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Overseas Development Institute
Briefing Paper
August 1989

ECONOMIC PROSPECTS FOR NAMIBIA

After more than one hundred years of German and South African colonial rule, the tripartite agreement signed between Angola, Cuba and South Africa on 22 December 1988 has finally cleared the way to independence in Namibia. The implementation of UN Resolution 435 from April 1989 is planned to lead to the UN-supervised election by proportional representation of a Constituent Assembly in November. During 1990 the assembly should adopt, by two-thirds majority vote, a constitution for Namibia which will determine the organisation and powers of all levels of government.

The new Government in Namibia will inherit a country of inhospitable terrain and an economy with a substantial natural resource endowment but characterised by extremely uneven development and dependence upon South Africa. This Briefing Paper considers the economic choices which await an independent Namibia.

Historical and political background

During the first world war South Africa occupied the German territory of South West Africa, which had been colonised in 1884. South Africa was given a mandate by the League of Nations in 1920 to administer the territory 'as a sacred trust of civilization'. From 1948, however, South Africa began a creeping annexation and in the decade from 1964 legislation was enacted which extended the South African apartheid system to Namibia including the formation of ten nominally self-governing 'homelands'. South Africa's mandate was revoked by the UN in 1966 and its rule subsequently declared illegal by the International Court of Justice in 1971. The South African Defence Force has maintained a strong presence in Namibia and developed a sizeable local army (the South West Africa Territorial Force) to contain civil unrest.

Resistance to the South African occupation was led by the main nationalist movement, the South West Africa Peoples Organisation (SWAPO), an Ovambo-led party (Ovambo speakers compose nearly one-half of the population), and, to a lesser extent, by the predominantly Herero South West Africa National Union (SWANU). From 1966 onwards SWAPO engaged in a guerrilla war against South African occupation and towards an independent Namibia; in 1973 SWAPO was recognised by the UN General Assembly as the 'sole authentic representative of the Namibian people'.

Faced with mounting international criticism and revolution in neighbouring Angola in 1975, South Africa attempted an internal political settlement by holding a constitutional conference at Turnhalle which excluded SWAPO and all other black political parties. Since 1978, Namibia has been governed by a series of coalitions based upon representatives to the Turnhalle constitutional conference which have been elected by a limited franchise and are answerable to a South African-appointed Administrator-General. As a result of rising military costs and increasing international pressure, South Africa agreed in December 1988 to a UN-administered transition to independence. Under this agreement South Africa will continue to govern Walvis Bay, a military base and port which handles 90% of Namibian sea-borne trade, in the post-independence period. This apparent anomaly arises from South Africa's insistence on sustaining its claim (dating back to 1884) to sovereignty over the port. This became a condition for South Africa's agreeing to independence for Namibia. SWAPO however remains committed to the incorporation of Walvis Bay into Namibia, whilst the UN Security Council supports a policy of reintegration following bilateral negotiations between South Africa and Namibia.

The independence election in November is likely to be contested by three political groupings: SWAPO, the Democratic Turnhalle Alliance (DTA) of about ten parties, which is chaired by the leader of one major white party, and the Namibia National Front, another grouping of around ten parties, comprising most notably SWANU. Most observers expect that SWAPO will take a majority of the seats although not necessarily achieve the two-thirds majority required to frame the constitution unaided.

The Economy

Production

The modern Namibian economy is heavily concentrated in the production for export of primary commodities (minerals and agricultural products). More than 60% of GDP is exported and most consumption and investment goods are imported, 90% from South Africa. Although per capita income, at US$ 720, is relatively high for sub-Saharan Africa, the income distribution is heavily skewed towards whites (6.6% of population) and a very few black professionals. Over 50% of the population are engaged in subsistence agriculture.

