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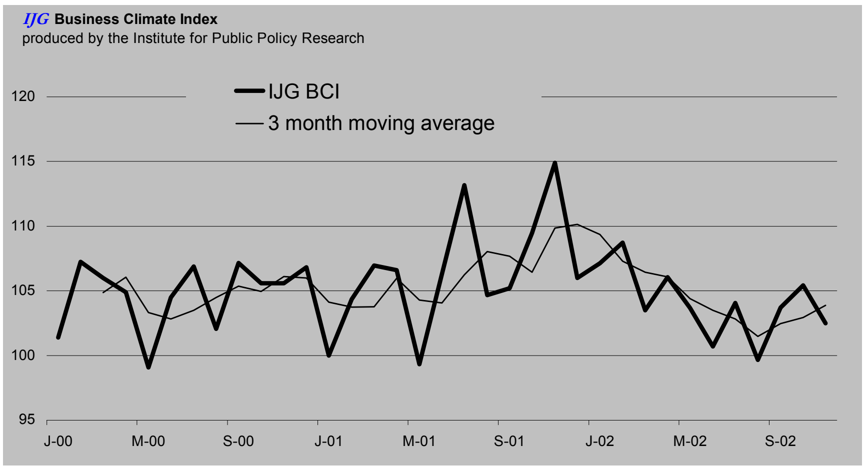
The *IJG* Business Climate Monitor for November 2002

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index fell to 102.5 points in November from 106.0 in October. The stronger exchange rate appears to have eased pressure on interest rates and encouraged borrowing at the expense of export performance.**
- **The *IJG* Business Climate Survey was virtually identical to October's with the exception that manufacturers took a more positive view than hitherto.**
- **Recent statistics suggest 1999 and 2000 were difficult years for Namibia's tourist industry. Worryingly, tourist arrivals from high-spending Europe and the US declined between 1998 and 2001.**

The *IJG* Business Climate Index for November 2002



		November	October
Business Climate Index	▼	102.5	105.4
Investment Index	▼	109.6	116.1
Consumption Index	▲	95.5	91.2
Export Index	▼	104.0	107.0
Leading Indicator	▼	93.4	114.3
Coincident Indicator	▲	101.5	100.5

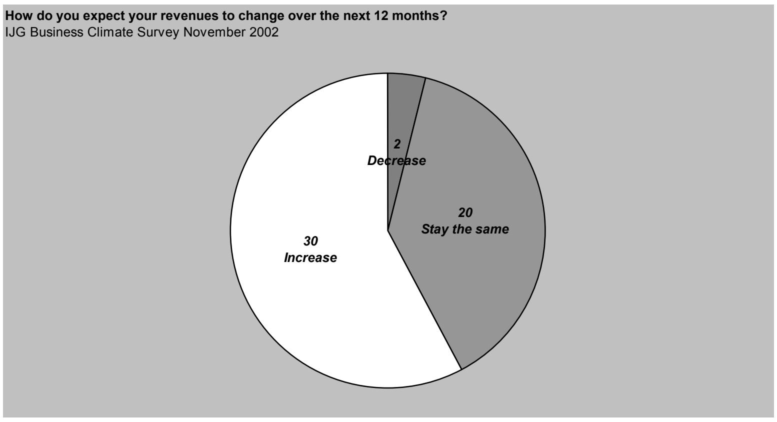
After climbing for two months in September and October, the ***IJG* Business Climate Index** fell back to 102.5 points in November. On the positive side the strengthening exchange rate lowered the international price of oil in local currency. The prime lending rate remained at 17.50% and the diminishing prospect of interest rate rises seems to have boosted consumer and business credit as well as passenger and commercial vehicle sales. The other side of the currency coin was that export performance appears to have worsened. The fact that the ***Leading Indicator*** has fallen so sharply suggests the year is likely to end on a low note but this may have more to do with the seasonality of company registrations and vehicle sales than anything else.

The *IJG* Business Climate Survey for November 2002

The *IJG* Business Climate Survey asks 50 top businesses in Namibia across all major sectors to reply to four questions on revenues, employment, investment and prevailing business conditions. In addition to this sample, members of the Namibian Manufacturers Association (NMA) are also surveyed. Since September 2002 members of the Namibia Chamber of Commerce and Industry (NCCI) have taken part in the survey but participation at this early stage is still limited. This month we received a total of 52 responses of which only 14 were from manufacturers and 14 from members of the NCCI not part of our Top 50. The poorer return than usual is, we suspect, due to seasonal factors. As usual results are reported for the whole sample and for all manufacturers.

