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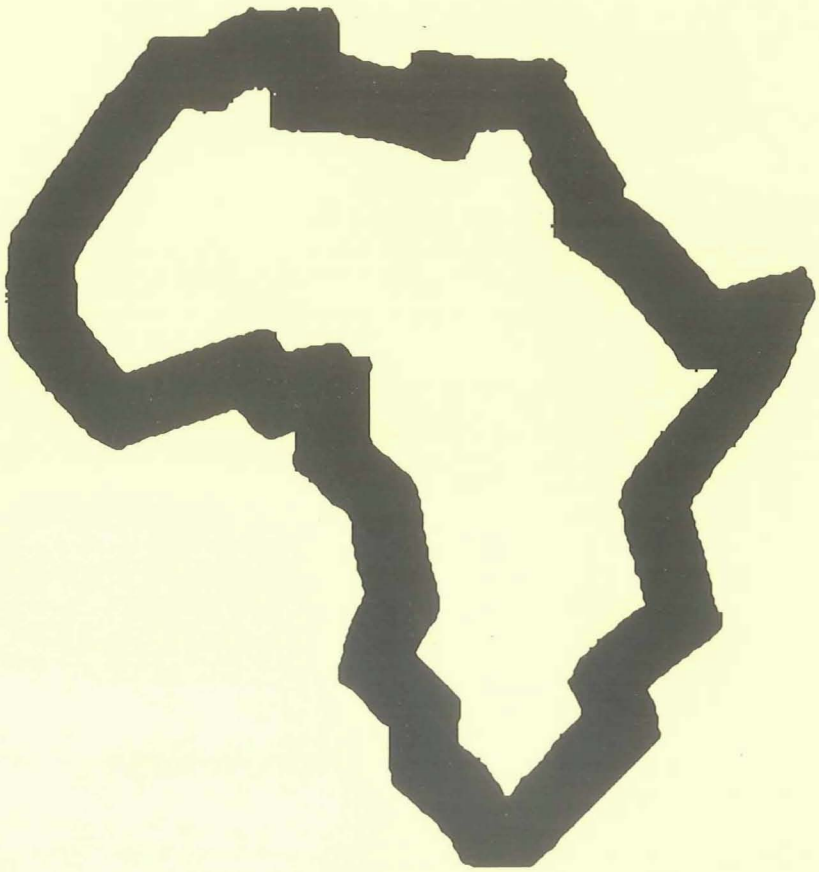

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NAMIBIA'S ECONOMIC LINKS TO SOUTH AFRICA

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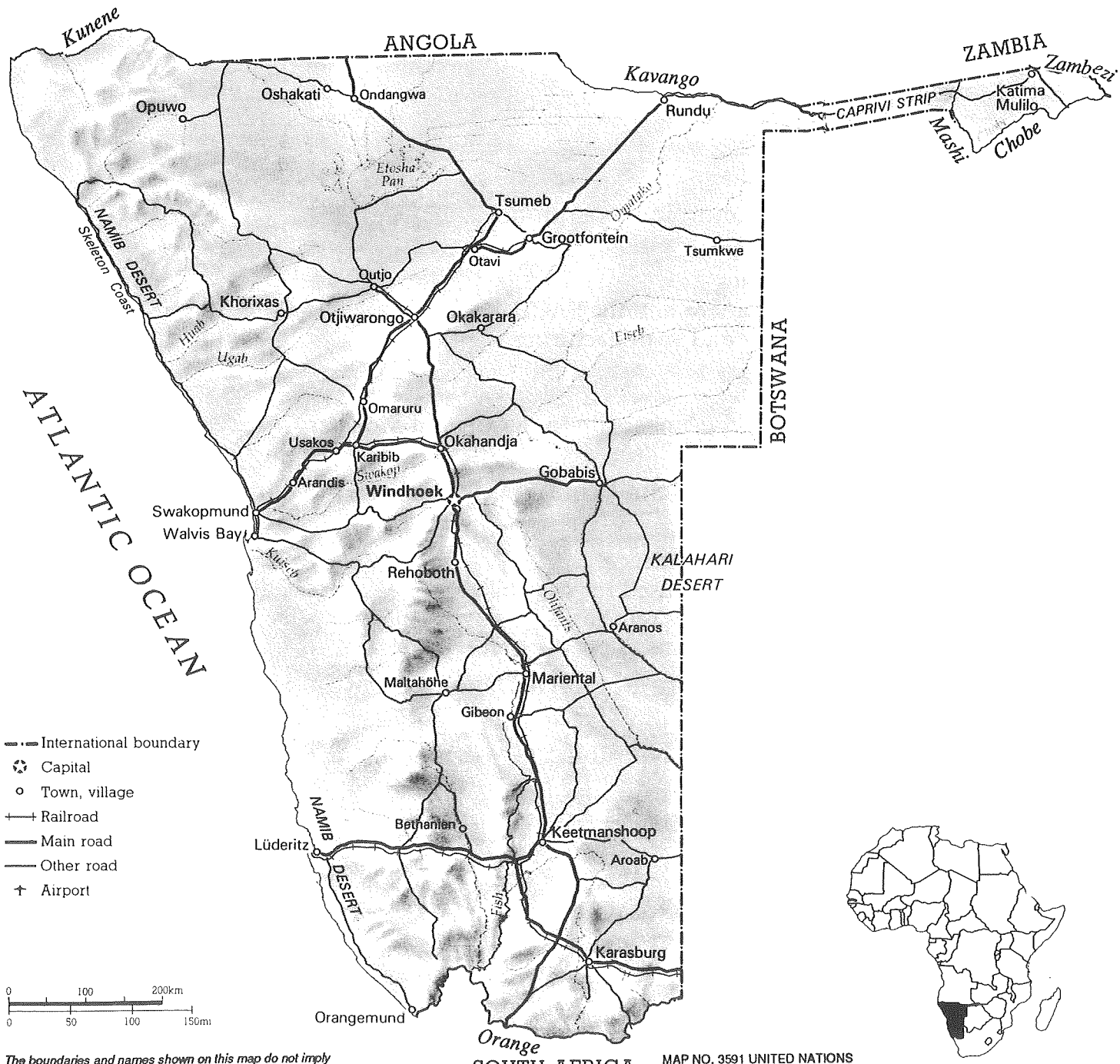
MAP OF NAMIBIA



The boundaries and names shown on this map do not imply official endorsement by the United Nations

MAP NO. 3591 UNITED NATIONS
MARCH 1990

Preface

"Namibia is a country producing what it does not consume and consuming what is does not produce."

This study was commissioned by the Development Cooperation Office of the Swedish Embassy in Windhoek. The aim of it is to map out and discuss the economic links between Namibia and South Africa, to suggest some possible economic policy implications of those links, and to comment on the role of development assistance in this context. (The terms of reference of the study are enclosed as Annex 1.) The study was carried out in Namibia from 11 to 29 March 1991. A draft version was distributed in April and has later been commented upon by a number of administrators and researchers. Some updating due to events in Namibia in April and May has also been made. My sincere gratitude goes to all who have taken themselves time to share their experience and knowledge with me.

Basic economic data on Namibia are available from many sources and will only be included in this document if they are relevant to its special focus. Some of the recent sources for general economic information on Namibia are the Statistical/Economic Review 1990 and the Economic Review/Budget 1991 published by the Ministry of Finance in Windhoek, and the EIU document Namibia Country Profile 1990–91. A major document on government policy and achievements during the first year of independence is the government White Paper on National and Sectoral Policies, published in March 1991.

The Legacy of Economic Dependence

It is a well-known fact that up to independence Namibia for all practical purposes was treated as a fifth province of South Africa. One consequence of this is an *institutional* legacy that has to be restructured in order to be able to serve an independent country. The apartheid system was prevailing in the public administration, health, education, and other sectors. There are many institutional links between South Africa and Namibia, and a number of key people in both the public and private sector seem to continue to "think South Africa" in their day-to-day actions.

The *economic* legacy included i.a. that around 40% of the GDP is generated in activities controlled by South African interests; that 90% of the imports came from South Africa although some goods in turn were imported by South Africa; that four out of five commercial banks, including the two major ones, are controlled by South African interests; that the insurance companies as well as a large part of the whole-sale business are South African controlled, that the transport net is structured according to South African and settler interests; that all international telecommunications go via South Africa; that all petroleum products, and coal came from South Africa and that part of the electricity supply is depending on the South African parastatal Eskom.

As Namibia was treated as part of South Africa it also for all practical purposes formed part of the Southern African Customs Union, SACU, and the Common Monetary Area, CMA.

Another part of this legacy is lack of reliable statistics. Also basic statistics, such as on population and foreign trade are incomplete.

On top of this Namibia was born crippled, as South Africa kept Walvis Bay and the off-shore islands at independence, claiming that those areas did not belong to Namibia.

With independence the international economic sanctions against Namibia, which formed part of the sanctions against apartheid South Africa, were lifted. Legislative and other matters delayed the lifting of sanctions in some cases. The South African refusal to leave Walvis Bay further complicated the matter. An end to the sanctions is a prerequisite for Namibia to open trade relations, investment and other forms of cooperation outside the Southern Africa Customs Union, SACU, i.e. to diversify the inherited trade and investment pattern.

To give a background for a discussion on the most important links to South Africa a brief presentation of the situation at independence related to some of the relevant issues is provided in this section.

Walvis Bay

Walvis Bay is not only an economic but also a highly symbolic and political issue. During the UN-coordinated negotiations that led to the independence of Namibia the issue of Walvis Bay was not formally on the agenda, with the intention that it should be solved through negotiations between the governments of Namibia and South Africa after independence. This was contradictory to the UN Security Council Resolution 432 from 1978 according to which the Security Council "declares that the territorial integrity and unity of Namibia must be assured through the reintegration of Walvis Bay within its territory".