The last two decades in Namibia have been characterised by economic stagnation and then decline, with low growth (1.8% p.a.) in the 1970s and negative growth (−1.0% p.a.) in the 1980s. With population growing at 3% per annum by some estimates to 1.8 million in 1987 the decline of real per capita income in the 1980s has been high even by sub-Saharan African standards. Poor economic

Box 1: Economic indicators

Gross Territorial Product (GTP) (1987)	US$ 1.18 billion	
GTP per capita	US$ 720	
Real GDP growth 1980-87	−1.0% per annum	
GDP share by type of economic activity		
Average 1980-87 (excluding informal sector)		%
Agriculture & Fishing		10.2
Mining		32.2
Secondary Sector		10.3
Trade/Commerce		12.5
Other Tertiary Sector		17.2
General Government		17.6
Agricultural Production Indices, 1987		
(Average 1979-81 = 100)		
Agricultural production		104.6
Per Capita Agricultural production		85.9
Per Capita Food production		87.3
Principal Exports (1986)	$m	%
Uranium Concentrate	336	38
Diamonds	271	31
Other Minerals and Metals	118	13
Cattle	36	4
Other	118	13
Total Exports	879	100
Exports by Destination:		%
Switzerland		31
South Africa		25
West Germany		15
USA		5
UK		5
Principal Imports (1986)	$m	%
Food and Beverages	230	36
Petroleum Products & Fuel	190	30
Machinery & Equipment	100	16
Transport Equipment	80	13
Other	38	6
Total Imports	638	100
Imports by Origin		%
South Africa		75
West Germany		10
USA		5
Switzerland		5

Sources: SWA/Namibia Information Service, Statistical/Economic Review, 1988; FAO Quarterly Bulletin Of Statistics; EIU Country Reports.

performance can be ascribed in part to political uncertainty, violence and unrest which have lowered business confidence and disrupted output, in part to a global mining slump, and in part to drought and ecological damage which have severely depressed agricultural production. A mild recovery has occurred over the last two years as a result of improved prices for commodity exports.

Uranium, diamonds and base metals (primarily copper, lead, tin, zinc) account for between one-third and one-half of GDP. The bulk of production is controlled by three multinational companies: RTZ, Consolidated Goldfields and Anglo American Corporation (Box 2).

Agriculture and fishing together have traditionally ranked as the second most important sector and are also orientated towards export. Production of fish, beef and sheep furs has declined from a peak of 46% of GDP in the 1950s to about 10%. The offshore fishing grounds are among the best worldwide. They are entirely fished by foreign trawlers. The processing of agricultural exports typically takes place outside Namibia, more than half of cattle production is exported on the hoof to South Africa, landed fish catches are processed in the South African-controlled enclave of Walvis Bay and all Karakul sheep pelts are exported untreated. Approximately 50% of all Namibian food requirements are imported.

Labour

The non-white rural population has generally been confined to racially segregated 'homeland' regions accounting for only 31% of farmed land. The combined effects of over-population on poor quality land and the imposition of taxes has sustained the contract labour system supplying cheap labour to the mines. In response to war and the relaxation of control on internal migration the urban population doubled in the 15 years to 1985. There was also significant emigration of political refugees to neighbouring black states (the UNHCR estimated there were 74,000 SWAPO refugees in 1988).

The creation of extreme economic inequality by restrictions on the movement and employment of non-whites has been supported by discrimination in employment and privileged access for whites to education, training and healthcare (see Box 3) resulting in a heavily skewed distribution of income. By 1978 there was a per capita income differential between whites and black Africans of 17:1. The skill distribution at independence, assuming little emigration, will remain heavily skewed towards the white population which is predominantly professional, technical, administrative, clerical and commercial. Non-whites in paid employment are mostly labourers, farm workers and domestics. In 1984 whites occupied 94% of administrative, commercial and managerial posts. Unemployment of the black population is rising and estimated at 20% in the capital, Windhoek.

Box 2: Mining and multinationals

Uranium — Production (1987) 3,450 tons
Export earnings US$ 336 m (1986)

The Rössing mine, which contributes 18% of GDP (1985) is managed by the British metals and fuels conglomerate RTZ. Rössing has been profitable in recent years (R60m in 1987, R100m in 1986) despite previous global stockpiling of uranium, due to long-term contracts fixed at prices well above spot rates. The future of RTZ at the Rössing mine after independence is unclear, because voting control will be held by the new government after the anticipated transfer of shares presently held in trust by South African state corporations. Rössing has been the target of much criticism because it was developed since 1966 during South Africa's illegal occupation of Namibia. RTZ expects to maintain its presence at Rössing due to its dominant managerial, technical and financial resources.