Q1: How do you expect your revenues to change over the next 12 months?

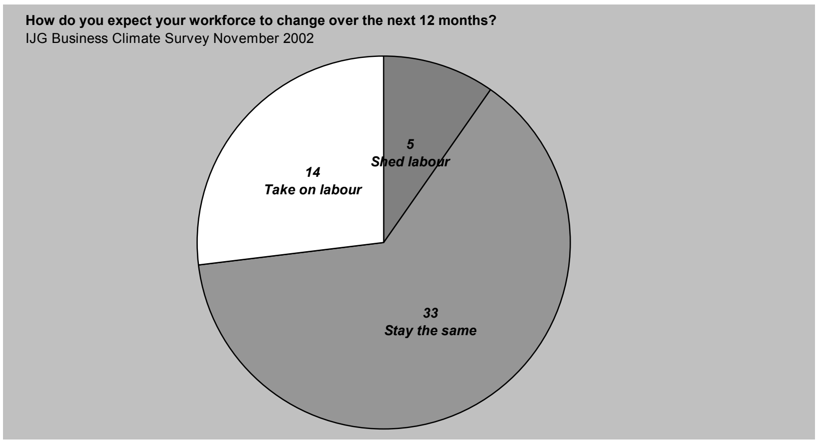
Similar to last month, more than half of responding businesses expect revenues to increase.



Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. This month's responses were virtually the same as last month. Out of 52 responses, 30 expected revenues to increase and 20 expected revenues to stay the same while only 2 expected revenues to fall. Unusually, manufacturers reported similar expectations.

Q2: How do you expect your workforce to change over the next 12 months?

Similar to last month, almost one third of respondents expect to take on labour.

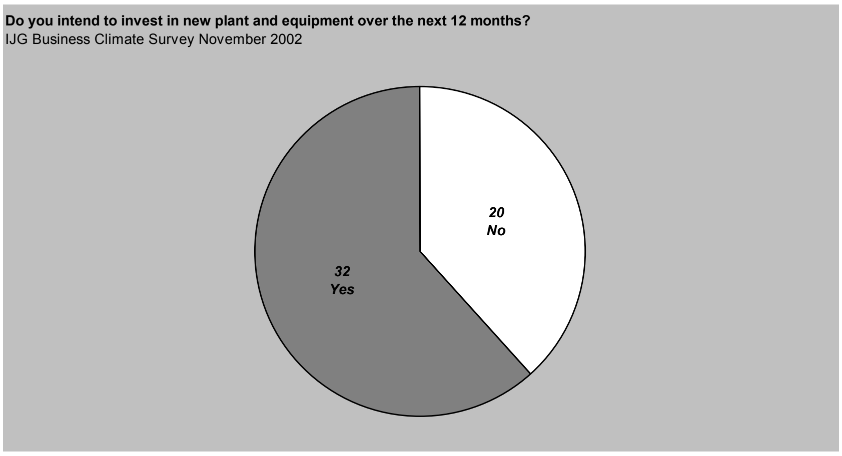


Firms were given a choice of three responses to the question on employment: either they expected to shed labour, or their workforces were expected to remain the same, or they expected to take on labour. This month 5 firms stated they expected to shed labour while 33 expected their workforces to stay the same and 14 expected to take on labour. These results are very similar to last month's responses.

Only 2 out of 14 manufacturers expected to take on labour.

Q3: Do you intend to invest in new plant and equipment (not inventories) over the next 12 months?

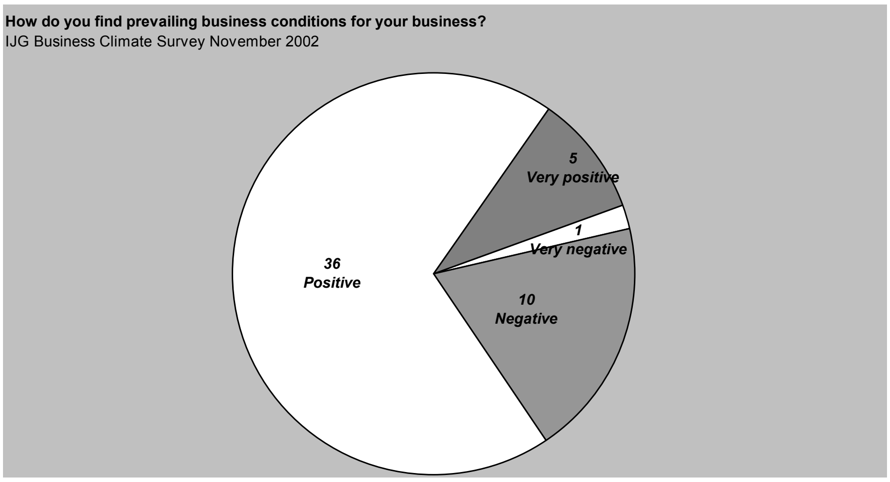
Over three-fifths of all responding businesses intend to invest.



Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest. Out of the 52 respondents, 32 stated that they intended to invest in new plant and equipment while 20 replied that they would not. Manufacturers were evenly split.

Q4: How do you find prevailing business conditions for your business?

Three quarters of responding firms continue to view prevailing business conditions as either positive or very positive.



Firms were given a choice of four responses to the question on prevailing business conditions: very negative, negative, positive or very positive. Out of 52 responses, 36 viewed prevailing business conditions as positive and 5 as very positive. A total of 10 viewed them as negative and 1 as very negative. Manufacturers gave virtually the same response.

The November *IJG* Business Climate Survey is virtually the same as the October Survey. It remains to be seen whether the more up-beat view taken by manufacturers this month is a reflection of reality on the ground since it is based on a very small sample of businesses.

IPPR commentary for November 2002

IPPR commentary presents the views of the IPPR alone and not the sponsor.

The Ministry of Environment and Tourism (MET) published detailed ***statistics for the tourist sector*** for 2001. Table 1 shows how tourist arrivals have changed since 1996. Data for 1999 and 2000 are not available since the Ministry decided to press ahead and release the data for 2001 rather than clear the backlog which existed. The MET relies on the Ministry of Home Affairs for the collection of tourist arrival data.

Table 1: Tourist arrivals by country of residence

	1996	*1997*	*%Change 1996/97*	*1998*	*%Change 1997/98*	*2001*	*%Change 1998/2001*
Africa	351,398	383,515	9.1%	469,130	22.3%	536,203	14.3%
South Africa	172,544	187,687	8.8%	217,937	16.1%	241,809	11.%
Angola	144,915	158,188	9.2%	179,237	13.3%	237,691	32.6%
Botswana	16,011	17,695	10.5%	21,269	20.2%	29,699	39.6%
Zambia	6,699	7,589	13.3%	9,248	21.9%	8,310	-10.1%
Zimbabwe	6,848	7,559	10.4%	8,756	15.8%	12,970	48.1%
Other Africa	4,381	4,797	9.5%	32,683	581.3%	5,724	-82.5%
Europe	93,946	101,162	7.7%	120,595	19.2%	112,182	-7.0%
Germany	50,899	54,952	8.0%	61,560	12.0%	52,976	-13.9%
UK	11,562	12,555	8.6%	15,909	26.7%	13,941	-12.4%
Italy	4,672	4,917	5.2%	5,808	18.1%	6,661	14.7%
France	5,127	5,463	6.6%	8,995	64.7%	6,922	-23.0%
Scandinavia	2,996	3,253	8.6%	3,993	22.7%	3,751	-6.1%
Other Europe	18,690	20,022	7.1%	24,330	21.5%	27,931	14.8%
Other	15,966	17,335	8.6%	24,643	42.2%	22,112	-10.3%
USA	8,452	9,181	8.6%	12,054	31.3%	9,056	-24.9%
Other Countries	7,514	8,154	8.5%	12,589	54.4%	13,056	3.7%
TOTAL	461,310	502,012	8.8%	614,368	22.4%	670,497	9.1%