It was also contrary to the opinion of SWAPO, which during the negotiations in which it did not formally take part, however, did not insist that the issue should be sorted out during those negotiations. The Namibian position is however clearly expressed in the Namibian Constitution, which states that "the national territory of Namibia shall consist of the whole of the territory recognized by the international community through the organs of the United Nations as Namibia, including the enclave, harbour and port of Walvis Bay, as well as the off-shore islands of Namibia".

South Africa's claim on Walvis Bay and the off-shore islands is based on their original annexation by Great Britain on behalf of the Cape Colony in the late 19th century and on the subsequent transfer of colonial title to South Africa at the formation of the South African Union in 1910. When South Africa after World War I took over the administration of Namibia as a League of Nations Mandate, Walvis Bay was not distinguished from the rest of Namibia and this situation continued up to 1977, when the apartheid regime of South Africa changed its legislation for Namibia so that Walvis Bay and later also the off-shore islands were separated and administered as part of the Cape Province.

The South African arguments have been criticized by international legal expertise on several grounds, including violation of basic obligations towards non-self-governing territories, the precedence of pre-colonial boundaries and due to the long period during which it was administrated as part of the rest of Namibia. For more details see e.g. Moorsom (1984).

The area of the Walvis Bay enclave is 1, 124 sq km and the number of inhabitants is estimated to around 30, 000. It contains a deep water harbour, a number of fish processing factories and fishing companies, a salt mine, a military base, and possibly satellite receiving facilities for monitoring of shipping in the South Atlantic. The most important issue for Namibia is of course the control of the harbour, without which Namibia can consider itself almost a landlocked country, as the small harbours of Lüderitz and Swakopmund have no capacity to handle the necessary volumes of cargo.

The importance of the ownership of the off-shore islands is also related to the claims of fishing grounds and off-shore oil prospecting that can be based on it.

Other transport issues

The road and rail transport network investments are structured to serve the interests of South Africa, the mining companies and the settlers. With a large part of foreign trade taking place with South Africa, the network is adapted to those trade flows.

From South Africa there are two main roads and one railway connection. Two trunk roads were constructed to the Angolan border in the north, mainly for South African military purposes before independence. At the Angolan side of the border the road network is very bad. From Rundu (see map) there is a low quality road through Caprivi Strip to Katima Mulilo at the Zambian border. There are also a number of minor roads into Botswana.

Large volumes of goods are only taken from South Africa. Three major new transport links have been discussed: The trans-Kalahari highway, the trans-Caprivi highway and the trans-Kalahari railway (with viability totally depending on transport of at least 10 million tons of coal per year).

The foreign trade pattern and the SACU

South Africa's role in the foreign trade of Namibia is similar to that of Botswana, i.e. with South Africa dominating the imports but with the main part of the exports going to markets overseas.

After a number of years with a negative foreign trade balance, from 1985, (except in 1987) the trade balance has been positive. Changes in world market prices and, to a lesser extent, export volumes of minerals have a major impact on the trade figures. Minerals contributed 76% of total export earnings in 1989. In 1989 total export value corresponded to 62% and total import value to 54% of GDP (at factor cost).

Table 1. *Foreign trade 1985–1989 (R million)*

Year	Exports (fob)	Imports (fob)
1985	1,594	1,272
1986	1,994	1,552
1987	1,796	1,822
1988	2,141	2,077
1989	2,762	2,340

Source: EIU: Namibia Country Profile 1990–91

All major export minerals except uranium are produced by companies controlled by South African interests (see below). With the exception of diamonds they have no influence over the world mineral market prices, which is of importance to the export earnings. South Africa plays a major role as market for Namibia's exports only for fish products, live cattle, some agro-processed manufacturing, tin (up to 1990), and zink. The South African share of the Namibian exports is around 20%.

50% of the imports is calculated to be produced in South Africa, and another 40%, for instance petroleum products, imported via South Africa. There are no official import statistics available, giving details about the

import value of the imported commodities. In a report on cross-border flows (Department of Economic Affairs, 1989) the following commodity groups are stated as the largest volume-wise: "Other" (including petroleum products and military equipment), non-metal manufactured products, coal, agricultural products, and food.

Table 2. *Exports by Commodity 1989 (R million)*

Minerals		2,027
of which diamonds		*814*
Agricultural products		294
of which	cattle	*155*
	small stock	*95*
	karakul pelts	*25*
Fish products		65
Manufactures		135
Other		152
Total		**2,672**

Source: EIU: Namibia Country Profile 1990–91

The SACU membership strengthens the South African import dominance as the competition from other potential sources is reduced. It also improves Namibian exporters' access to the South African market.

The share of the SACU revenue alotted to Namibia has been important for the financing of the Windhoek administration before independence and for the Namibian government since independence.

Before independence the SACU revenue to Namibia was decided upon by the South African authorities based on a very rough estimate, due to lack of detailed trade statistics for Namibia. The SACU revenue was R 350 million in 1987/88, R 394 million in 1988/89, and R 448 million in 1989/90. In the first budget after independence for 1990/91 the amount increased to R 543 million. In his budget speech in May 1991 the Namibian finance minister stated that Namibia had reached a provisional agreement with the other members of SADCC that Namibia will receive 9.6% of the revenue from the customs pool. For 1991/92 this is estimated to R 810 million, a further increase with R 267 million or almost 50%. The minister warned that the precise amount might be adjusted upwards or downwards during the budget year.

This means that the SACU revenue has provided 20–25% of total government revenue, including South African budgetary support before independence, and that the SACU revenue share will increase further towards 30% in 1991/92.

When trade statistics are improved the revenue from SACU will be based on information provided by the Namibian authorities, and calculated according to the formula used for the BLS states. The effect of this is difficult to project, but a continuation of the rapid increase of the last two years can be ruled out.

Some argue that Namibia's revenue from SACU has been much smaller than Botswana's while their imports are at a similar level. Botswana's revenue is claimed to be double that of Namibia. At least up to 1989/90 this was not so. A NEPRU study on SACU shows that for the period

1982/83–1985/86 SACU revenue for Botswana with an import of 3,949 million R was 636 million R and the estimated SACU revenue for Namibia with a total import of 4, 511 million R was 755 million (NEPRU 1990). For the period 1986/87 to 1988/89 Botswana's SACU revenue has been lower than Namibia's, while its imports have been higher (EIU, 1990).

Historical data thus support the thesis that Namibia will receive approximately the same or even lower share of import costs as SACU revenue when it is calculated according to the normal SACU formula, compared to what she has got during the last few years. This means that the SACU revenue will continue to play an important role as source for government revenue.

Agriculture, fishing and manufacturing

Some 70% of Namibia's population are directly or indirectly dependent on farming activities for their livelihood, most of them as subsistence farmers/cattle owners in communal lands in the northern and eastern parts of the country. Before independence they were almost totally neglected by the Windhoek administration as regards infrastructure, water, extension services, and credits.

As a contrast commercial large-scale farming and cattle-ranching is carried out with significant government support by around 4, 000 white farmers. Most cattle are exported live to South Africa under annual quotas agreed between the meat boards of the two countries. The size of the quota differs and is used as a buffer by the South African meat industry. The quota for 1990 was 100, 000 cattle (EIU, Namibia, 1990).

There are also significant small stock exports, primarily of mutton sheep. Karakul sheep pelts are exported, mainly to Europe. The volume declined during the 1980s, partly due to sanctions.

Before independence commercial production of food crops was limited and Namibia imported from South Africa most white maize, wheat and 80% of the vegetables.

Fishing and fish product processing expanded during the 1960s, and the waters outside the Namibian coast were considered one of the best fishing areas of the world. Due to overfishing in the 1970s and 1980s the catches now are much lower. Hake and other white-fish taken are caught by foreign trawlers, especially from Spain, but also from e.g. the Soviet Union and Japan.

After independence the government proclaimed a 200 mile exclusive economic zone, EEZ, reduced fishing quotas and prepared new legislation to get better control and benefit from the fishing in a future situation when the stock has recovered.

The fish processing plants are situated in Walvis Bay and have mainly been South Africa owned. Their production has declined heavily and some of them have closed down. Installed fish-processing industry in Walvis Bay has had a capacity utilization of around 25% during the last few years. During the 1980s some shares in the companies have been sold to Namibian and other interests. One of the present five fish processing companies is 100% Namibia owned. According to legislation introduced

before independence all companies have to be registered in Namibia.

Fishing and processed fish products contributed an important part of the exports in the 1960s, but in 1989 their share of total export earnings was 3%.

Manufacturing contributes about 5% of GDP. As already mentioned fish processing has been an important part, but declined. Food processing, beverages, tobacco, wood industry, metal products, and repairing are some other branches.

Local capital and South African groups are the main owners. The small local market inhibits rapid growth and investments in Namibia for penetration of the South African market is opposed by South African companies and lobby groups.

Mining

The mining sector is the largest contributor to the GDP (29% in 1989 and 22% in 1990) and export earnings (around 75%). Of the major mines all but one—Rössing—are owned or controlled by South African mining companies.

- Tsumeb is owned by GoldFields Namibia, which is 69% owned by Gold Fields South Africa.
- Rosh Pina zink mine is 100% owned by IMCOR, which is 51% owned by ISCOR.
- Uis tin-mine is owned 100% by ISCOR. Production was closed down in November 1990.
- Othjehase copper/pyrite mine is 70% owned by Tsumeb, which means controlled by GFSA, and 30% JCI (Johannesburg Consolidated Investment).
- Navachab gold mine is owned to 70% by Erango Mining and Exploratory Company, 30% by Metal Mining Corp of Canada, and 10% by Rand Mines Windhoek Exploration Company. 33% of Erango is owned by CDM, the balance by companies belonging to Anglo American Company.