Diamonds — Production (1987) 1.02 m carats
Export earnings US$ 271 m (1986)

Diamonds are mined by Consolidated Diamond Mines (CDM), a wholly-owned subsidiary of De Beers, itself linked to South Africa's Anglo-American Corporation. CDM output is comparatively small compared to De Beers ventures in South Africa and Botswana. CDM was criticised by the government Thirion Commission in 1985 for practising transfer pricing, large scale tax evasion and over-mining; the allegations were hotly contested by CDM. The company is openly optimistic about its post-independence prospects and has recently announced new investment in both gold and diamond mining. The success of the Debswana joint venture for diamond mining between the Botswana government and De Beers indicates that a similar arrangement could be tried in Namibia.

Metals and other Minerals
Export earnings US$ 118 m (1986)

A number of small-scale mines produce copper, lead, zinc, cadmium, tin, gold and arsenic. The largest metals producer, Tsumeb Corporation (TCL) is controlled by Goldfields Namibia and indirectly by ConsGold (UK), itself recently the subject of an unsuccessful takeover bid by Minorco, the international arm of the Anglo-American Corporation. Tsumeb has recently returned to profit (R25 million in 1987) after several years of losses in the 1980s. The UK-based multinational Lonhro has recently proposed extending the railway from Tsumeb to link with Zambia.

Prospects For Growth

In contrast to the long-term constraints on development caused by a narrow production base, there are reasonable short term prospects for economic growth in Namibia. Real income growth of 4-5% per annum could be obtained with continuing recovery of commodity prices and from economic opportunities arising from independence such as the revitalisation of agricultural production in previous war zone areas. Sensitive to the problems of foreign ownership of mining production SWAPO's position has shifted away from the advocacy of nationalisation of major industries to that of a mixed economy with compensation for confiscation (if any) of private property. Recent dialogue between SWAPO and the major multinationals is evidence both of the political importance of the former and the key role which the 73 different multinationals (35 from South Africa) located in Namibia will play in attaining future economic growth.

Mining

The mining industry is likely to continue to be the chief export earner and a major source of government revenue for the foreseeable future. Government fiscal policy is likely to be aimed at obtaining a larger share of the mining sector surplus through taxation, notably by revising tax regulations for diamonds and uranium.

The global recovery in prices and demand for mineral products has been reflected in an upturn of profits and investment for the Namibian mining industry. The uranium outlook is improving. Global stockpiles are being run down and Namibian prices should increase as independence will remove the discount on Namibian uranium on the spot market. In the diamond market sales volumes are at record levels and prices stable, particularly for high value gemstones where Namibian production is concentrated. Metal prices (particularly copper) have also been rising rapidly. Despite the improved outlook, none of the big three mines appears to have plans for immediate expansion of output, (Box 2) which has remained fairly constant for the last five years. In the case of diamonds, production is currently only at about half the output levels of the mid-1970s.

In the longer term, the dominance of mining as a source of income leaves the economy vulnerable to external demand and price shocks, although the variety of mineral exports leaves Namibia less exposed to movements in any one particular commodity market. Another drawback is that mining cannot be easily integrated into the rest of the economy: the technological complexity of mining equipment ensures that it will continue to be imported; processing opportunities for diamonds and uranium within Namibia are limited and metal processing cannot be easily extended further at the Tsumeb mine. Employment opportunities in modern sector mining for Namibia's rapidly expanding workforce are limited and increasingly capital-intensive mining operations have reduced the workforce to under 13,000 today (less than 5% of total employment) from 24,500 in 1981. Encouraging an expansion of small-scale mining particularly in minor mines abandoned during the mining slump would however return total mining employment to an upward trend.

