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Economy Watch – April 2018

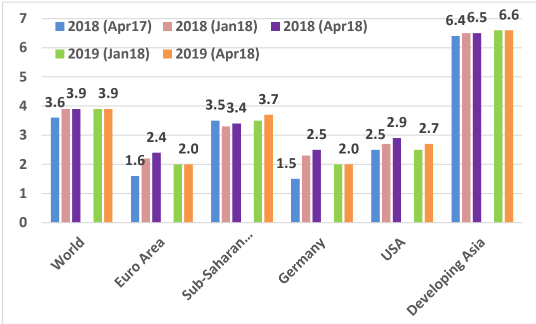
The International Monetary Fund released its quarterly update of the World Economic Outlook. **Growth prospects remain strong** for 2018 and 2019 at 3.9%. While the global growth forecast has not changed compared to a quarter ago, it is up by 0.3 percentage points compared to April 2017. There are, however, some remarkable revisions for certain regional groupings and countries. **Economic growth in the Euro area** is now expected to reach 2.4% in 2018 up from 2.2% predicted in January 2018 and up by 50% or 0.8 percentage points compared to a year ago. This is in particular owed to stronger growth in Germany (2.5%). Growth for the **USA** has also been revised upward by 0.2 percentage points compared to January 2018 to 2.9%. **India** as the sixth largest global economy continues to show the strongest growth (7.4%) followed by **China** (6.6%), the second largest economy.

After continuous downward adjustments, **growth for Sub-Saharan Africa** is viewed slightly stronger now than in January as the increase from 3.3% to 3.4% indicates. It, therefore, reverses the trend of continuous downward revisions for this region from 3.7% projected for 2018 in January 2017. Good news for Namibia and the southern African region is certainly the much **brighter outlook** for the **South African economy**. Economic growth was forecast at a low of 0.9% in January, but is now estimated at 1.5% and 1.7% in 2019. **Angola's** economy is also recovering and expected to grow by 2.2% and 2.4% in 2018 and 2019 compared to just 0.7% last year. Likewise, **Zambia** is predicted to show stronger growth of 4.0% (2018) and 4.5% (2019) despite current reports of hidden debts that it proven true will dampen economic growth. In addition, the economy of the **Democratic Republic of Congo** is expected to expand by 3.8% and 4.0% over the same period compared to 3.4% in 2017. The better growth prospects for these two countries and the whole Sub-Saharan region is based on increased commodity demand and commodity prices (with the exception of uranium). The stronger growth in the region should benefit the Namibian economy through growing demand for goods and services, in particular transport services as well as a **more positive outlook of SACU revenue**.

It is, however, not clear to which extent **current trends towards protectionism** as well as **heightened tensions** between Western Europe and the USA on one side and Russia on the other (Syria conflict, alleged meddling in elections and poisoning of exiled Russians) are factored in. Therefore, there are **downward risks** to global growth, demand and commodity prices. Furthermore, the IMF cautions that the current favourable growth rates will not last for most countries and that therefore, policy interventions are required.

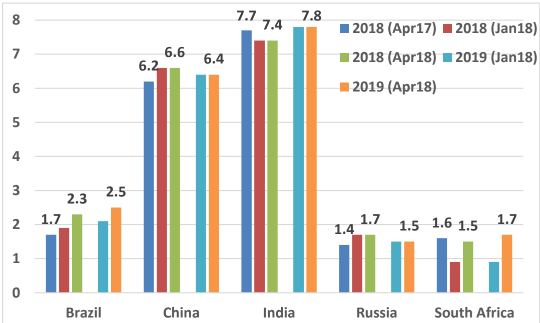
44 African states out of 55 **signed** the **African Continental Free Trade Area** Agreement on 21 March 2018 in Kigali, Rwanda at an extraordinary African Union Summit. Those who have not signed include Africa's two largest economies: **Nigeria** (reportedly because of the need for more domestic consultations) and **South Africa** (reportedly going to sign after addressing some domestic legal issues). Swaziland is the only SACU member state that has signed the agreement. The AfCFTA is expected to increase intra-African trade through the removal of custom duties on most products, except some sensitive (mainly agricultural)