The government of Namibia has 51% of the voting power in Rössing, but only 3,5% of the shares. Rössing's uranium production was reduced during the 1980s due to international sanctions and the low demand for uranium internationally with the low expansion of the nuclear power capacity. The mine further reduced its production in 1991.

Energy

At independence all petroleum products and all coal were imported from South Africa, either through Walvis Bay or by rail or road from the south.

The Namibian government has since independence initiated measures to diversify the sources of oil supply. One method has been to request the oil companies operating in Namibia to take 30% of their supply from other sources than South Africa. Supplies of Angolan diesel fuel has been landed in Lüderitz on a pilot basis and some companies now take part of

their supplies from the Caribbean region. Of the six major oil companies working in Namibia, four—Shell, BP, Caltex, and Mobil—are also the major ones in South Africa.

In the field of electric energy the South African policy in Namibia focussed on the development of an integrated electricity generation and distribution network based on hydro and thermal power, mainly to supply the mines, the cities and the commercial farms.

The electricity grid gets its power from three major sources: The Ruacana hydro-power plant (240 MW) in the Kunene river, the van Eck coal (imported from South Africa) power plant (120 MW) outside Windhoek and a linkup with the Eskom net via the Aggenys line (130 MW) in South Africa. The total capacity is around 600 MW, which is higher than the national demand, which is estimated to increase by 3–4% per year. The grid makes possible both Namibian import of electricity from South Africa and South African import from Namibia.

Foreign currency and membership in the Central Monetary Area

Before independence the South African Reserve Bank acted as central bank also for Namibia and the credit policy was decided in Pretoria. A national central bank, Bank of Namibia, was established in 1990 and is building up its capacity and gradually expanding into all normal activities of a central bank.

Since independence Namibia has continued to use the South African Rand as its own currency, but the government has decided to introduce a national currency called Namibian dollar, probably in 1992. It will at least initially be pegged to the Rand.

Pre-independent Namibia for all practical purposes could be said to be a member of the Central Monetary Area. In principle this has been the case also after independence, although Namibia in May 1991 formally still was not a member. It is however expected to be a member soon.

The "government debt"

At independence Namibia inherited a "central government debt", mainly consisting of stock loans issued by the Windhoek administration during the 1980s and guaranteed by the South African government. The composition of the debt at independence was:

Table 3. *Namibian "government debt" at independence*

Type of debt	R million
Stock loans	549.5
To non CMA-inst.	71.0
South African govt	39.0
Domestic inst.	35.6
Other, incl term bonds	19.0
Total	**714.1**

Source: EIU: Namibia Country Profile 1990–91.

This debt is not to be considered heavy if related to GDP or total export earnings. The problem is its legal status, as the loans were issued by an internationally illegal regime, and most of it is guaranteed by the South African government.

The outstanding stock loans are included in the loan portfolios of banks and other financial institutions in South Africa, Namibia and even to a minor extent also outside the CMA.

The total debt service (including miscelaneous fees and foreign exchange losses) in 1990/91 is estimated to R 316 million, corresponding to 12% of total budget expenditures. In the 1991/92 government budget the debt service is estimated to be R 231 million. Projections on future debt service are not available, but can be assumed to be in the range of R 200–250 million per year for the next few years.

General Comments on the Economic Links and the Concept of Interdependence

Namibia's GDP is 2% of South Africa's. It is comparable with the "GDP" of Port Elizabeth. The South African economic dominance is very strong in a number of sectors. A very rough calculation sums up to almost 40% of GDP being generated in activities controlled by South African interests, with mining, construction, wholesale and retail trade, hotels etc, finance and insurance being the most heavily dominated sectors.

The concept of interdependence

According to one theory, economic relations create an interdependence between the partners, who are mutually dependent on each other. This does not mean that the relations have to be balanced. If the relations are asymmetric, that is if one partner dominates or can set the terms, the situation can be used by that partner to achieve political or economic concessions in different areas. In the relations between Namibia and South Africa, the overall dominance of the latter is obvious.

In the case of Namibia three aspects of the dependency might be discussed. One is the extent to which present links can be used for economic destabilisation, should that be in the interest of the South African government. The second aspect is the extent to which the economic relations with South Africa put restrictions on the implementation of the Namibian government's development policy. The third aspect relates to the different interests in South Africa interested in further development of the relations with Namibia. Their interest reduces slightly the overall asymmetry of the interdependence between the two partners.

Dependencies that can be used for destabilisation

During the first year of Namibian independence it seems that the strategy of the South African government has been to avoid using its economic dominance to sabotage the development in Namibia. The transit of cargo through Walvis Bay has not been affected. The railway and road transports over the South African/Namibian border in the south have been normal. Telecommunications have not been disrupted. Cattle quotas have been negotiated as previously. No "technical" problems have occurred for the imports of petroleum products. The cooperation between the electrical companies Swawek and Eskom has been smooth.

Should the political process in South Africa change direction, however, there is a risk that Namibia will be the target of economic destabilisation,

for instance in the fields just mentioned. With the record of apartheid South Africa in the field of destabilisation, it is not surprising if governments in the neighbouring states feel they have to keep this possibility in mind also during an era of "good neighbourhood".

Although the economic cooperation between Namibia and South Africa on the whole has gone smoothly during the first year of independence, there seem to exist other South African interests who have not given up the destabilisation perspective. According to press reports (e.g. SouthScan no 22 and 23, 1991) there are still South African agents working in the Namibian political opposition and civil service.

As long as South Africa controls Walvis Bay and with the inherited road and railway systems, the government in Pretoria can seal off Namibia quite effectively, by for instance cutting the supply of petroleum products, coal, electricity, and food. The dependency in the transport sector thus is potentially the most vulnerable point, except for the very unlikely option of military intervention from South Africa.

To handle this dependency the Namibian government has to strike a balance between this potential risk of destabilisation and the very high costs involved in doing away with those dependencies. To avoid some of the risks of destabilisation, emergency planning would for instance be required for the event that the Namibian access to the Walvis Bay port will be restricted, which means construction of an alternative harbour to an estimated cost of US$ 500 million. Storage facilities for petroleum products is another example.

South African behaviour as a neighbour during Namibia´s first year of independence has on the whole been benevolent. The Namibian government on the other hand has been very cautious not to upset its powerful neighbour. If this policy on both sides is continued the idea of using large resources for "emergency" planning and investments has little attraction, especially if a post-apartheid government in South Africa can be expected in a few years time.

Another aspect of this issue is that with improved "emergency planning" the scope is widened for a more independent attitude of the Namibian government. The costs for "emergency planning" that the Namibian government should accept will of course depend on a risk analysis. At present a changed attitude from Pretoria is unlikely, and therefore the resources for "emergency planning" should be kept low.

Economic links and policy reforms

Another issue is in which sectors the dependence on South Africa is a potential restriction on the economic policy objectives. This has also to be analysed both in an apartheid and a post-apartheid perspective.

In the second perspective there is no objective *per se* to reduce the economic links with South Africa. On the contrary increased cooperation with South Africa might increase the economic growth. On the other hand, a too strong South African economic dominance is uncomfortable and might restrict the scope for national economic policy.

Before the fall of apartheid in South Africa, and perhaps also in the

post-apartheid era, there might be contradictory interests involved, which might force the Namibian government to choose between confronting South African interests or compromising with its own objectives.

Four main economic policy objectives of the Namibian government are focused upon in its initial policy documents:

- To re-activate economic growth.
- To create employment.
- To reduce income disparities.
- To alleviate poverty among the population.

In the government White Paper on National and Sectoral Policies, published in March 1991, the widespread poverty, unemployment, illiteracy, and the landlessness amongst the black population are emphasized as remnants of apartheid that have to be tackled. Other acute problems mentioned are the fragile ecology, the economy's overly dependency on non-renewable resources and that many institutions continue to be tied to South Africa.

Some of the present economic links with South Africa might impose restrictions on these policy objectives, such as the following, which will be discussed later in the paper:

- The inherited trade pattern and the membership of SACU. This is also related to the obstacles for domestic agriculture and manufacturing production.
- The issue of budget financial restrictions, reducing the capacity to use the government budget as an instrument for necessary social and economic changes, especially in the social sectors, but also to create an economic environment, enabling production activities among the majority of the population. Linked to this is the issue of the government debt, inherited at independence and the government policy to retain the major part of the people employed in the public administration at independence. The issue of increasing the budget revenue through broadening the tax base is another aspect.
- The issue of government's monitoring and control of the financial sector.
- The issue of institutional and "mental" links to South Africa, which often excludes alternative relations and solutions, both in the public and the private sector.

Generally speaking a high economic growth gives better scope for reforms and potentially more resources to the budget. Economic growth, export earnings and tax revenue in the short run are dependent on the world market for minerals. This emphasizes the importance of diversification, also from an income distribution point of view.

With the strong government emphasis on employment and reduction of income disparities, increased production by the poorer strata of the society should be highly prioritized. The budget revenue is also dependent on what fiscal policy the government is prepared to implement, taking into consideration the political alliances it can create. The long term restructuring presented as government objectives has paradoxically to be based on the surplus generated through a short- to medium- term export-led

growth strategy, with minerals and fisheries as the main sectors.

Areas where South Africa is dependent on Namibia

In the present situation the de Klerk government in South Africa has a political interest of a "good neighbour image" in order to reach full international acceptance and the dismantling of international sanctions. One part of such a policy is most probably to create good relations to Namibia, and not using the economic dominance for destabilisation. This by no means implies that the good neighbour policy does not have other objectives as well.