Fishing

Namibia has benefited little from the post-Second World War exploitation of its long Atlantic coastline. Both inshore and offshore fishing grounds have been severely over-fished by foreign fishing fleets, with current catches at only a fraction of their peak in the late 1960s because of ineffective conservation. The immediate prospects for increasing the output of the fishing and fish processing industries are not promising as depleted stocks will not sustain an increase in offtake. An alternative objective would be to

Box 3 Social Indicators

Population (1987) 1.84 million
Population Growth 1980-85 2.8% per annum

	Black Namibians in Namibia (93.4%)	White Namibians in Namibia (6.6%)
Under-5 Mortality per 1,000 births	235-300	30
Access to Health Services %	60	100
Access to Safe Water %	33	100
Primary School Enrolment %	60-75	100
Life Expectancy at Birth (years)	40-43	69

Sources: Children on the Frontline, UNICEF, 1989; UN Population Yearbook 1988.

increase Namibian ownership of inshore fishing fleets which are currently foreign owned but predominantly worked by Namibians. Without control of Walvis Bay port, access to processing factories and the monitoring of catches cannot be assured. Income could be raised through taxation by implementing a 200-mile exclusive economic zone, although enforcement will be a problem because South Africa claims a string of small, offshore islands and their corresponding fishing zones along the coast, in addition to Walvis Bay. Estimates of revenues from fishing rights are uncertain: SWAPO have quoted an optimistic estimate of a potential R 2 bn per annum ($800 m) income from the hake catch alone. This is considerably higher than other estimates of total revenues from all types of fish and crustaceans.

Agriculture

Agricultural production has remained stagnant for at least the past decade. Poor and deteriorating land quality, the driest climate in sub-Saharan Africa and the lack of surface water restrict the development of crop and livestock production. Nearly 60% of farming land is owned by white farmers (about half are absentee landlords) predominantly in the central stock-raising plateau. This land is in general suitable only for extensive ranching, sustaining one head of cattle per fifteen hectares. Although some areas have increased crop potential with careful development of boreholes, the fragile ecology of Namibia (much of Ovamboland, for example, has salt deposits at two metres below ground) limits overall agricultural expansion. The changes in agriculture are more likely to come from changes of ownership away from large farms and ranches towards smallholder agriculture (see below).

Manufacturing and other sectors

Namibia's low domestic demand for consumer goods and its distance from other regional markets will make manufacturing production difficult to develop. There will, however, be some opportunities for growth, for example in food processing (particularly for meat), in the construction industry and light industrial goods. Encouragement of foreign investment could lead to the exploitation of known offshore gasfields and foreign companies (WJZ Oil, Brilund) are interested in oil concessions in the Etosha Pan region of Northern Namibia. The service sector has some growth potential, albeit dependent upon growth in the rest of the economy. The potential for increasing tourism exists, and with the advent of peace in Namibia the number of foreign visitors should return to the mid-1970s level of 300,000 annually. However, with neighbouring South Africa as the most obvious source of new tourists, this highlights the sort of political choices which those responsible for the economic management of an independent Namibia will have to make.

Economic Policy Choices

Independence is expected to bring benefits to the Namibian people through a more equitable distribution of land and income and increased access to social services. It will be a major task for the Namibian government to design and implement policies which bridge the gap between the current situation and expectations generated before and during the independence process.

Land Reform

The execution of land reform policies is likely to be critical in responding to Namibians' expectations at independence. SWAPO's land reform policy envisages the creation of a mixture of state farms, cooperatives, peasant family farming and private commercial farming oriented towards domestic consumption. The policy choices centre upon which ownership types are to be most favoured and how fast the division between 'homeland' subsistence farming and white commercial ranching is to be eroded. Any move away from commercial agriculture, beef and Karakul furs, however, is physically constrained by the difficult farming environment which favours large-scale extensive production. One option is diversifying into other livestock types. With Karakul fur production in decline, alternative small ruminants producing wool and mohair are under consideration. A more ambitious long-term strategy could include the possibility of commercial game ranching.

Social Infrastructure

Although Namibia has a well developed transport infrastructure (2340 km railway, 4318 km tarred roads) social services have been badly neglected. Expanding the existing adult literacy and language programmes is likely to be a post-independence priority. The Zimbabwean experience has shown that significant improvements in basic adult literacy can be achieved at relatively low cost. Estimates suggest about 100 new schools are required to provide adequate universal primary education, at a 1987 cost of US$ 250 million. Some observers have called for a doubling of the existing low-income housing stock over the next decade to 140,000 units to meet growing housing shortages in urban areas. However this assumes a highly urbanised society. State healthcare will need new resources. In rural areas it is practically non-existent although the churches provide a basic service. In urban areas the quality of provision varies according to race. There is no state provision for elderly black people, no state childcare facilities and minimal assistance for the thousands disabled during the war.

