



ISSN 1027-1805  
 P.O. Box 40710, Windhoek, Namibia  
 Phone: +264-61-277500  
 Fax: +264-61-277501  
<http://www.nepru.org.na>

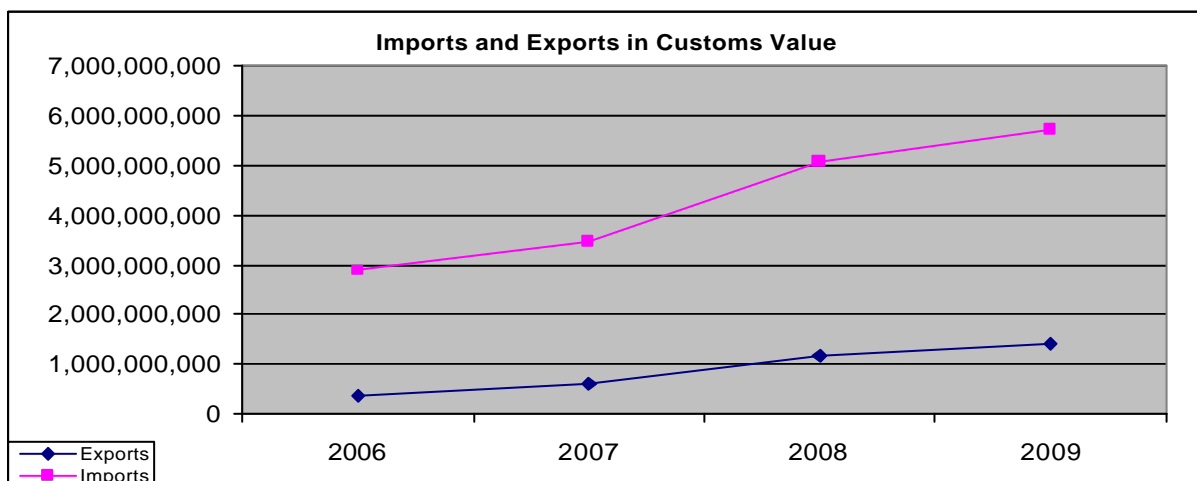
**Quarterly Economic Review**

**The Namibian Automotive Industry**

Why has Namibia not succeeded to mirror the success of its neighbour South Africa despite long historical relationships founded in colonial times? The South African automotive industry is growing and such growth is exacerbated by improving financial situation of consumers. As new vehicle sales continue to create employment opportunities and maintain growth, both the domestic and export markets continue to rely on an anticipated bright future. Many large Trans-national Companies (TNC) use South Africa (SA) for the assembly of vehicles and components for the local and international markets.

The benefits of locating assembly plants by TNCs in SA is that of reasonable production costs complimented by access to a wide market

resulting from the European Union and SA Trade Development and Cooperation Agreement, the Southern African Development Community (SADC) Free Trade Area and the Southern African Customs Union (SACU). The Automotive Investment Scheme (AIS) established in SA is intended to expand the automotive sector through investing in new and replacement automotive models as well as manufacturing of automotive components. The AIS is supported by taxable cash grants with a view to increasing the output, maintaining employment and building the automotive value chain. Elsewhere on the African Continent, the chief hindrance to the creation of a vehicle industry is slack legislation on second-hand vehicles.



The popular view in SA is that the motor industry cannot flourish if the influx of used cars entering SACU is not restricted. At present Namibia does not have the capacity to build a sustainable motor industry but continues to benefit from imports and exports. Between 2006 and 2009 the growth in total imports to Namibia and exports from Namibia in terms of total customs value are 74 percent and 50 percent respectively.

In 2009, the value of imported vehicles and vehicle components exceeded the value of exports of these products by five times. A

particular threat is the importation of cheap Japanese cars. From a SACU perspective, there is prohibition of importing used motor vehicles from third countries. Due to the probation, Namibia has so far used an existing framework in the SACU Agreement and obtained a special exemption for importation of used vehicles from third countries. Imports are restricted to vehicles not older than five years and which are not left-hand driven. As part of the exemption, imported second-hand vehicles are not permitted to enter SACU countries. It can be argued that this exemption creates access to affordable and good quality motor vehicles and generates

business opportunities for Namibians involved in the business. A threat on importing many second-hand vehicles is that of environmental pollution that may come with it. To offset environmental concerns, Namibia should venture into manufacturing parts and spares as opposed to importing and selling second-hand cars. These value addition activities would result in technology transfer and creation of employment and wealth. Currently the lack of an industrial policy for SACU is hampering progress

on these ventures. In its 2002 Agreement, SACU obliges its members to jointly have a common trade approach with respect to third party countries. With this situation, Namibia will at some point have to relinquish its special exemption. Current benefits that come with the exemption will certainly be lost and so, the need for venturing into manufacturing parts and components should be considered.

