



REPUBLIC OF NAMIBIA

Ministry of Finance

Repositioning Namibia in the Regional Integration Age

Safari Court & Conference Centre

08h00 – 13h00

Honourable Calle Schlettwein

Minister of Finance

12 July, 2017

Director of Ceremonies,

Mr Klaus Schade, Executive Director of EAN

Ms Trudi Harzenberg, from the Trade Law Centre, Stellenbosch University,

Professor da Rocha, Catholic University of Angola;

Ms Ndiitah Nghipondoka-Robiati, Namibia Trade Forum

Distinguished Invited Guests,

Captains of Industry,

The Coordinators of the Conference,

Members of the Media,

Ladies and Gentlemen,

1. It is an honour to join you at this forum and I express my appreciation for your invitation. I also wish to extend my warm welcome to our distinguished speakers, the business community, development partners and audience for joining us at this event.
2. Since its formation in 2012, the Economic Association of Namibia has provided a platform for discussing contemporary policy developments and forward looking perspectives, with great latitude of independence and objectivity.
3. I appreciate the public discourse and the collaborative arrangements in qualitative research, whose output is material in illumination public policy and private sector development. The theme which this conference has opted to interrogate, that is, *Regional Integration – Opportunities for Namibia* is timely as it comes at the time when SACU has rededicated itself to its mission and elevated the goals of industrial

development, Value Chain participation and as nucleus for regional integration in general. For Namibia, articulating and implementing the strategic actions to improve her productive capacity by gaining increased shares in regional value chains should be a priority action point for the private sector and Government policy at this juncture. It is in regional integration and trade creation that a small open economy such as Namibia has opportunities to reap benefits which are greater than the sum of the individual parts.

4. Hence, my proposition today is to look at the critical success factors for repositioning Namibia's regional integration agenda. But before I delve into this regional factory log jam, allow me to briefly reflect of the state of our economy and our perspective on the medium-term outlook.

II: The State of the Economy and outlook

5. There is reasonable optimism that economic activity will pick up pace this year, relative to 2016. We expect the recovery to be gradual, given the localized recessionary pressures since the third quarter of 2016. The year 2017 started off on a cautionary note of weak domestic demand conditions, a relatively flat investment function, slackness in exports and slowing Government spending against the backdrop of the short-run effects of fiscal correction in the last quarter of the 2016/17 fiscal year. There is general price stability, with stable or even falling inflationary levels, while monetary policy has assumed a generally neutral stance.
6. There are some positives which converge into a reasonable basis for brighter medium-term prospects. Output in the primary industries, particularly mining and agriculture, have rebounded. The recovery of commodity prices in the mining sector remains soft, but a natural hedge for uranium prices in respect of Swakop Uranium Mine promises for increased exports, supported by activity in the off-shore diamond sub-sector. We see the momentum on exports and other inflows relative to imports already contributing to the narrowing of the Current

Account deficit. This is further reinforced by the effects of the fiscal consolidation programme.

7. No doubt, the fiscal policy consolidation stance has allowed us to rebalance the budget and align expenditure to a more realistic macroeconomic and revenue outlook. The preliminary outturn for 2016/17, where revenue collection is in excess of 99 percent of the revised estimates, testifies to the effectiveness of this internal rebalancing.
8. The early gains of this policy stance and the medium-term positive outlook did not go unnoticed by the credit rating agencies. Fitch has upgraded Namibia's national rating from AA+ to AAA, in a rating action which distinguished Namibia from the South African national ratings, South Africa being the benchmark market for Namibian bonds.
9. In June this year, Fitch has reaffirmed our sovereign credit rating at the historical BBB- investment grade.
10. We are conscious that fiscal adjustment is not painless in its effect on operational activities of Offices/Ministries and Agencies and the feedback effects on the economy in the short-run. Thus, in this environment of fiscal and monetary policy neutrality, efforts to enhance the growth-friendliness of policy interventions are necessary to lift the growth potential of the economy.
11. As you have noted, we have sourced about 40 percent of the financing requirements for this year from the African Development Bank to compliment domestic market liquidity in supporting the Government bond programme. Based on budget revenue and proceeds from borrowing, the Government has frontloaded the settling of outstanding payment obligations, which will be finalized during the remainder of this quarter. Releasing such amount of money, which is estimated at about N\$ 3.5 billion in short span of time while continuing to implement the

budget is a significant boost for the economy and a good shot in the arm for the construction sector, which is a major recipient of these injections.

12. We invite the private sector as the engine of growth to play an active role in driving investment activity in the economy, rather than assuming a more wait-and-see position. New economic opportunities became available through the recently enacted Public Procurement and Public Private Partnership Acts.
13. Let me now turn to the main theme of this conference.

II: Rationale and Basic Requirements

14. The current conjuncture is that as a small open economy, Namibia best hopes lie in regional integration, value chains and trade liberalization. The case for regional integration arises from an expanded market access for goods and services, increased value shares, productive efficiencies and welfare gains over time. It however assumes an improved productive capacity for finished goods or intermediaries, as well as high quality services being available for export.
15. National growth poles for regional integration exist and Namibia should, more than ever before, reposition its national agenda to advance its regional integration goals. SACU is an important point of departure, beyond which SADC and the Grand Tripartite Free Trade Area between and amongst Comesa, EAC and SADC are the intra-African continent wide opportunities.
16. Angola, Namibia and South Africa (*ANSA countries*) present a special case, Namibia being wedged between these two largest economies in the region. Namibia is strategically located to serve as a gateway in the ANSA configuration.