The increased provision of services will be constrained in the post-independence period by fiscal, technical and managerial problems. Even though some senior civil servants have expressed their willingness to cooperate with a 'moderate' independent government, a significant proportion of white, South African passport-holders in middle level government positions may emigrate. The 'wait and see' attitude prevails at present. Regardless of the level of white emigration, there will be a severe shortage of appropriately-qualified Namibians across all productive sectors in the modern economy and in the civil service. About 2,500 Namibians have further or higher education qualifications which, although considerably short of UN estimates for skilled personnel requirements, is a higher level relative to population than was the case for neighbouring states (Angola, Botswana, and Zambia) at independence.

Government Revenue

At Independence, the expansion of government services will be constrained by insufficient revenue. In 1988/89 the government deficit was estimated to be 13% of GDP (US$ 187 m) and nearly half of total revenue was received from South Africa either as a direct subvention ($123m) or as payment for customs duties ($157m). With the subvention being phased out (it was cut by nearly three-quarters in 89/90) and customs revenues subject to renegotiation with South Africa (see below) new tax-raising measures or more general tax reform will have to be considered. Reforms could include increased taxation of the mining sector (13% of revenue 1988/89) or a more progressive income tax system (1% of revenue 1988/89). Savings could made from 1990 onwards by the rationalisation of racially stratified local and regional government authorities. Fiscal austerity has already resulted in a programmed 7% cut in expenditures for 1989/90.

Namibia is likely to attain independence without a significant foreign debt problem as South Africa has proposed a takeover of some 75% of the $US 400m commercial debt it accumulated to finance the escalating cost of military operations during the 1980s. This will be in marked contrast to the majority of sub-Saharan countries which have high debt service ratios. Despite the new government beginning without the baggage of heavy public external debt, cautious foreign commercial banks are unlikely to commence lending in the post-independence period until the economic and political situation stabilises. Namibia will have first to establish its own credit-worthiness by government pronouncements, action and persuasion.

Economic Links with South Africa

The Namibian economy is highly dependent upon South Africa for both trade and transport links and is integrated into its financial system.

All financial transactions in Namibia are made in South African Rand and South African regulations apply to all international movements of capital. The creation of a new central bank and Namibian currency are issues to be addressed after independence. It is difficult to predict the relationship of this new currency to the South African Rand. Neighbouring Botswana moved away from parity with the Rand in 1977 on the strength of its diamond exports, but Namibia's weaker balance of payments position and degree of financial integration with South Africa may require an initial arrangement similar to that of Swaziland, with a new currency at de facto parity with the Rand.

The costs and benefits of moving away from parity will depend primarily on the destination and sources of trade. Almost all Namibia's imports pass through South Africa or are landed at Walvis Bay and at present Namibia is an involuntary member of the Southern African Customs Union (SACU). There will be considerable economic pressures to negotiate formal membership of SACU at independence, not least for the financial incentive of customs revenues receipts. Customs revenues in 1989/90 are likely to be about $170 million under the present SACU arrangements, which represents about 22% of 1988/89 government revenue and at least double that which could be independently collected because of compensation payments built into the complex SACU revenue-sharing formula. Membership of SACU, however, has long-term disadvantages: for instance, the development of local industry would be hampered by tariff-free imports from relatively efficient high-volume South African producers, although in the short run membership carries the advantage of unrestricted regional trade and sizeable revenues.

Although more than 70% of the value of exports can be transported directly to international markets by air (uranium, diamonds and furs) more than 90% of Namibian imports come directly from, or via, South Africa by road, rail and sea. In addition, transport by road and rail from South Africa is dominated by the state-controlled South African Transport Services. Similar trade dependence of other countries bordering South Africa has previously been exploited by discriminatory pricing and restriction of transit which would be a powerful economic lever which could be used against Namibia, whether or not it decides to join SACU. A reduction of trade dependence would require the development of alternative transport links. This would underline the importance of developing local production of goods which cannot feasibly be imported from elsewhere.