There are also economic areas where South African interests both during the on-going transition period and in the post-apartheid era would like to continue and strengthen the links with Namibia. Examples are the South African mineral companies´ interest in continued production and exploration in Namibia, South African interests to expand their impact in the fishing sector, the imports by for instance ISCOR (steel company) of volatile minerals from Namibia, imports of cattle and fish products, Namibia as a market for South African manufacturing exports, and the interests of South African financial institutions in the Namibian market. Finally, at least during the transition period, Namibia might serve as an entrance to the EEC market for South African companies.

Namibia and the Future Regional Development in Southern Africa

The main development objectives of the Namibian government were briefly introduced in the previous section. The envisaged restructuring of the Namibian economy will have to contain major efforts to support rural development and involve the majority of the population. Employment creation will be a critical issue, both in rural and urban areas. Economic resources to implement such a strategy in the short- and medium- term will have to be generated by export-led economic growth, based on the mineral and fishery sectors.

The regional development in southern Africa will be heavily influenced by what happens in South Africa. Any discussion on the future of the region therefore has to be based on some assumptions as to the continuing transformation in that country, which of necessity have to be speculative. Several scenarios are possible, among others:

1. A continuation of the present transitional process, leading eventually to the election of a majority-government in a country with a non-racialist constitution.
2. A transformation process leading to a power-sharing arrangement which does not totally fulfil the demands for a democratic, non-racialist constitution.
3. A reactionary return to neo-apartheid by the de-railing of the presently on-going process through a right-wing and/or military/security forces coup.
4. An increasingly chaotic situation where the leadership of both the present white authorities and the ANC and other anti-apartheid movements lose control.

Here it is assumed that the first scenario is the most likely. It is furthermore assumed that the constitution will be a negotiated compromise between the major parties involved, possibly also with some measures of temporary "protection clauses" for whites, that the new majority government will be formed with the ANC as the leading black party, that this government will adopt a "reconciliation policy", designed to ease domestic racial and social tensions, and that already before the new government is in power all sanctions against South Africa are lifted. (c.f. Tostensen, 1991)

A discussion on the regional development should be divided in two stages, the first one a transition period, assumed here to be 3–4 years, and the second a period beyond that in which a majority-ruled South Africa takes full part in regional and international matters. The distinction

between the two stages should, however, not be exaggerated. Recent experience suggests that the participation and thereby the influence of South African authorities and institutions in regional matters is already gradually increasing.

It can be assumed that the de Klerk government will continue its "friendly neighbour" regional policy as long as the on-going transformation process in South Africa from its point of view makes progress. This means that South African authorities and institutions will seek cooperation with their counterparts in the neighbouring countries as well as with regional organisations. One example is the participation of Eskom representatives in technical meetings with the SADCC Energy Unit.

If this trend continues we will see a gradually increased cooperation between South African institutions and companies on one hand and their counterparts in the SADCC region on the other, also before a majority government is in power in South Africa. Such a development is in the interest of the de Klerk government both politically and economically, as it further reduces the previous isolation.

From a regional point of view the medium and long term perspective will heavily depend on the regional policy of a future democratic South African government. The ANC position regarding the future regional policy has been touched upon only in few written sources, including a discussion document on *Economic Policy for a Post-Apartheid South Africa*, from an ANC-COSATU workshop in Harare 28 April – 1 May 1990, stating:

> "The non-racial democratic (South African) state would actively seek to promote regional economic co-operation along new lines, in ways that would not be exploitative and will correct imbalances in current relationships. The state must be prepared to enter into negotiations with its neighbours to promote a dynamic and non-exploitative and mutually beneficial form of regional co-operation and development. This may involve making concessions to our neighbouring states."

This quotation expresses in general terms positive intentions from the ANC to reduce a potentially dominant South African position when the future regional links are defined. But it is probably realistic to be cautious about the possibilities for such a non-dominant policy to be implemented. As Tostensen points out:

> "Assuming that the ANC will play a determining role in a future South African government, its constituency will undoubtedly be inside the country. Pressures will be mounting for public expenditure on health, education and housing to dismantle real apartheid. Coalition partners of the government—be they on the right or the left—might add to those pressures, although for different reasons. In such circumstances, will the ANC succumb or stick to its good intentions? Will it be affordable to make expensive concessions to neighbouring states in order to develop new non-exploitative relationships? These are real problems that are likely to face a majority goverment in the short-term future. The present author is not at all convinced that an ANC-dominated post-apartheid government will deviate that much from the economic policies of the present government towards the region. A rather narrowly perceived 'national interest' however defined, is likely to carry the day." (Tostensen, 1991)

But also with a perceived national interest behind the regional policy of a South African post-apartheid government it will be in its interest to develop new relations and change existing patterns in the region.

The economic potential of the southern African region including South

Africa is large, as many have pointed out. The combined resources are vast in terms of mineral, energy, agriculture, and fishery potential. Delinking from South Africa does not make economic sense from that perspective. It is due to the apartheid system that it has made political sense. From a national economic policy point of view, however, it is also important to gain control of the economy.

The most important benefit for the region is the prospect of an end to war and destabilisation. It has been in the interest of the de Klerk government since late 1989 to reduce the level of destabilisation in the region. A reduction has taken place but there are still indications that the South African support to the destabilisation of Angola and Mozambique has not ceased completely. And, unfortunately, the risk is not totally gone with a majority government, as it might not have full control over all forces in South Africa, and as the main remaining destabilisation activities may be carried out by Renamo in Mozambique and Unita in Angola, with support from other sources than South Africa. This must be stated while the hope of course is that the ongoing processes towards peace in those two countries will be successful.

The present regional cooperation organisations will also be affected by the South African process.

Also without the transformation in South Africa, the SADCC cooperation is at the cross-roads. Either it could continue with the present type of cooperation around mainly infrastructural (in a broad sense) projects, or it could go for a degree of regional integration, which implies a certain amount of e.g. harmonisation of trade and investment regimes and probably a degree of supranational decision-making.

SADCC has declared that a democratic South Africa is welcome as the eleventh member of the organisation. SADCC has, however, shown few signs of awareness about how the organisation would have to adjust to the presence of this new member, which would provide 3/4 of the extended SADCC's total GDP and a still larger proportion of its industrial production.

In the long run a change of the institutional framework of SADCC thus seems inevitable. And as part of this the potential competition between SADCC and the Preferential Trade Area, PTA, will have to be solved. Several scenarios are possible, based on developing either of the organisations. In the short- term perspective, however, both will probably continue in a similar fashion as before and not until an initiative is taken by the new government in South Africa will there be any major changes.

For the South African transition period, Namibia therefore probably can base its analysis of the benefits of its membership of SADCC and the PTA on the present framework. This also goes for the relation to the Southern African Customs Union, SACU, and the Common Monetary Area, CMA.

During her first year of independence Namibia became a member of SADCC. The SADCC membership might in the short run generate some extra aid funds, especially for the trans-Caprivi highway and the trans-Kalahari highway. The Namibian government has shown its interest in those two projects by commissioning two local consultants (with strong South African interests), VKE Namibia and VWL Namibia respectively, to

carry out feasibility studies for the Namibian part, and financing them over the capital budget instead of waiting for aid financing. The feasibility studies have started as has the detailed planning of 150 km of the trans-Caprivi highway.

Financing for a micro-wave telecommunications link to Botswana is secured. An agreement can be expected in one year and the construction implemented in 3–4 years.The micro-wave-link will also connect the Namibia telecommunications with the PANAFTEL net.

A number of donor agencies, including the African Development Bank, Germany, and Norway have expressed interest in financing the trans-Kalahari highway , while Germany, Sweden, and the African Development Bank have indicated interest in the trans-Caprivi highway. The micro-wave link to Botswana will be financed by Norway and Sweden.

A PTA membership will be of little immediate use for Namibia as its main export products are not suitable for the PTA market, while many of the export products from PTA countries are competing with potential domestic production. If a majority-ruled South Africa chooses to become a member of PTA, this will probably imply the discontinuation of SACU, as the two organisations are not compatible. Such a step would change the Namibian situation significantly.

If the process towards the total legal abolition of apartheid and the election of a majority government in South Africa continues, the government and people in Namibia will have a few years to change the social and economic structures inherited at independence in order to prepare for a new regional situation with a majority-ruled South Africa as a member of all regional and international organizations implying no political restrictions on the activities of South Africa based companies. It is extremely important for Namibia to use this period in an optimal way.

With the post-apartheid era starting, the interest of both donor agencies and private capital might focus on South Africa, at least for an initial period. This of course will depend on the development during the transformation and initial post-apartheid period. If the result is social and economic turbulence and uncertainty, at least private capital might prefer to work on the South African market from neighbouring states that are considered more stable, such as Namibia and Botswana.

Some of the possible implications for Namibia in the post-apartheid era are:

1. The risk of economic destabilisation from South Africa in order to achieve political goals will fade away.
2. The ANC position as regards Walvis Bay and the off-shore islands is clear: They belong to Namibia. At the same time ANC would prefer this issue to be solved between the present South African regime and the Namibian government. What position a majority government in South Africa, should it consist of several parties, might take is more difficult to predict.
3. The SADCC cooperation might face reduced aid flows. As SADCC to such a large extent is depending on aid funds this could have serious implications for its activities. If not earlier, SADCC will at that point be forced to rethink what type of an organisation it would like to develop

into. With SADCC less attractive to donors, the regional interest might also be reduced. This is a reason for the Namibian government to be very active now in order to get financial commitments to Namibia-related SADCC projects.