Global economic growth prospects for 2018 and 2019 in per cent



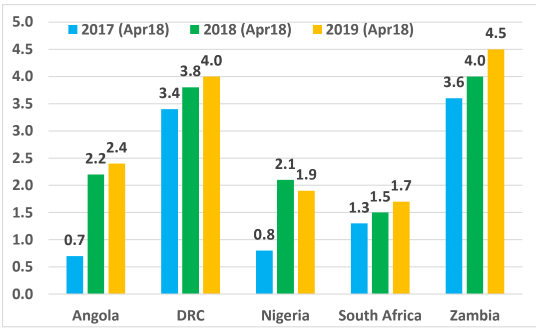
Source: IMF, World Economic Outlook April 2018

Economic growth prospects for BRICS countries for 2018 and 2019 in per cent



Source: IMF, World Economic Outlook April 2018

Economic growth prospects for selected African states for 2018 and 2019 in per cent



Source: IMF, World Economic Outlook April 2018 goods, harmonisation of customs procedures and rules of origin, and resolve the issues of overlapping memberships of the various regional economic groupings. The AfCFTA will come into force once 22 of the 44 signatories have ratified the agreement. However, this would require the establishment of a Secretariat where the ratified agreements can be deposited.

The **attendance** of the **South African president**, Cyril Ramaphosa, in contrast to the absence of his counterpart from Nigeria, Muhammadu Buhari, indicates a renewed interest of the South African government in regional and continental integration, which should bode well for progress at SACU and SADC level as well. According to a recent tralac report, Africa is the most important destination for South Africa's merchandise trade with the value of exports to Botswana and Namibia exceeding each South Africa's exports to the UK in 2016.

The **President's statement** in his State of the Nation Address that Namibia is going to join the **Single African Air Transport Market**, could indicate that government is interested in liberalising markets and is supporting the continental integration agenda. It is therefore expected that Namibia will sign the AfCFTA as part of SACU. This would also set the tone for the chairmanship of SADC that Namibia will take up in August.

It is encouraging to note, that the **agreement covers** the liberalisation of both **goods and services** in the first phase. **Services** ranging from transport to ICT, financial and business services **play an important role** in the production of goods. Without access to competitively-priced and quality services, the producers of goods will find it challenging to compete on regional and global markets or even on the domestic markets with products imported from elsewhere in the world. The second phase of the agreement will cover areas such as investment and intellectual property rights.

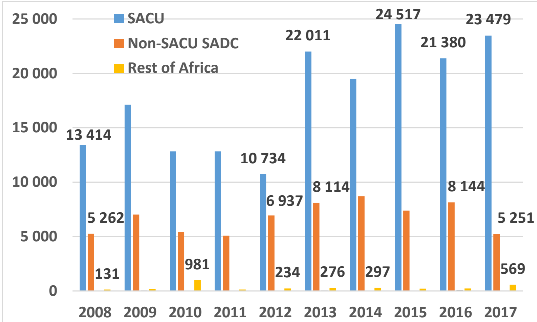
While the signing can be hailed as a milestone in African integration, **the impact will be gradual**. The **real work lays ahead** since tariffs are often not the main barrier for trade. Lack of trade-able and complementary goods, non-tariff trade barriers such as sanitary and phyto-sanitary measures (remember the closure of the South African border for Namibia's livestock exports), lack of efficient and competitive transport, communication and financial infrastructure as well as often lengthy border procedures owing to a lack of harmonisation of rules, regulations and documentations – to mention a few areas - limit intra-African trade and need to be addressed.

Over the past ten years from 2008 to 2017, Namibia has traded with 52 African states, but not frequently with all of them. **Namibia's trade with Africa** is significantly higher than the average of intra-African trade that stood at 17.6% of total African trade in 2016. It averaged 60.8% of Namibia's total trade, exports and imports combined, over the period. However, trade is fairly limited to few countries. **54.6% of total Namibian exports** were destined for African markets in 2017. This was **dominated by exports to SACU** member states, which account for 37% of total exports in 2017, up from 30.4% in 2008. Exports to SACU received a boost after the relocation of the Diamond Trading Company from London to Gaborone/Botswana. In contrast, exports to **SADC** member states that are not part of SACU dropped to 8.3% of total exports in 2017 from 12.2% a year earlier – caused to a large extent by the drop in Angolan demand. **Exports to COMESA** countries almost tripled from 3.1% (2008) of total exports to 9.2% (2016), but dropped to 6.7% in 2017. **Imports** from African countries accounted for 68.5% of total imports again **dominated by SACU** that accounted for 61.9% of total imports. Imports from non-SACU **SADC** countries and from **COMESA** showed the same trend over the past ten years and accounted for almost the same share – 5.2% (non-SACU SADC) and 5.4% (COMESA) in 2017.