Unless Walvis Bay were to be incorporated into Namibia, the development of a new sovereign port is seen by some as essential, and plans have been discussed for upgrading ports either at Lüderitz or Swakopmund. However, the expense of such a project and the convenience of using the existing facilities at Walvis Bay suggest that an international settlement ensuring unrestricted access to the port would be a preferable solution. Plans for a trans-Kalahari desert railway to Botswana have been discussed over a long period, but the feasibility of embarking upon such a project depends upon the development of Botswana's coal reserves in the vicinity of the proposed rail route. The most likely transport developments are a donor-funded trans-Kalahari road link and upgrading of the presently unmetalled roads to Southern Angola and Zambia.

Foreign Aid

The shortfall in state revenue at a time when Namibia will be expected to expand the provision of basic services underscores the importance of foreign aid in the immediate post-independence period. Official development assistance within Namibia has been restricted by the political situation to $17 m in 1987 (1.3% of GDP). Bilateral donors in the pre-independence period have channelled aid largely through UN or voluntary agencies, with notable contributions from Sweden, Norway, Finland and the UK. Although Namibia's per capita income is above the cutoff point for World Bank concessional loans, efforts are likely to be made to secure transitional 'concessional' status as Zimbabwe did at independence. Similarly, an immediate post-independence donors' conference is to take place.

Independence will open the door to membership of a number of international institutions. Membership of the Commonwealth is almost certain and Namibia will be able to join the regional SADCC grouping. SADCC membership would both satisfy some political aspirations and attract aid funds into various sectoral programmes, notably for the development of transport links. Namibia could also join the African Development Bank. The ACP group has welcomed an independent Namibia and in September 1988 the European Community (EC) Council of Ministers agreed to ask Namibia to sign the Lomé convention at Independence. A yardstick for the EC's aid allocation is Botswana's which amounted to ECU 32m ($35.2m) under Lomé III: Botswana is richer, smaller and stabler than Namibia. On the trade side of Lomé, sufficient political pressure could result in a small quota under the beef arrangement worth up to $8 million annually. Namibia would join the Organisation of African Unity on independence, and membership of the IMF and the GATT is a possibility later on.

A generous international aid response will in itself place demands on the Namibian administration and generate requirements for local cost funding for the future. Germany, as in some sense the former colonial power, could with the rest of the international community be called upon to make up the recurrent revenue shortfall created by the withdrawal of the South African subvention in the immediate post-independence period.

Conclusions

The experience of neighbouring Botswana has shown that sustained economic development and political autonomy are not necessarily mutually exclusive objectives for Namibia. Zimbabwe provides a model for the transition from white minority to black majority rule, with land transfer, in the context of a strengthening economy.

Political independence is unlikely in itself to bring about a long-term resumption of economic growth or a major expansion of employment opportunities. It will, however, raise expectations of individual welfare.

Namibia is rich in natural resources and independence offers the opportunity to maximise the benefit to the country and the nation of their exploitation. Mining and fishing could provide additional sources of government revenue at a time when pressures to increase expenditure on social infrastructure and investment will be great and a large proportion of revenue received as a transfer from South Africa is likely to be withdrawn. Agricultural production could increase as the northern war zone is returned to cultivation, but the fragile ecology limits readily achievable productivity increases.

Despite increasing political autonomy, economic dependence upon South Africa is likely to remain for the foreseeable future. With three quarters of imports coming directly from South Africa, virtually all imports transported through South African-controlled territory, a significant South African business presence and at least three-quarters of the skilled white population holding South African passports, Namibia will remain an economically dependent state. The prospects for reducing heavy export-orientation and its economic dependence on South Africa are, at best, long-term, although some initiatives for such a strategy could be put in place soon after independence. These would include measures to develop transport and trade links with neighbouring countries and to ensure that access to Walvis Bay is maintained. Now that independence is near, SWAPO has considerably modified its economic policies emphasising flexibility and the mixed economy, in contrast to a previous dirigiste policy of public ownership and control.

ISSN 0140-8682