4. The industrialized world might reduce their interest in the southern Africa region after the fall of apartheid, and what remains of that interest might focus on South Africa. This might reduce the scope for Namibia getting both private investment and especially official aid. This is an argument for continuing the present policy, aiming at attracting both private and aid capital. It should also emphasize the option for potential investors to use Namibia as a basis for the South African market. A reason for South African companies to invest in Namibia might be to get access to the EEC market via Namibia's membership in the Lomé Convention.
5. There might be a restructuring of the regional trade regime, where the role of SACU changes for instance either by expanding northwards and include more members, or by being abolished and replaced by some type of adjusted PTA arrangement.
6. Post-apartheid in South Africa and peace in Angola will probably strengthen the South African-Angolan links significantly. Namibia might either gain from this development by serving as a springboard into Angola or it might lose through being "sandwiched" between the two countries.

Policy Options for the Namibian Government on Major Dependency Issues

A number of measures taken by the Namibian government during the first year of independence have improved or created the potential for increased national control of the economy. Some of these are basic for any country's independence in general.

One set of activities contains the creation of institutions that did not exist before independence, e.g. a central bank and a national planning commission and membership in international organisations such as the IMF, the World Bank, OAU, SADCC, the Commonwealth, the Non-Aligned Movement, UN, and a number of UN agencies. Of importance were also the successful negotiations during 1990, leading to membership in the Lomé IV Convention.

Another group of activities contains the restructuring of pre-independence institutions and introduction of new legislation in order to cope with the requirements of the new independent state. Some examples of such new legislation that has been introduced or is under preparation are:

- Proclamation of a 200 mile Exclusive Economic Zone along the coast.
- Preparation of a new Fisheries Legislation and a National Fisheries Policy, which will be presented in a government White Paper.
- A Land Reform Conference in June 1991, which will prepare the ground for new land legislation.
- New mineral legislation to be billed in the National Assembly.
- Development of a legal framework for petroleum operations: The petroleum (Exploration and Production) Act 1991 and the Petroleum (Taxation) Bill 1991, were passed in the National Assembly in 1991. Invitations for oil prospecting were opened in late March 1991 and will be open until November.
- Efforts to convince foreign companies to invest in Namibia by introducing a Foreign Investment Act in December 1990 and organizing an Investors Conference in February 1991, as well as other investment promotion activities.

A side-effect of these and other activities will be to improve the possibilities of a more independent policy towards South Africa, should that be deemed necessary by the Namibian government.

Some other measures taken so far are included in the subsections below on policy options for the Namibian government. A large number of further actions have still to be taken, to increase national control and get rid of inherited legislation, based on the South African dominance. One such field is procurement and tender regulations.

As is clear from the previous sections, should a situation develop where the South African regime finds it to be in its interest to destabilise Namibia economically, sufficient means are available, for instance

- by not giving Namibia access to the port of Walvis Bay. This will block petroleum product imports, and exports from Tsumeb and other mines and imports of equipment to those mines.
- by restricting or halting road and rail transports at Namibia's southern border either totally, or for specific products e.g. imports of petroleum or food or exports of cattle.
- by cutting the electricity from Eskom.
- by cutting telecommunications.

To guard itself against such emergencies would be very expensive for the Namibian government, and the period of necessary investments would be a number of years. A new port at Henties Bay, north of Swakopmund is for instance estimated to cost around US$ 500 million. Alternative transports via the port of Namibe in Angola requires large rehabilitation and infrastructure investment in Angola.

The total costs would be of a magnitude that would hamper all other capital investment for at least a five-year period. Any emergency investments will have to be calculated against the risk that they will be needed. With the experiences from the first year of independence, large investments for possible future emergencies cannot be recommended.

A better strategy is to gradually improve the present systems and try to use them as effectively as possible. Following comments are suggested in some of the relevant fields.

Walvis Bay—how to get full control

During the last few years the port of Walvis Bay has only been used to between 25 and 30% of its capacity, which means around 1 million tons of cargo per annum, excluding petroleum products. Around 4/5 are exports from Namibia and 1/5 imports to Namibia (excluding petroleum products). Main exports are salt, produced in Walvis Bay and Swakopmund, copper and other metals from Tsumeb, and to a lesser extent copper in transit from Zambia (during the last year). The imports consist of petroleum products and a diversified number of consumer and capital goods, including essential inputs for the mining industry.

The first formal meeting between South Africa and Namibia on the issue of Walvis Bay and the off-shore islands did not take place until 14 March 1991, almost one year after independence. The two countries did not come to an agreement.

A second meeting was held on 17 May 1991. According to press reports a tentative agreement on joint administration of the port was reached, while still there was no agreement on the issue of sovereignty of the enclave as such and the off-shore islands. No details of the agreement are so far available for outsiders.

An agreement on Namibia´s southern border was also reached during this meeting. Pretoria previously held that it ran along the Orange River´s

northern bank, which would have denied Namibia access to irrigation and also would have implications for the off-shore diamond explorations at the mouth of the river. Now it was agreed that the border will be in the middle of the river, which is international standard.

To get full control of Walvis Bay and the off-shore islands is the most important issue in the Namibian government's relations with South Africa for a number of reasons: The political symbolic value of getting sovereignty over the entire Namibian territory, the removing of the main instrument for potential South African destabilisation, the removing of the uncertainty as to the future of the enclave as a base for fishery and other industries and the potential to develop it into a regional port.

At the same time any attempt by the present South African government to negotiate an agreement that includes compromises as regards the sovereignty of Walvis Bay should be avoided. What should be discussed is the modalities of the transfer. This could however be made without formally involving the issue of sovereignty, if both parties agree on that. In such a negotiation it could be agreed that Namibia takes over the administration from a certain date, possibly after a transfer period with a joint administration.

After the political decision, transfer of the assets in Walvis Bay will probably involve bargaining between the commercial entities involved. A precedent that the Namibian government can use is the transfer of SATS assets (the port of Lüderitz and the railways) in 1985, when all fixed and mobile assets were transferred to the Windhoek administration and later to TransNamib. The South African government at that occasion paid the SATS liabilities.

One potential Namibian authority to take over the management of the port is TransNamib, which can cooperate with the present port authorities for a certain period, but also other ways of handling the running of the Walvis Bay harbour are possible e.g. some form of a joint venture. In any case the Namibian side has to prepare itself for the transfer, for example by commissioning a study on the value of assets.

Another technical issue that will have to be solved, and therefore prepared in advance, is the harmonization of the now used legislation in Namibia and Walvis Bay. This will affect among other activities the fishing and canning industry in Walvis Bay, and individuals now paying South African taxes and other fees. A special issue will be the present South African government transport subsidies to the salt mining company in Walvis Bay.

Some people hope that Walvis Bay could develop into a regional port, competing with both the South African and the east coast ports. A study on the prospects of developing Walvis Bay into a commercially viable regional port, also handling transit goods from Zambia, Zimbabwe and Zaire, ought to be carried out.

Other transport issues

The main effect of the construction of the trans-Kalahari highway will be to reduce the road distance between Witwatersrand and central Namibia

by around 400 km, while at the same time improving the links between Botswana and Namibia. The construction of this road will probably increase road transports from Transvaal to Namibia and reduce railway transports. The trans-Caprivi highway will improve transport links between Namibia, northern Botswana, Zambia, Zimbabwe, and Zaire, and open up for increased relations with those countries. It will be an important prerequisite for increased transit goods traffic to Europe and the Americas via Walvis Bay. It might also improve the prospects of integrated rural development in the Caprivi area.

The existing SACU agreement also deals with transit transports. One paragraph grants the members mutual freedom of transit and non-discrimination in the treatment of transport operators. Thus according to the SACU agreement Namibia shall e.g. have unrestricted access to Walvis Bay for transit traffic. The same paragraph also provides non-discrimination in the treatment of transport operators. This might restrict the scope of action for the Namibian government, if it seeks to introduce measures to get compensation for the damage on the roads due to traffic from South Africa. One measure that can be introduced immediately is the introduction of weight bridges at the border posts to avoid overloading of the trucks using the Namibian roads.

The foreign trade pattern and the SACU

On the export side one important issue is the Namibian membership of the Lomé IV Convention. It gives access to the development cooperation instruments under this convention both under a national indicative programme and from funds for emergency aid, STABEX aid to compensate for unforeseen declines in export earnings and SYSMIN to compensate for unforeseen declines in mineral export earnings, and from funds for regional development as well as for supporting NGOs. It also gives access to loans from the European Investment Bank. Namibia also got temporary status as least developed country in spite of her high GDP per capita. This reduces the requirements to get access to STABEX and SYSMIN funds, which is of special interest for the karakul and uranium production. A beef export quota with 90% levy rebate of 60, 000 tons for a five year period (1991/92–1995/96) has also been agreed. The quota for the first and second year is 10, 500 tons and for the subsequent years 13, 000 tons, which corresponds to around 65, 000 and 78, 000 cattle respectively (according to figures in EIU Country Report No. 2, 1991). This means that the EEC quota corresponds to 2/3–3/4 of the South African quota for live cattle.

Exports from Namibia will continue to be dominated by minerals, at least in the medium term perspective. That implies dependency on world market prices, independently of the ownership of the mining companies.

In the long term perspective the fishing sector including processing is projected to give an important boost to the exports. Figures mentioned are R 2 billion or more by the end of the century. This corresponds to the present export revenues from the mineral sector. Fisheries projections however are very uncertain. A significant expansion of the fishing sector is the most promising identified option for the future and will have positive

implications for employment, exports, economic growth, and government revenue.

Other options for diversification of exports are manufacturing and assembling for the South African market, along the lines of the discussed Citroën plans for an assembly plant in Gobabis, and agro-processing, including game meat for the European market. If the on-going preparation for oil prospecting is successful, petroleum products will be an important part of the future exports.