Signatories to the AfCFTA

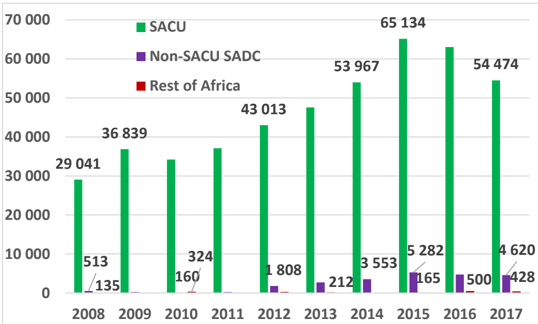
Source: https://commons.wikimedia.org/wiki/File:AfricanContinentalFreeTradeArea.svg

Value of Namibia's exports to African regions in NAD million, 2008 to 2017



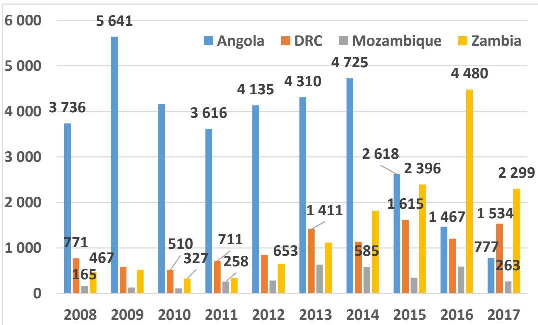
Source: Namibia Statistics Agency

Value of Namibia's imports to African regions in NAD million, 2008 to 2017



Source: Namibia Statistics Agency

Value of Namibia's exports to selected non-SACU SADC countries in NAD million

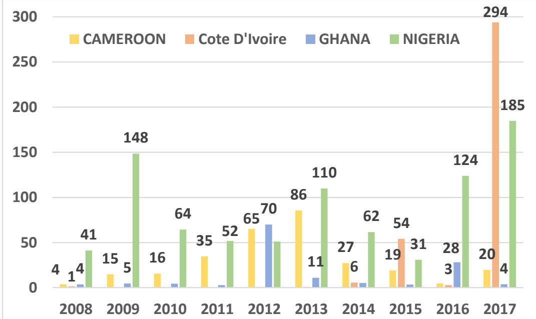


Source: Namibia Statistics Agency

Trade with **non-SACU African countries is important** since Namibia achieved trade surpluses in each of the past ten years. Trade with COMESA countries is mainly confined to the nine SADC member states that are also members of COMESA. Non-SADC COMESA countries accounted for less than 0.1% of Namibia's exports to and imports from African states over the ten-year period, but resulted in an on average trade deficit over the past ten years. The main trading partners have been Kenya, which most likely serves as the entry point to the East African Community, and Sudan. Even without any trade agreement, trade with **west African countries**, in particular with Nigeria and Ivory Coast, has increased over the past ten years, though with fluctuations.

This brief overview and, in particular, trade with countries such as Ivory Coast, Nigeria, Kenya, Sudan and Egypt suggests that there are **potential markets** beyond the current traditional African markets that should be more easily accessible once the AfCFTA is implemented. There is a need, however, to share more information more widely and more regularly about the developments not only regarding the AfCFTA, but also other trade arrangements such as the EPA with the EU as well as about trading opportunities. Furthermore, it is recommended that the public and private sectors **develop a strategy** jointly on how to reap the benefits from these new trading and investment opportunities.

Value of Namibia's exports to selected countries in the rest of Africa in NAD million, 2008 to 2017

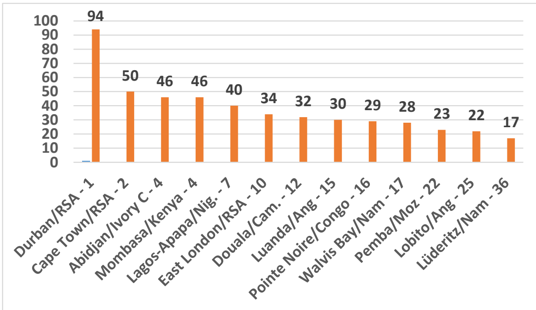


Source: Namibia Statistics Agency

PricewaterhouseCoopers (PwC) has released a report analysing the **attractiveness of African ports**. Ports in South Africa, led by Durban (score 94), take the first three positions followed by Abidjan, Ivory Coast and Mombasa, Kenya (score 46) both on rank four. **Walvis Bay and Lüderitz follow on rank 17 and 36** with a score of 28 and 17 respectively. In comparison, Rotterdam, the leading port in Europe, scores 254. The Namibian ports are rated higher in terms of performance – ranking sixth and eleventh respectively.

