia is gradually diversifying its export markets to include regional neighbours, such as Botswana and Zambia, and also global players, such as China. These first steps in diversification must be continued and consolidated. The focus must be on how the country can take advantage of its strategic position as a coastal state with relatively well-developed port facilities to promote increased regional trade with landlocked countries such as the Democratic Republic of Congo, Zambia and

Zimbabwe. AFT funds could be utilized to fund the completion of the Walvis Bay Corridor project, which is aimed at promoting intra-SADC trade and deeper economic integration. As this project has potential benefits for many countries within the SADC region, the Namibian Government should develop avenues for cooperation with these potential beneficiary countries.

It is imperative that a broad, national and foreign forum be convened urgently to provide a platform for a dialogue on the role of foreign aid in general and AFT in particular in Namibia. It is to be hoped that, at the conclusion of such discussion, a consensus would emerge regarding the designation of a single national body (such as the NPC) to be responsible for coordinating all aspects of foreign aid to and within the country. It is further to be hoped that this body will ensure transparency and accountability for the management of foreign aid funds by subjecting itself to parliamentary oversight.

The diversification of Namibia's exports and export markets is closely linked to the development of a comprehensive national policy on industrialization, which is being coordinated by MTI. A well-coordinated AFT programme has the potential to positively impact on the expeditious development of Namibia's industrialization policy, by channelling additional resources for the development of capacity and technical assistance within the Ministry.

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