17. Secondly, integration is not an end in itself, but a means to an end. Some important caveats emerge as key prerequisites to propel a country towards the realization of benefits of regional integration. The prerequisites include:-

- ✓ a designate National Strategy to guide strategic interventions within the framework of national development plans,
- ✓ industrial capacity as well as the associated institutional capacity to support the provision of goods and services. ,
- ✓ efficient national quality assurance, sanitary, phytosanitary and certification standards
- ✓ availability of efficient infrastructure to facilitate trade; i.e air, port, road, rail and technological infrastructure,
- ✓ availability of a critical mass of skills and national competitiveness across the broad range of production and supply chain, and
- ✓ a national programme to address supply-side constraints,
- ✓ multilateralism and open regional and global trading arrangement with policy space for small and developing states

II: Namibia's Nexus for Regional Integration

18. Let me take SACU as the first nexus point for regional integration for Namibia. SACU presents a duty-free market size of about 61 million people of which South Africa accounts for over 88 percent.

19. For Namibia, SACU is key to industrialization and regional integration. However, structural policy and institutional constraints need to be tackled to facilitate this advancement. The economy needs to be

further diversified, must become more efficient and competitive, and economic opportunities are to be spread more evenly.

20. First, the impasse and uncertainty on the future of SACU has been resolved and a programme of work on addressing policy and institutional matters is adopted. Implementation of this programme has commenced. Resolution on the impasse is a positive, recent development as a result of open engagement at Council and Heads of State and Government levels.
21. While the 2002 SACU Agreement offers a more liberal and democratic framework for SACU Member States to operate on equal footing and reap expanded benefits from their membership to the union, structural and historical challenges still remain to be addressed in the framework of the new work programme. The material issues are:-
 - ✓ erosion of trade policy space due to a lopsided Common External Tariff,
 - ✓ absence of key institutional structures such as the SACU Tariff Board and the Tribunal
 - ✓ a captive market outcome with price-raising and trade deflecting effects, which negatively impact on industrialization objectives of especially the BLNS countries,
 - ✓ the volatility of the SACU Revenue Sharing Formula and the need to redirect some of SACU receipts to fund industrial development and trade creation interventions.
 - ✓ Equitable support for industrial development through SACU-wide rebates, duty drawbacks and trade remedies.
22. The main priority areas for the Work Programme over the next year and a half entail the following:-

- ✓review and development of a suitable architecture for tariff-setting, rebates, duty drawbacks and trade remedies,
 - ✓review of the Revenue Sharing Formula and the long-term management of the Common Revenue Pool,
 - ✓establishment of a Stabilization Fund and exploring the feasibility for its financing,
 - ✓identifying financing options for regional projects in the form of a Development Fund, and
 - ✓developing public policy intervention framework to promote and align industrial development and value chains.
23. Within this framework, the envisaged review of the Revenue Sharing Formula will be guided by the principle that “*no member should be worse off*” as a result of the review.
 24. This position was reaffirmed at the 5th Summit of SACU Heads of State and Government in June this year in Swaziland, where the importance of SACU in deepening regional integration, industrialization and economic diversification was further stressed. The SACU Vision and work programme going forward also emphasizes the repositioning SACU to take advantage of regional and global economic development.
 25. At the SADC level, the SADC Free Trade Area and its extension into the Tripartite Free Trade Area spanning EAC and COMESA offers a larger market space for intra-African trade.
 26. Due to the historical evolution of SACU economies, the SACU market is generally homogeneous in terms of its product range which limits intra-SACU trade. We virtually produce the same range of products and the comparative advantages are generally weak.

II: Repositioning Namibia's Regional Integration Agenda

27. Taking into consideration the opportunities presented by the SACU policy commitment and new Work Programme as well as the market access opportunities under the Free Trade Area, the question to be raised is how best Namibia can leverage these opportunities to contribute to the national objectives economic expansion, industrial development, job creation and poverty eradication.
28. Namibia needs to fine-tune its designate national strategy to better advance is regional integration agenda. The key strategic intervention areas entail:-
- ✓ leveraging regional value chains in industries with comparative and competitive advantage such as agribusiness, transport, tourism and services. Namibia aspires to be a regional logistics hub and has made significant investments to promote this objective.
 - ✓ developing industrial capacity in on low-hanging fruits and value addition in areas of national competitive advantage. This is in respect to, for example; renewable energy, jewelry and gemstones, meat and fish, leather and wool, automotive components
 - ✓ further diversifying the market access within the intra-African region
 - ✓ investing in trade creation and cross-border trade facilitation infrastructure,
 - ✓ serving as a gateway for the ANSA countries and increased trade diversification with Angola especially in regard to services sector,
 - ✓ establishing a Regional and Global Value Chain programme and supporting private sector development for participants in the,

- ✓ addressing supply-side constraints and skills development to spearhead industrialization objectives, and
 - ✓ Leveraging regional, continental and global market access to attract direct investments in the value chain industries
29. The private sector is a key player in this national strategy. A robust regional integration strategy needs an enterprising private sector and an active partnership between the Government and the private sector. It needs a Strategic Action Plan which the National Trade Forum and the collaborating institutions can conceive of and put to use.
30. The Government invites the private sector players and investors to take this agenda forward. The outputs from this conference should be seen to contribute to this objective.

Thank you for your attention.