*By Caschni du Plessis*

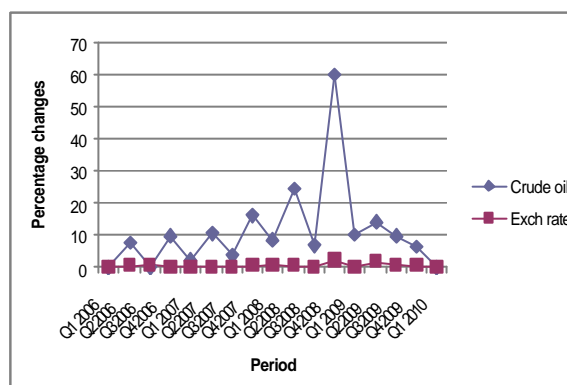
### Crude Oil Price and Consumer Disposable Income in Namibia: 2006 - 2010

Attempts to discover oil which can be extracted for commercial reasons have not yielded good results in Namibia. However, the effort to prospect for oil is ongoing. This leaves Namibia in a position of being a net oil importer and a small economy faced with a price-taking classification. More people and companies are increasingly becoming dependent on oil for transport but few for their household activities such as cooking and lighting.

Before 2009, the Namibian economy was growing and more investments were recorded. As the Global Financial and Economic Crisis (GFEC) started to kick in, especially in the 3<sup>rd</sup> to the 4<sup>th</sup> quarters of 2009, companies began to register losses and the economy was in general considered to be in recession. The effects of the GFEC started in the last quarter of 2008 and slowed in the last quarter of 2009. The pinch could still be felt in the 1<sup>st</sup> quarter of 2010. Of interest is how the oil price behaved before, during and after the GFEC. The focus is mainly on how the oil price impacted on consumer disposable income. Crude oil is condensed raw-oil which requires going through other processes before it can finally be made available as fuel and oil for use in locomotives, motor vehicles, aircrafts and vessels. Diesel, Unleaded Petrol, and Octane 93 are all but a few examples of products extracted from crude oil. These are well consumed in the Namibian economy. These fuels are all imported from South Africa, United States of America etc.

Fuels are pertinent inputs in primary sectors and other secondary and tertiary sectors also require fuels to run processing plants. Crude oil is widely traded in United States dollar (US\$) terms. So looking at the Namibian dollar to 1 US\$ exchange rate is essential. An adjustment in the crude oil price easily transmits a response at the domestic fuel pump-price. In Namibia, the Minister of Mines and Energy pronounces fuel pump-price responses. Decreases in the fuel pump price are usually announced by the respective Minister in line with prevailing economic circumstances in the country. Having provided this contextual overview, the shift now goes to how crude oil price behaved during the period under review.

Fuel price adjustments have been somehow consistent between 2006 and 2007. A steady adjustment can be observed in the last quarter of 2007, 2008 and a spike is in the 3<sup>rd</sup> to the 4<sup>th</sup> quarters of 2008. In the same period, the N\$ to the US\$ weakened to almost N\$10 for US\$1. This is the time when the GFEC was imminent and food prices were high. During the same time inflation reached 11.9 and 11.5 respectively. Such high inflation associated with high oil price and a weaker N\$ was irritable to consumers. There is no doubt that such a spike occurring within a short period reduced consumers' disposable income.



A declining trend is in the 2<sup>nd</sup> quarter of 2009 and a steep in the 1<sup>st</sup> quarter of 2010. From the beginning of 2010, the percentage changes are manageable but high electricity prices could reverse the gains to consumers. Such could boost the return of high inflation in Namibia compared to the low figures of 6.3 for March 2010. Volatile crude oil prices can have spiralling effects on the economy due to embedded multiplier effects across economic sectors and activities. Namibia should consider diversifying its economy from depending on fuel fossils to renewable sources such as bio-ethanol. Renewable fuel sources are environmentally friendly in that they are biodegradable compared to fossil sources. Furthermore, when cultivated locally, renewable sources such as Jatropha could create job opportunities especially in rural areas where there are very limited forms of organised employment.