The report **predicts** that like in Europe, North America and Asia, **three major port hubs** will develop in Africa –Durban for Southern Africa, Mombasa for East Africa and most likely Abidjan for West Africa – while other ports can play a role as regional ports. Furthermore, examples (also in South Africa) show that investing in existing port facilities will deliver better results than developing new ports as alternatives. Existing major ports are well established within and integral part of supply chains and they therefore, remain the most attractive ports even if they are congested – as is the case with Durban. In addition, port efficiencies in West Africa have improved faster than in East and Southern Africa, because of a number of independent (private) port operators.

Attractiveness score of selected African ports

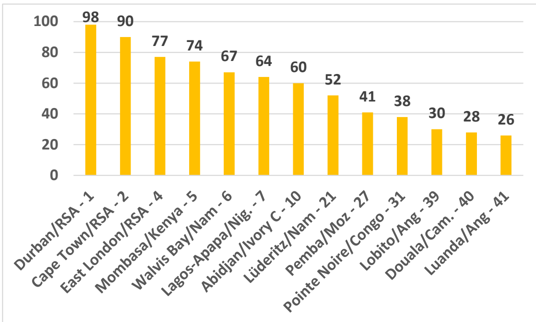


Source: PwC – Strengthening Africa's gateways to trade, April 2018

Note: The ranking of the port in Africa is indicate behind the port's name

Some of the **findings of the report** could provide valuable guidance for Namibia's further development of the port infrastructure. Investing in existing port infrastructure results in better returns than developing alternative ports as examples as nearby as South Africa show. The expansion of the Walvis Bay harbour and the construction of the new Walvis Bay North port (SADC Gateway Port) reflect this finding. Walvis Bay already benefits from existing service providers and infrastructure that links it to a relevant hinterland. Furthermore, **Walvis Bay** is likely to play a role as a **major regional port** rather than a hub, which would suggest strengthening ties with the emerging port hubs in Africa. The findings also suggests that **entering into partnerships** with private port operators could result in efficiency gains and increase the attractiveness, since independent operators are part of existing networks and hence could attract more traffic and volumes.

Port Performance Rating – scores for selected ports



Source: PwC – Strengthening Africa's gateways to trade, April 2018

Note: The ranking of the port in Africa is indicate behind the port's name

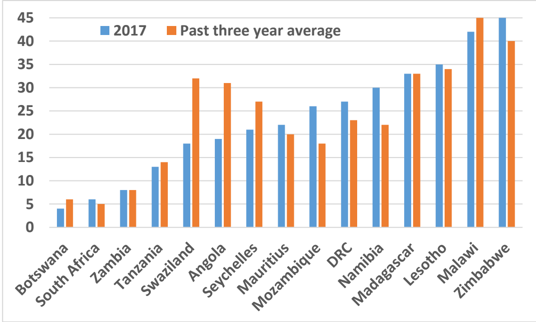
Quantum Global Research Lab released its first **Africa Investment Index** (AII) in April 2017 followed in March 2018 by the second edition referring to 2017. The AII is a composite index consisting of six components – Growth, Liquidity, Risk, Business Environment, Demography and Social Capital – and a total of 13 indicators. The top three positions were taken by three North African countries –

Morocco, Egypt and Tunisia, while Botswana was the best performer south of the Sahara and fourth overall. Together with South Africa (6) and Zambia (8), three SADC countries claimed a spot amongst the top ten. **Namibia ranked 30th out of 54** African countries and 11th out of 15 SADC countries. The SADC countries displayed a mixed picture: Six improved in the ranking in 2017 compared to the average over the preceding three years, while seven dropped in the ranking. Together with Mozambique, **Namibia shed the most places** in 2017 compared to the three-year average before, namely eight. Thus, Namibia reversed the positive trend of improved rankings between 2014 (26) and 2016 (9).