It is government policy to reduce the import dependency when it comes to food consumption by increasing and restructuring the agricultural sector. There is also a potential to do so. White maize is one of the main basic food items, and a large part of the consumption has been covered by imports from South Africa. According to the documentation to the Investors Conference in February 1991 consumption was 68, 000 tpa and domestic production on average 27, 000 tpa. According to press reports the 1990/91 season gave a bumper crop of around 50, 000 tons. If this is correct it might partly be due to favourable rains. Still it shows the potential for self-sufficiency of this crop.

It should be noticed, however, that the figures above relate to the commercial farms. The improvement of subsistence and small peasant agriculture has so far been slow. This is part of the apartheid legacy, where no resources such as credits, extension services, storage, and distribution facilities were made available to the major part of the Namibian rural population. If the government is successful in its activities to improve this sector that will also reduce the present needs for imports of agricultural products from South Africa. Another important issue related to this problem is a possible land reform. The conference on this issue in June 1991 is intended to be the first step towards new legislation in this area.

Small scale farmers might benefit from the on-going government and Rössing experiments to increase the production of the local variety of millet, called mahango. Increased production and commercial distribution of mahango will also probably reduce the urban consumption of maize, as the former is the traditional staple food for large segments of the population.

The objective to increase the Namibian self-sufficiency in agricultural products for the urban population should be related to the costs involved and not be looked upon as an objective per se.

Industrial investments and SACU

The stated policy of the Namibian government in this field is to convince foreign companies to invest in the country. To that effect a Foreign Investment Act was introduced in December 1990. As was pointed out during the Investors Conference in Windhoek in February 1991, the smallness of the domestic market is one important obstacle for new investors in Namibia. Another is the competition from established big South African companies, which is aggravated by the free access they have to Namibia through the customs union. Although there are two paragraphs in the Customs Union Agreement that formally should protect establishment of

infant industries in the smaller members of the union, other regulations restrict this objective in practise. The experience of the BLS states is that South Africa seldom is prepared to accept protection for industries in member countries against South African companies. One of the few recent examples of the opposite is the protection for the soda ash production at Sua Pan in Botswana. This can be explained by the South African glass and chemical industry's need for soda ash, which it previously had to import from outside SACU.

It is not only the paragraphs in the SACU agreement that are of concern to the Namibian government. The BLS states have for many years tried to improve their degree of influence over the South African industrial policy from the present zero level They have for instance tried to get representation in the South African Board of Trade and Industry, where in practise the industrial policy of the whole customs union area is determined, and some influence in the South African programme of decentralization of industries to bantustans by far-reaching incentives. Those issues are important also for Namibia. The discussions around the possible Citroën assembly plant is a good example. According to South African regulations, car assembly factories should have 65% local content in order to avoid having to pay fees into a scheme under the Local Content Programme for Motor Vehicles, with certain regulations regarding exports that can reduce this figure. Citroën argues that they have to get at least a temporary waiver from this scheme. In this case the company and the Namibian Government have a common interest, but the decision is in the hands of the South African authorities.

Apart from the interest of Citroën, up to April 1991 the only major investments where foreign companies have been reported to show an interest is the Lonhro Sugar plantation in Caprivi, a joint venture for exports of white fish products overseas between a Færø Island Company and Namibian Marine Resources. Unilever has acquired a majority share in Namswa Oils and Guinness is involved in a joint venture with Namibia Breweries.

The government promotion activities to attract foreign capital have been met with cautious interest. The Foreign Investment Act, which the National Assembly decided upon in December 1990 is important, but foreign companies look very much to the practise and they might behave like they have done in the case of Zimbabwe, "sitting on the fence" for ten years to see what will happen. From their point of view, however, Namibia must be more promising due to the activities of the government and the availability of the South African market through the customs union. It has been suggested that one argument for foreign companies to invest in Namibia, rather than in South Africa proper, will be the uncertainty and turbulence in the South African labour market that might continue also with a majority government. On the other hand, an argument against investing in Namibia is the present scarcity of skilled labour. Another argument for South African companies to invest in Namibia is the access to the EEC market through the Namibian membership of the Lomé Convention. This ought to be especially interesting during the present transition period in South Africa.

A minor government involvement in the manufacturing sector has been through the First National Development Corporation, FNDC, which was set up in 1978 and was inherited at independence. Preliminary government thinking is that FNDC should be divided into one Investment Advisory Centre, facilitating for interested foreign companies to find their way through the Namibian rules and regulations, and one Development Bank, especially directed to providing credits to domestic companies, including small ones.

Another sector with potential for increased generation of foreign exchange is tourism, which presently takes in around R 100 million per year. Branch people suggest that this figure could be tripled, provided increased resources for the sector are made available.

The issue of SACU membership

SACU membership implies certain restrictions as to foreign trade regime, loss of fiscal discretion, and difficulties for investments in Namibia competing with South African interests. It is uncertain if the present formula to calculate the smaller members revenue compensates them for those losses. Still the government of Namibia can be advised to stay in SACU for at least a couple of years. In the long term the regional economic cooperation might change the role of SACU and even replace it with other forms of regional economic integration.

When it comes to the long run choice of staying in the SACU or leaving the union a number of issues have to be considered. A NEPRU study provides a detailed analysis in this area. (NEPRU, 1990, from which most of the following discussion is taken.)

One issue is the effects on government revenue. An important point here is the cost difference between setting up a customs administration for SACU purposes and the cost for an independent Namibian customs, which will be more expensive. In order to get the same net customs revenue the average import duty to Namibia will have to be higher than the 17% average which is estimated for SACU at present. On the other hand the allocation on different import goods can be better adjusted to the Namibian import pattern, general tax policies and other national economic policy objectives with an independent customs system.

A second issue is the price effects. As has been pointed out the average duty rate will probably have to be higher for an independent customs regime than for a SACU-regime. This will increase the consumers price in Namibia. To what extent is also depending on the degree of cooperation from South Africa when it comes to duty refunds on transit goods through South Africa and on goods with a sales tax component. On the other hand an independent customs regime might have a price-reducing effect on certain goods, where imports from other sources than the protected South African market are cheaper, also with higher transport costs and in some cases higher customs duties.

A third issue is the advantage of the geographical closeness to South Africa for supply, services and the reduction of inventory costs that is an effect of this. Both supply and service are accessible in much shorter time

from South Africa than from e.g. Europe. These advantages are easier accessible with Namibia inside the SACU.

A fourth issue is the balance of payments effect. Theoretically this changes when Namibia gets its national currency, probably in 1992. In practise this will not change the situation significantly from a balance of payments point of view, as the Bank of Namibia's Rand assets in the South African Reserve Bank also in the present system immediately can be transferred into any convertible currency.

After the introduction of the Namibian dollar, the SACU revenue from the pool will be received in foreign currency, namely Rand. On the other hand the Namibian consumers' payment of duties and taxes will have to be paid in Rand to the same pool. The difference between the first factor including the compensation factor of 1.42 and the second factor constitutes the net balance of payments effect. Added to this should be the effect of the cases when products produced in and imported from SACU are more expensive than if they would have been imported from outside under an independent customs regime.

Theoretically Namibia outside SACU would have full freedom to set its duty rates. In reality there are restrictions due to the fact that if the rates are much different from South Africa's they will create smuggling and loss of revenue. With its very small market compared to South Africa there is little scope for the import substitution option. On the contrary, it could be argued that free access to the South African market is an important incentive for potential investors. These factors together thus strengthen the argument that Namibia should stay within SACU.

The conclusion seems to be that most factors support that Namibia should stay as a member of SACU, at least as long as there are no major changes of the SACU agreement. When more comprehensive and detailed trade statistics are available, a study on a possible alternative independent customs regime should be carried out, based on the assumption of unchanged net customs revenue. Not until such a study is made, is it possible to seriously discuss the long term alternatives to SACU membership.

In the meantime short- and medium- term efforts should focus on renegotiating improvements in the SACU agreement. This has to be prepared together with the BLS states. Some of the issues to be raised should be:

- The decision-making process in the industry sector. Namibia and the BLS states should insist to be members of the South Africa Board of Trade and Industry.
- Efforts to minimize the time lag of payments, basing first estimate on a projected trend value instead of the actual figures two years earlier. Accumulated funds in South Africa awaiting the calculations of actual import data should also be made interest bearing.

The role of the donors could be to provide the necessary technical expertise that the government of Namibia might be interested in, to strengthen its negotiation position.

In the longer time perspective the whole issue of SACU might change, as a majority government in a non-racial South Africa might initiate changes in the geographical scope and economic objectives compared to

the present situation. But also in this perspective it is in the national interest of Namibia to receive as much as possible from the customs revenue and to work for regulations that are beneficial to Namibia. The competition in this field between the members of the customs union will not change as a result of a majority government in South Africa.

Fishing

The great potential for export earnings from the fishing and fish processing has already been discussed in the section on foreign trade.

The rehabilitation of the depleted fishing grounds, and the fisheries industry in Walvis Bay, is partly unrelated to the issue of the sovereignty over Walvis Bay. The three main issues are 1) to reduce and then increase fishing quotas both for pelagic and high-sea fishing and get sufficient control over the 200 mile EEZ in a manner that guarantees sustainable increased catch; 2) to give incentives so that a maximum part of the total catch is taken by Namibian interests and processed in Namibia; and 3) to provide training to Namibians in fishery and fish processing. Incentives can include better conditions and bigger quotas for the "namibianized" companies and promoting of joint ventures. All three issues will be facilitated when Walvis Bay and the off-shore islands are returned to Namibia. Theoretically the South African claim on those islands can create complications both as regards fishing monitoring and possible future oil prospecting.