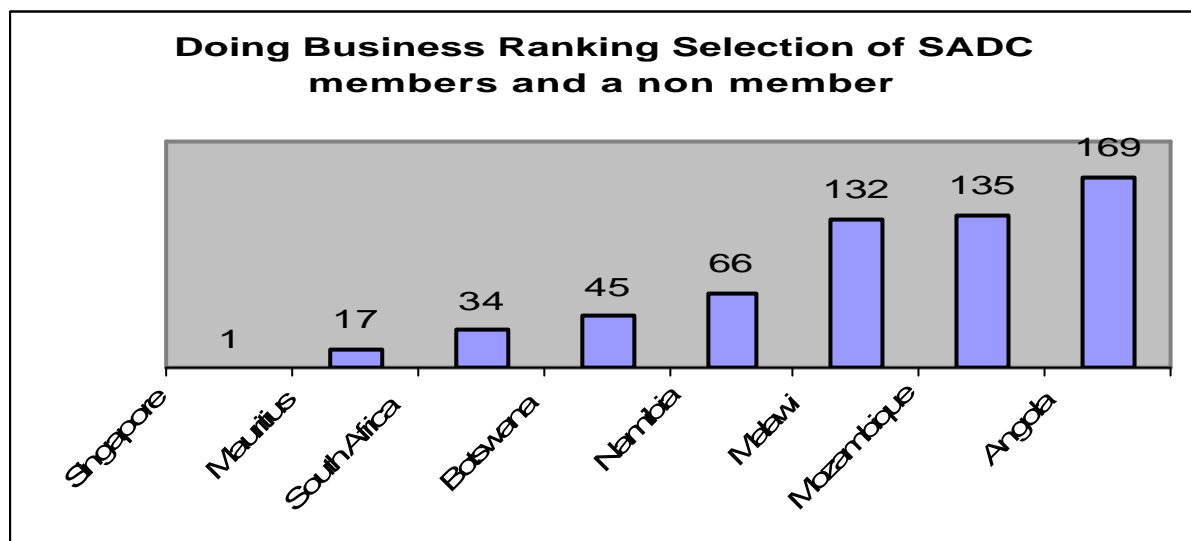
*By Jacob M. Nyambe*

## Ease of Doing Business in Namibia

Namibia (Nam) Ranks 66 out of 183 countries on the 2010 “Ease of Doing Business” ranking by the World Bank. This ranking shows a decrease from 54 in 2009. “Doing Business” is an annual report aimed at providing aggregate ranking on how countries have made it easy to do business by reviewing 10 indicators. A set of regulations affecting 10 stages of a business’s life are measured (*starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, employing workers,*

*trading across borders, enforcing contracts and closing business*).

The ranking of the ease of doing business provides a direction on the performance of the country’s existing regulations on creating conducive environment for doing business. Singapore is the top ranked economy in the world and Mauritius (17) is the top ranking country in the SADC, followed by South Africa (34) and Botswana (45). Namibia (66) is classified among slow reformers.



Strict and complicated rules and regulations classify Namibia among the economies which have not eased the cost of doing business.

### Summary of Indicators and Namibia’s ranking with OECD(average)

Indicator	Nam	OECD
Starting a Business	123	26
Dealing with Construction Permits	38	27
Employing Workers	43	27
Registering Property	134	27
Getting Credit	15	27
Protecting Investors	73	26
Paying Taxes	97	27
Trading Across Borders	151	27
Enforcing Contracts	41	27
Closing a Business	55	26

Source: World Bank (2010)

### Policy implications

Empirical studies have shown that high costs of doing business scare investors. In Africa, about 30 percent of costs are generated by bureaucratic processes, hence the need to reform existing regulations and to reduce the number of days, procedures, steps and processes. While there have been reforms in other countries like South Africa, Botswana and Mauritius which rank highly, there has not been any reform in Namibia since 2009 and as a result, the ranking decreased.

Reforms are required in all indicators but mostly required on those in which the country has performed badly. They are: starting a business, dealing with construction permits, registering property, and trading across borders. These regulations have a negative impact on trade facilitation by increasing costs, constraining access to regional and global markets and reducing competitiveness of firms.