Namibia performed well in terms of trade openness (6), real interest rate (8) and doing business (10), but lagged behind regarding excess money and population (both 41), current account ratio (38) and import cover (37). As always, one could question the usefulness of certain indicators, for instance the size of the population when the country is part of a customs union and therefore investors have unhindered access to a larger potential market. But the indicators again underline the **areas where we have to improve** in order to become more attractive to investors. These include in particular the current account ratio, external debt, import cover and excess money. Despite the current path of fiscal consolidation that is expected to reduce the budget deficit and hence the need to borrow, external debt might not decrease because of the financing needs of major infrastructure projects. Furthermore, **import cover** after rising to a comfortable level of more than five months dropped not unexpectedly to 3.8 months import cover at the end of 2017. The substantial improvement in foreign exchange reserves was due to once off inflows from the African Development Bank loan and the repatriation of foreign investments by financial institutions in order to fulfil the new Regulation 28 benchmarks. The persistent trade deficit and lower SACU transfers will continue to put pressure on foreign exchange reserves.

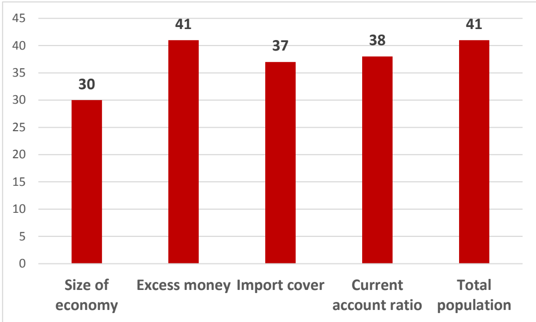
On the other hand, the implementation of the sector growth strategies has the potential to support economic growth and reduce the trade deficit because of the combination of growing exports and import substitution. In addition, attracting foreign direct investment will not only assist in reducing the trade deficit, but will also increase the inflow of foreign exchange. The President's announcement during his State of the Nation address that the 25% ownership requirement for previously disadvantaged Namibians in the New Equitable Economic Empowerment Framework is scrapped will certainly re-assure domestic and foreign investors.

SADC countries' AII ranking in 2017 and the previous three years average



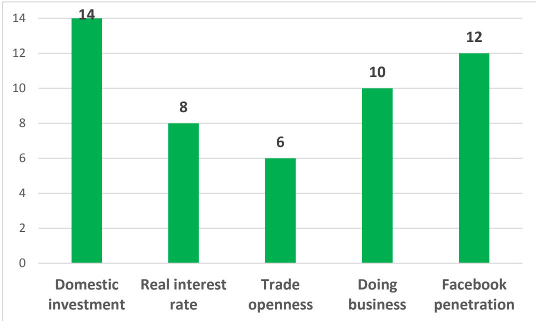
Source: Quantum Global, Africa Investment Index 2018

Namibia's weaknesses...



Source: Quantum Global, Africa Investment Index 2018

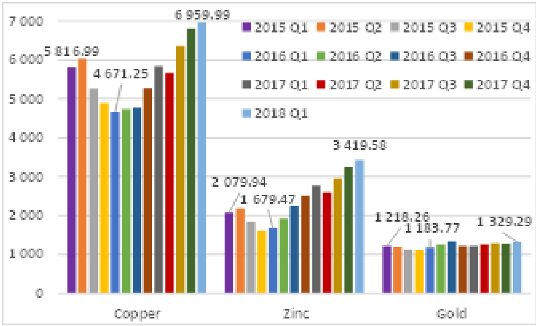
...and strengths – ranking out of 54 African countries



Source: Quantum Global, Africa Investment Index 2018

Commodity prices have recovered from a low in the first quarter of 2016. Average **zinc** prices more than doubled from below USD1,700 (Q1 2016) to over USD3,400 per tonne in Q1 2018. **Copper** prices increased over the same period by 50% from less than USD4,700 per tonne to almost USD7,000 per tonne. Rising copper prices support the expectation that the Otjihase and Matchless copper mines will be brought back into production. **Gold** prices rose by some 12% from USD1,184 per ounce to USD1,329 per ounce. **Oil** prices recovered by 24% from USD54.00 per barrel to USD66.86 per barrel supported by production cuts agreed between OPEC and Russia. Prices rose even further in April 2018 owing to increased tensions in the Near and Middle East from Syria to Yemen as well as lower than expected reserves in the USA. **Uranium** remains the outlier with average quarterly prices declining by 41% from USD37.95 per pound to USD22.32 per pound in the first quarter 2018.

Average quarterly prices in USD



Sources: Authors' calculation based on LME and World Gold Council daily data.

Economy Watch Namibia is compiled by IPPR Research Associate Klaus Schade (economist@ippr.org.na) and is financially supported by the Hanns Seidel Foundation (HSF). Economy Watch can be downloaded from www.ippr.org.na or www.hsf.org.na.