Mining

The short- term prospects of the Namibian mining production is gloomy, due to the world market prices, especially for uranium, copper, tin, and zink and a general uncertainty for diamonds and gold. Rössing has cut back further on production in 1991, but hopes for improved world market and more long term contracts from 1995 and onwards. Rössing will also start a pilot graphite project.

The present multi-mineral deposits of the Tsumeb mine are nearing its depletion. Tsumeb is meeting this situation with further exploration and imports of concentrates from other sources to its smelting complex.

There are two recent cases of increased production in the mining sector. One is the opening of the Elisabeth Bay diamond field by CDM, which is expected to increase the diamond production by around 250, 000 carats corresponding to around 1/3 of the 1989 production or around R 270 million with 1989 prices. The other is the opening of the Navachab gold mine that produced around 1,400 kg gold in 1990 and is expected to produce around 1,900 kg p.a. during some 15 years. With world market prices of March 1991 this corresponds to export earnings of around R 60 million per year.

Mining of marble and granite is going on and large deposits are said to have been found near Karibib. Promising ore bodies and geological formations are reported from Kakoveld and further north. However it can take ten years to come to the production phase also in the case of promising

discoveries and much depends on the market prospects, which are not very favourable for a number of metals. It is government policy also to encourage small scale mining.

To support further expansion and diversification of the mineral sector is an obvious long-term option for the Namibian government. It is also the policy stated in the government White Paper on National and Sectoral Policies, where the expansion of geological surveys is one main activity focussed by the government. A number of other issues have also to be taken into account. One of them is the large infrastructural investment costs normally involved and often paid by the host government rather than the mining company and the potential to generate government revenue, which can be used for social and physical infrastructure to the benefit of the before independence neglected parts of the population.

A diversification can be used to reduce the South African dominance in the mining sector. The Namibian capacity to negotiate and participate in the management of mining companies should be strengthened, in the short term inevitably through technical assistance and in the long term by better training facilities in this area. One step in this direction is the planned establishment of a Namibian Institute of Technology.

Energy

Plans to establish a new oil terminal with a mooring buoy arrangement in Swakopmund have been accepted as a SADCC project. Financing for the feasibility study (US$ 0,5 million) has not yet been found. The total cost is not known.

In May 1991 a joint venture agreement between the Namibian government and the British firm Enerkor on an oil refinery investment i Usakos was signed. Estimated investment cost is stated as US$ 100 million and capacity is 10, 000 barrels a day, which makes it small by international standard but sufficient also for certain exports to neighbouring countries. According to plans the refinery should start operating by the end of 1992. There is no information as to source of financing of the project and the calculated production costs. With such a small capacity they might be high. An operating refinery will make Namibia less dependent on imports of refined petroleum products from South Africa, as it will be easy to receive crude oil from other sources than via South Africa.

The Taiwanese company Overseas Petroleum Investment Corporation (OPIC) received acceptance from the government to commence an exploration in the Etosha area and plans to start drilling in late 1991.

The Namibian part of the Kudu gas fields outside the southern coast is explored by Namcor (Namibia Oil Corporation). Gas has been found and the reserves are estimated at between 5 and 15 trillion cubic feet (Namibia Report, March April 1991).

Seismic and other data indicate oil potential, both on-shore and off-shore, but if they are sufficiently convincing to justify exploration remains to be seen. Exploration consultants from UK have collected seismic data on the entire off-shore Zone. The interpretations are going on and presentations for oil companies took place in London and Houston in the first

half of 1991. The government opened a period for exploration biddings in March, which is planned to continue until November 1991.

In this context it should be mentioned that the South African claim on the off-shore islands might complicate the exploration activities, as it can be used also to claim resources in the "economic zone strips" starting from the islands.

Turning to the hydro-electric energy, there is an agreement in principle between the Namibian and Angolan governments to develop Cunene river's resources jointly, including a proposed hydro-power plant at Epupa at an estimated cost of R 800 million. However, there is an interest on the Angolan side to use the alternative of exporting surplus electricity from other sources to Namibia, once the war is over. After the peace agreement in May 1991 between the Angolan government and UNITA, this option might be looked into seriously by the Namibian government.

In August 1990 an agreement was also signed with Zesco from Zambia for supply of power to Caprivi, in order to replace existing expensive diesel generators.

Increased cooperation with Angola will make Namibia totally independent on electricity from Eskom in South Africa. The existing integrated grid would then mainly serve for exports to South Africa.

Central Bank, national currency, and the membership of the Central Monetary Area

The Bank of Namibia is established since 1990 and is building up its capacity and gradually expanding into all normal activities of a central bank. Preparations to introduce a national currency (Namibian dollar) by the end of 1992 are going on. It will at least initially be pegged to the South African Rand. Namibia will also formally become a member of the Central Monetary Area (CMA) during 1991. The intention of the government is to continue as a member of the CMA also after the national currency has been introduced and after a certain period appraise the advantages and disadvantages both of being a member of CMA and to continue to peg the Namibian dollar to the Rand.

The establishment of the Central Bank, the preparations for the introduction of a national currency, and related issues seem to be carried out in a very professional and cautious manner. When this phase is over, the arena will open up for preparations for possible further actions to reduce the links with South Africa, e.g. to leave the CMA, should that be viable according to analyses to be carried out.

Budget finance and the central government debt

The central government debt inherited at independence has so far been handled as if the Namibian government accepted it, although this has never been formally acknowledged. In spite of the dubious background of the debt, the government of Namibia has serviced the debt, including amortization. No new government loans were taken during the first year of independence. This means that by end-March 1991 the Central govern-

ment Debt ought to have been around R 551 million. The main part of the service is on stock loans from the pre-independence regime, guaranteed by the South African government. (77% of total in March 1990.) Another 5–7% of the total are loans direct from the South African government.

In June 1991 the government issued its first treasury bills since independence. The total amount was R 10 million and the issue was heavily oversubscribed, which signifies that the capital investors have a certain confidence in the government of Namibia.

The servicing of the debt will remain a heavy burden on the government budget during the next few years, exactly the period when restrictions on government revenue and strong pressure for increased government expenditure will take place. Assuming that the budget deficit during the next few years will be in the range of R 200–300 million, a moratorium on debt servicing, including interest payment, would cover a large part of this deficit.

It has been argued, to my mind correctly, that the responsibility to repay the inherited debt from the pre-independent Windhoek administration should not be put on the government of independent Namibia.

Some of the relevant issues related to the inherited "foreign debt" are:

1. The main aim should be to convince the South African government to take over the debt, as soon as possible. The minimum requirement should be that the South African government writes off the government part of the debt.
2. With sanctions lifted it is now possible for the Namibian government to borrow on the international capital markets. A moratorium on the servicing of the debt guaranteed by the South African government, together with a well-organized information campaign explaining the illegality of the debt as reason for the Namibian government introducing such a moratorium, would probably not affect the Namibian international credibility much. As the loans are guaranteed by the South African government, it will have to pay them as they fall due, and the debt based on the stock loans is transferred into a debt directly to the government of South Africa.
3. However, it can be assumed that the Namibian government borrowing to cover the budget deficit normally will take place on the Namibian market, and thereby as long as the currency is the same also on the South African market. This might exclude the option of unilateral moratorium, but the Namibian government should try to negotiate a rescheduling of the outstanding debt for, say, a five year period, using the same method as indicated under 2), with the important difference that the moratorium will be the effect of an agreement between the two governments. However, is that actions that are regarded as not consistent with "good neighbour behaviour" in Pretoria might affect the outcome of the negotiations on Walvis Bay.

The role of the donors would in this case be to convince the South African government to accept a reduction of the debt using silent diplomacy, as this seems to be consistent with the strategy of the Namibian government.

Another measure to improve the budget revenue side would be to renegotiate the agreement with the CDM, similar to those of de Beers in

Botswana. The company in Botswana is a joint venture between de Beers and the Botswana government. The Namibian government should negotiate a deal where it gets a percentage of the shares, and representation at the Board of CDM.

Restructuring the public administration

The main instrument to change the economic structure and seriously get to grips with its lopsidedness and the unequal opportunities for different layers of the society is the public sector. The public administration has to be restructured into a suitable instrument for creating an enabling environment for rural development, job creation, and to expand social and physical infrastructure to the majority of the population.

The inherited administration was formed along apartheid lines, including eleven racially identified two-tiers regional administrations. Many of the central posts were filled with white South Africans, most of whom left at independence.

An important restriction on the restructuring of the state apparatus is the principle accepted by the Namibian government not to entrench against their will those who were employed at independence. This means that people who were not employed at independence, that is all the people coming from exile, can be fired, while all from the colonial days are guaranteed employment. This is an absurd situation, and its budgetary costs are high. If it is assumed that the number of posts could be reduced by 25%, this would imply around R 240 million savings on the remuneration budget, which is comparable with the estimated unfunded budget deficit in 1991/92 (R 312 million).

Two instruments are important in the restructuring process: Maximum efforts to train Namibians and technical assistance recruitment. The latter has to be carried out in a proper manner in order to avoid that the government rush from dependency on one group in the administration to other groups. Preparation and implementation of new policies in different fields will take place as an interplay between the inherited civil service and consultants and technical assistance personnel recruited under aid programmes, and presumably more inclined to support policy changes.

To increase the capacity to reform the economy, the public sector needs increased financial scope both in the recurrent and in the capital budget. There are three methods to improve the budget financing in the short run: To write off or renegotiate the public debt, to significantly reduce the number of civil servants, and to increase the government revenue through a broadening of the tax base. Although the three methods are politically complicated, they have to be embarked upon.

Cooperation with SADCC and its member countries

Namibia became SADCCs tenth member state soon after the independence. A few transport and communication projects were included in the SADCC action plan already at that stage, e.g. the trans-Kalahari highway, and the micro-wave tele-link to Botswana.