Source: Ministry of Environment and Tourism

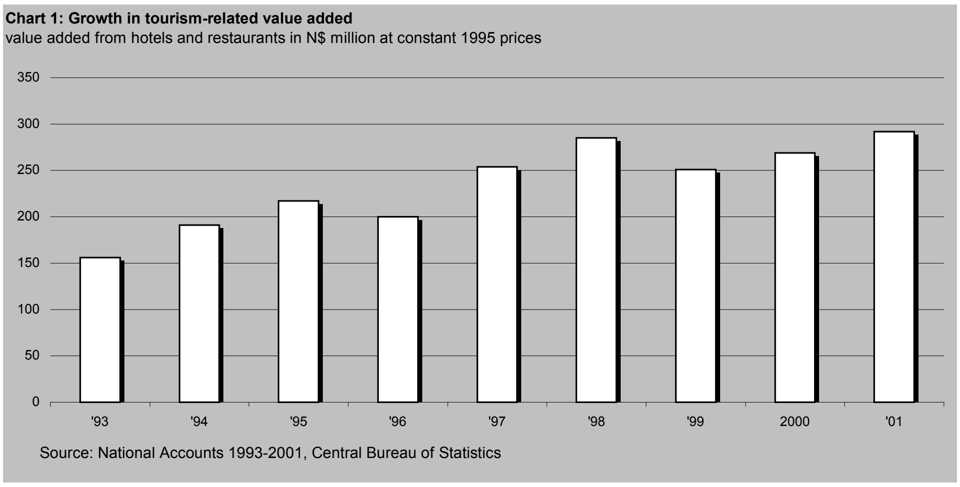
Table 1 shows that the total number of tourists visiting Namibia increased from 461,310 in 1996 to 670,497 in 2001, or by about 45%. Namibia’s First National Development Plan (NDP1) had aimed to achieve 540,000 arrivals by 2000, a target which was revised upwards to 740,000 during the plan’s mid-term review. Until 1998 growth in tourist arrivals came about due to across-the-board increases in the number of tourists from Africa, Europe and other parts of the world. Between 1998 and 2001, however, only the number of tourists from Africa continued to climb. Tourists from Angola, Botswana and especially Zimbabwe rose sharply. In the same period, tourists from Europe fell by 7% and from the US by almost 25%. The greatest falls in the number of European tourists were from the three largest European markets for Namibian tourism: France (-23.0%), Germany (-13.9%) and the UK (-12.4%). This is particularly worrying given Namibia’s policy of encouraging high-quality low-impact tourism (see Namibia’s Second National Development Plan NDP2).

The definition of the term “tourist” used above, however, covers not only those taking a holiday in Namibia but also those visiting friends and relatives, those on business as well as those on visits for other purposes. Table 2 shows a further breakdown of tourist arrivals by purpose of visit. Only 322,748 arrivals out of 670,497 (about 48%) were for the purpose of taking a holiday. Unsurprisingly, while the great majority of arrivals from Europe and other parts of the world were for holiday, the majority of African arrivals were for other purposes. From an economic point of view, statistics on tourist arrivals yield only one part of the picture since it is also important to know how long tourists stay and how much they spend. These economic considerations suggest tourism in Namibia is failing to achieve its economic potential since high-spending foreign tourists are not growing in number. NDP2 refers to the results of an independent forecasting organisation Wharton Econometric Forecasting Associates (WEFA) which puts tourist demand for Namibia at 6.8% a year between 2000 and 2010 provided political stability, good infrastructure, and sound environmental management are maintained and sectoral reforms implemented.

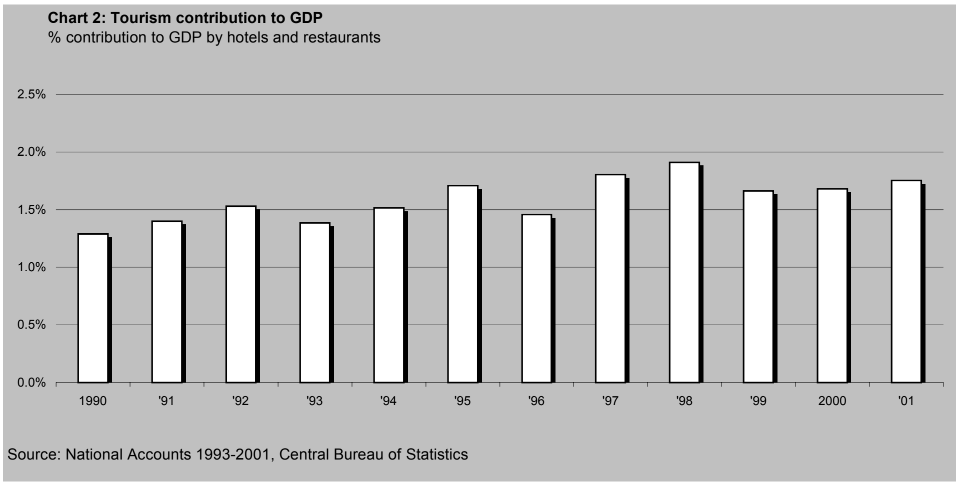
Table 2: Tourist arrivals by country of residence and purpose of visit in 2001