By Beaven Walubita

## Effects of Increasing Electricity Prices on Namibian Consumers

In recent years, the SADC Region to which Namibia is a member has been plagued by electricity shortages. Namibia imports more than

50 percent of its total power supply from the South African power utility, the Electricity Supply Commission (ESKOM). ESKOM supplies about

80 percent of the total electricity demand in the SADC region. Namibia's three local power stations, the Ruacana Hydro Electric Power station, Van Eck Coal fuelled power station and the Paratus diesel fuelled power station altogether provide only 380 MW of electricity. This is not enough to cater for the whole country's electricity demand which is slightly above 400 MW. In February 2010, the National Energy Regulator of South Africa (NERSA) approved an electricity price increase to be implemented over the 3 year periods 2010-11, 2011-12 and 2012-13 at 24.8 percent, 25.8 percent and 25.4 percent respectively. Even

though this is lower than the 35 percent yearly increase for the next three years which was initially proposed by the power utility, electricity prices are expected to keep rising over the next three to four years. With ESKOM being Namibia's main electricity supplier, these price hikes will not be without adverse effects on Namibian consumers. The new price hike will affect electricity prices both at residential and non-residential levels. Electricity use for residential purposes refers to consumption by households while non-residential use refers to consumption by commercial businesses excluding mines and manufacturing plants.



Source: Electricity Control Board (ECB)

Electricity prices have increased steadily from 71 cents per kWh in the year 2005-06 to N\$1.03 in 2009-10 for residential use and from 0.69 cent per kWh in 2005-06 to 1.06 in 2009-10 for non-residential use. Once the recent price hikes are implemented, electricity prices will increase further from the current N\$1.03 per kWh. According to the Namibia Household, Income

and Expenditure Survey of 2003/04, the average income per capita in Namibia is N\$8 839. Electricity price hike will have a diminishing effect on the value of money in the hands of consumers. When this happens, suppliers of goods and services will offload new tariffs on consumers making them worse off.

By Taimi Amunkete

**New publication also available on NEPRU website: [www.nepru.org.na](http://www.nepru.org.na)**

Small-Scale Mining in Erongo region; and Railways Sub-sector and poverty alleviation in Namibia.

### Trends in macroeconomic indicators

<b>Inflation rate</b>	Namibia <sup>1</sup>	4.70 ↓	South Africa <sup>2</sup>	4.80 ↓	Euro Zone <sup>3</sup>	1.60 ↑	USA <sup>4</sup>	2.00 ↑
<b>Interest rate</b>	Namibia <sup>5</sup>	7.00 →	South Africa <sup>2</sup>	6.50 ↓	Euro Zone <sup>6</sup>	1.00 →	USA <sup>7</sup>	0.25 →
<b>Exchange rate<sup>2</sup></b>	NAD:1USD	7.64 ↓	NAD:1GBP	11.51 ↓	NAD:1EUR	9.36 ↑	YEN:1NAD	11.59 ↓
<b>Commodities</b>	Copper <sup>8</sup>	6,510.00 ↑	Zinc <sup>8</sup>	1,915.00 ↑	Gold <sup>9</sup>	1,245.00 ↑	Uranium <sup>10</sup>	41.75 ↓
<b>Agriculture</b>	White maize <sup>11</sup>	1,387.00 ↓	Wheat <sup>11</sup>	2,071.00 ↓	Beef <sup>12</sup>	19.51 ↓	Sheep <sup>12</sup>	22.64 ↑

Sources: <sup>1</sup> Central Bureau of Statistics/Namibia, <sup>2</sup> South African Reserve Bank, <sup>3</sup> Euro Stat, <sup>4</sup> Bureau of labour Standards/USA, <sup>5</sup> Bank of Namibia, <sup>6</sup> European Central Bank, <sup>7</sup> Federal Reserve Bank/USA, <sup>8</sup> London Metal Exchange, <sup>9</sup> World Gold Council <sup>10</sup> The Ux Consulting Company, <sup>11</sup> SAFEX, <sup>12</sup> Meat Board of Namibia.

Note: Latest available figures compared to previous quarter: → no change, ↑ increase, ↓ decrease

Indicators were calculated by Taimi Amunkete. We thank Hanna Goffart for a helping hand. The support from NEPRU Director Dr Fanuel Tjingaete is also appreciated.

Coordinator and Editor: Jacob M. Nyambe

© NEPRU 2010

**Acknowledgement:** We thank Hans Seidel Foundation– Windhoek/Namibia for funding this review.