The annual consultative conference in 1991 was held in Windhoek. On that occasion it was planned that Namibia would get the responsibility for the SADCC coordination of sea fishing activities but due to resistance from Malawi, the present coordinator of the fisheries sector, no decision was made. This of course is not a sign of smooth cooperation within SADCC.

For Namibia the SADCC cooperation as such in the short run is not as important as the cooperation with its immediate neighbours among the SADCC countries, suchas Angola, Botswana and Zambia. This cooperation can possibly gain from SADCC through the mobilisation of aid resources to certain projects.

Cooperation in the fields of transports and production with especially southern Angola will be possible, when the security situation there has improved. The destruction of infrastructure at present is an obstacle to cooperation. With peace in Angola the potential can be opened through rehabilitation of the Angolan infrastructure. Energy cooperation is an obvious option. With peace in Angola the South African interest of cooperation with that country will increase. For economic actors in Namibia it is important to prepare for this situation.

The role of development assistance

In the present situation development assistance can be used for at least three different purposes in Namibia.

The first is to finance investments in and outside the capital budget, thereby either providing scope for increased capital budget expenditure or to reduce the budget deficit that the government will have to cover with public borrowing. Aid financing, however, is normally quite different from the straight budget support provided by the South African government to the administration before independence, as aid donor agencies have their principles and procedures to be followed before the amounts pledged actually are disbursed and made available to the Namibian authorities. Also when an aid agency is prepared to finance expenditures included in the capital budget, it normally requires that those expenditures are earmarked for identified projects or programmes. At this level it is more a question of book-keeping, and provided the financial management of the government is good, it leaves significant flexibility. In the case of Namibia, eight donors so far have been prepared to accept this type of aid as part of their programmes. (See table 4.)

Table 4. *Budget support to the 1990/91 budget*

Country/organisation	Rand million
USA	25.0
Finland	17.2
EEC	15.5
Norway	11.5
Sweden	10.9
Denmark	9.0
Netherlands	2.0
Malaysia	0.3
Total	**91.4**

Source: National Planning Commission

Some of the donors' interest in budget support might be restricted because they have the opinion that government expenditure is unnecessary high, due to servicing of a government debt of dubious origin and due to the high remuneration costs of the inherited public administration.

Another type of financial assistance is project financing, including investments, equipment, specialist staff and sometimes other types of software over an identified period. This is the traditional aid project or programme and it is often developed on the basis of discussions with line ministries. Sometimes it even originates out of ideas from the donor agency or its consultants, without much linkage to relevant authorities in the country concerned. A number of African governments in deep financial difficulties have tried to adjust their administration so that it mainly functions as a receiving organisation for aid projects. Of course this is an unhappy situation, which leaves only limited scope for a firm government development policy.

The second role of aid in Namibia's present situation is to provide the government with advice and expertise to support the restructuring of the Namibian society and to develop new institutions necessary for an independent nation.

These tasks are carried out within an administration, with a predominant white staff that has been working since long before independence. While some members of that staff are perfectly ready to follow new political guide-lines and restructure existing institutions according to new political objectives, others are not prepared to such changes. This means that the government sometimes will have to rely on technical assistance staff for preparing significant reforms, rather than on the inherited administration. Part of the political struggle that is carried out in the National Assembly and other political fora thus is also mirrored in the administration. Aid agencies should be aware of this situation and recruite and prepare people so that they can adapt to this type of working situation.

The third role of development assistance at this stage is to provide the Namibian government and authorities in the country with experiences from other countries with similar problems, acting as a catalyst, and to support "networking" between Namibian institutions and individuals and institutions and individuals with similar tasks in other relevant countries. This role is especially important during the initial phase of Namibia's

independent era, due to the previous isolation of the country. Another important part of this catalyst role is to provide Namibia with non-South-African methods and solutions in the modern sector. This does not mean that Namibia should avoid South African techniques or methods as a principle, but that those should be compared to alternatives from other countries in for instance Europe, rather than taken for granted.

Swedish development assistance

One of the five main objectives for Swedish development assistance is to support the independence of the cooperating partners. This has for a long period meant to support the front line states against apartheid South Africa through the strengthening of their economic and manpower capacity.

In the case of Namibia the South African dominance is very strong and will continue to be so also after the fall of apartheid. It can therefore be argued that it still is an important objective to improve Namibia's efforts to build national institutions and make the interdependence with South Africa less assymetrical. This could form part of a general policy to support efforts to reduce the unbalanced regional development in Southern Africa.

Such a policy would also imply to support the Namibian government in its restructuring of the society from the legacy of apartheid.

The present focus of Swedish aid on education and the rural transport sector, budget support plus institution building, e.g. Central Bank, and Central Statistical Office, is in line with such a policy. Further support to the strengthening of institutions and "the reform camp" in the Namibian administration would be a logical continuation. It is important that possible future budget support is linked to activities aimed at improving the situation for the previously neglected groups in the society.

Namibian nation-building and the relations to South Africa

This study has touched upon a number of issues relevant as part of the nation-building process of a young nation. In the case of Namibia some of them are complicated by the South African dominance, both towards Namibia and towards the Southern African region. This has been the context of the recommendations in this report.

The complications of a regional dominant will not disappear with a majority government in a South Africa without apartheid, but their quality will change. Primarily the hope for peace in the region will increase and the risk of economic destabilisation in the neighbouring states will decrease. In an optimistic scenario further regional integration could generate increased economic growth. Still the necessity for adequate and effective national economic policy instruments to implement a development policy decided by the representatives of the Namibian people will remain. And still the economic competition between companies, institutions and states will continue within the region, while possibly the region as such might become a more important player in the world economy.

To sum up. The Namibian government has started a number of activities to strengthen and restructure national institutions. Some of them also improves the Namibian potential to handle the present economic South African dominance.

In a post-apartheid perspective there are no political reasons to reduce links to South Africa, but a too strong South African economic dominance is uncomfortable, and might restrict the scope for national economic policy. A number of issues in this context have been discussed in this report. Some of the most important are:

- To get an agreement with South Africa on the returning of Walvis Bay and the off-shore islands as soon as possible, without having to compromise on other issues of Namibian interest. An agreement on Walvis Bay can include temporary joint administration. Technical preparations for taking over should start immediately.
- To convince the South African government to write off or at least reduce the "foreign debt", inherited at independence.
- To fulfill the efforts to revive the depleted fishing grounds, including the introduction of new legislation and increasing the degree of Namibian control and the extent to which Namibian companies are involved.
- To remain a member of SACU and together with the BLS-countries try to get more influence over the industrial issues.
- To increase the efforts to receive aid commitments to SADCC-labelled projects. This includes both acceptance by the different SADCC bodies and initiatives towards donor agencies.
- To strengthen the efforts to restructure the administration and make it an instrument for reforms, rather than for status quo.
- To reduce the South African dominance in the mineral sector by continued efforts for joint ventures with mineral companies from other countries and promoting of Namibian interests. To agree with CDM to get part of its shares and representation at its board.
- To continue the present exploration activities in the oil sector, with financing from interested companies, and to increase the capacity for negotiations.

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Namibia Report
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SouthScan
The Namibian
The Windhoek Advertiser

Annex 1

Terms of Reference for a Study on Namibia's Economic Dependency on South Africa

Background

Namibia became independent on 21 March 1990. Up to that time the Namibian economy was wholly integrated into that of South Africa. In fact, Namibia was in all practical aspects treated as a fifth province of South Africa.

For those reasons, independence for Namibia has so far only meant political independence from South Africa. Economically the ties with the former colonial government are still strong, and difficult to severe.

It is with this in mind that the Development Cooperation Office in Windhoek sees a need to throw some light on these continuing relations and dependencies on South Africa through a preliminary study.

Aims

The aims of the study is to clarify and analyze the existing ties in the economic sphere with South Africa, and suggest some implications of those ties when it comes to decisions for the future and choices between different alternatives for the new Government.

The study will cover some central issues regarding the economic relations between Namibia and South Africa. Among those issues are the *Namibia membership* of the Southern African Customs Union, SACU, and the Common Monetary Area. Both issues are economically and technically complex and an in-depth analysis of them requires long time and specialist competence, which they get under on-going projects. The role of the suggested study in those areas is to highlight some general points without going into technical details.

Other issues to be included in the study are:

- The external debt situation
- Foreign trade pattern and its implications
- Transport issues, including Walvis Bay
- Energy imports

The scope of the economic dependency of Namibia upon South Africa could be illustrated by exemplifying from some strategic sectors, such as oil and electricity.

The implications of the dependency for future choices for the Government when it comes to e.g. the SADCC and the PTA shall also be studied.

The study shall also comment on the possible role of Swedish aid in this context.

Implementation of the Study

Bertil Odén has been selected as the most competent to do the study, which should take place in Namibia between 11 and 30 of March 1991.

Odén shall during his visit collect information and discuss with various institutions and authorities in Namibia, relevant to the aims of the study. These will include:

- The administration, and different ministries
- Commercial banks in Namibia
- Economists and economic research units, such as NEPRU
- Other embassies.and aid donors

Format for Reporting

The study is commissioned by SIDA and will be used within SIDA.

The report of the study should not exceed 30 pages. A first draft shall be written before the end of the visit to Namibia. This draft shall be presented at a seminar organized by the DCO for a selected and limited number of persons with special interest in this field.

A new draft, revised after the discussions at the abovementioned seminar, shall be presented to the DCO before the negotiations between SIDA and Namibia, i.e. 15 April 1991.

The final report shall be finished not later that 1 June, 1991.

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9. Baker, Jonathan, *Perestroika for Ethiopia: in search of the end of the rainbow?*, 1990, 21 pp, SEK 25,-

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