Country of Residence	*Purpose of Visit* Visiting/Relatives and Friends	Holiday	Business	Other	TOTAL
South Africa	53,936	116,100	65,786	5,986	**241,808**
Angola	90,439	91,399	51,531	4,323	**237,692**
Botswana	17,227	7,948	3,382	1,141	**29,698**
Zambia	4,606	2,092	883	729	**8,310**
Zimbabwe	5,769	3,777	3,092	332	**12,970**
Other Africa	1,178	2,340	1,848	358	**5,724**
Germany	4,918	41,549	6,027	482	**52,976**
UK	1,086	8,810	3,966	79	**13,941**
Italy	225	5,343	1,048	45	**6,661**
France	323	4,708	1,833	59	**6,923**
Scandinavia	436	2,403	885	28	**3,752**
Other Europe	1,317	21,306	4,983	326	**27,932**
USA	1,093	6,438	1,296	229	**9,056**
Other Countries	979	8,536	3,340	202	**13,057**
TOTAL	**183,531**	**322,748**	**149,900**	**14,318**	**670,497**

Source: Ministry of Environment and Tourism



Namibia's national accounts also reflect the relatively poor performance of the tourist industry between 1998 and 2001. Although value added from tourism is not separately identified, value added from hotels and restaurants is. Chart 1 shows that, in real terms, value added from hotels and restaurants has risen by an average annual growth rate of over 8% between 1993 and 2001, much faster than the overall economy. However, sharp declines in value added took place in both 1996 (-8%) and 1999 (-12%). It is worth remembering that 1999 was the year of the secessionist attack in Katima Mulilo and 2000 the year in which three French tourists were killed by suspected UNITA forces. The Central Bureau of Statistics estimates that value added grew by 9% in 2001 despite the events of September 11.



The faster than average growth rate has resulted in hotels and restaurants accounting for a steadily larger share of total GDP although it is still less than 2% of GDP as shown in Chart 2. In current prices, hotels and restaurants generated N$477 million worth of income in 2001, about the same value added as subsistence farming, fish processing or post and telecommunications. Employment in hotels and restaurants has also grown and was estimated at 7,677 in 2000 according to the Namibian Labour Force Survey 2000, about the same as the fishing industry. This compares to 4,025 in the 1991 Population and Housing Census and a suspiciously low 2,988 in the 1997 Namibian Labour Force Survey. The latest tourism statistics can be obtained from Mr Paul Shali Amweelo at the Ministry of Environment and Tourism (Tel: 284 2259).

President Nujoma's recent ***interview with the German newspaper*** *Die Welt* received much publicity both at home and in Europe. It is hard to believe the interview did much to improve relations between Namibia and the West. As far as Namibia's business climate is concerned, it is important to note that President Nujoma clearly stated his commitment to the constitutional provisions of fair compensation ("solches Land zu enteignen…mit fairer Entshädigung") in the case of land expropriation. The interview seems to have added to the poor international press coverage Namibia increasingly appears to attract. Many in Namibia and the upper echelons of government believe that Western journalists go out of their way to misrepresent the President and the policies of the government. For example, in the November 30th-December 6th edition of the well-respected international magazine *The Economist* , an article entitled "Economics Focus" dealing with the "Zimbabwean model" of economic development states that "..Mr Mugabe has many admirers. His fellow Africans cheer his defiance of the old colonial powers. Namibia's government has promised a similar land-grab." This presumably refers to the Namibian government's announcement that it intends to expropriate 192 commercial farms owned by foreign absentee landlords. This we believe distorts the facts. As we have stated before, the announcement is within the constitution and in line with resolutions passed as long ago as 1991 at Namibia's post-independence Land Reform Conference.

Unfortunately relations with the West remain confused to say the least. Recent events such as the Malaysian investment by Ramatex, the Chinese contribution to the new state house, North Korean participation in the newly completed Heroe's Acre and the visit by the Vietnamese Premier may have persuaded some that Namibia's future lies more to the ***East and no longer with the West*** as has traditionally been the case. These countries are not tarnished by a record of colonialism in Africa and are certainly less likely to be bothered about fourth terms, human rights or good governance, concepts which many Asian governments regard largely as hypocritical western inventions. However, whilst friendly ties with as many countries as possible is likely to be the most economically advantageous strategy for a trading economy such as Namibia, the economics are stacked far more in favour of trade with the richer West as a recent paper by NEPRU points out (The Potential of Regional Integration in Africa by Dr Dirk Hansohm which can be downloaded from www.nepru.org.na). This is due primarily to the West's higher incomes and the greater complementarity of production between the West and Namibia. The fast-growing Asian tiger economies recognised and successfully exploited this economic fact to their great advantage. This is not to say Namibia must in any way be a stooge of the West. Malaysia for one proves that it is possible to have economically fruitful relations with the West without sacrificing one's independence. However, it does mean there is little to be gained economically by going out of the way to make enemies. We hope to go further into these issues in a forthcoming interview with Foreign Minister Hon. Hidipo Hamutenya.

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