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Quarterly Economic Review

Regional Integration and Trade

Economic Partnership Agreements in the SADC: A recap

African Caribbean and Pacific Countries (ACP) have enjoyed belonging to the Lomé Convention and the subsequent Cotonou Agreement. When the Cotonou Agreement came to an end in 2008, the Economic Partnership Agreements (EPA) phased in. The process of negotiating the EPA has not been without hitches. In some ACP countries, demonstrations against signing EPA have been witnessed.

The EPA process consists of three phases: the interim EPA (IEPA), the full EPA and the comprehensive EPA. So far, interim EPA has been signed or initialed by some ACP countries. Full EPA may be signed before the end of 2009. The most difficult one is the comprehensive EPA which requires that the service sector that includes telecommunications, banking and construction be reciprocated to EU competitors. This phase is a contentious one in that most of the AU countries find the service sector to be their future reliance.

What are the consequences of EPA negotiations so far? First, negotiations between the EU and individual countries have revealed weaknesses in the capacities of countries to negotiate trade packages. Second, EPA negotiations have revealed fragility of Regional Economic Communities (REC) to confront common concerns. Third, in the Southern African Development Community (SADC), the SADC EPA-forum has degenerated into a group of few states. This fragmentation is due to the move by member states to realign themselves with other REC of their choice on the EPA fraternity.

Realignment has seen Tanzania opting to negotiate under the Eastern African Community (EAC). Botswana, Lesotho, Namibia and Swaziland marshaled interim EPA in 2008 and have remained on the SADC EPA-form. South Africa has not initialed due to its own concerns but it also enjoys an EU/RSA TDCA. Fourth, Angola, Namibia and South Africa formed ANSA, a tripartite forum on which the three SADC member states advise each other and strategise on the approach to negotiating issues of common concern. Other SADC members negotiate under the East and Southern African (ESA) platform.

What has delayed signing full EPA? Among others, the lack of understanding of the provisions of the EPA on the side of ACP countries, the lack of expertise, and protection of local economies by individual member states. In an attempt to give impetus to the negotiations and signing thereof, the EU Trade Commissioner visited some SADC member states early in 2009. In March 2009, Angola, Mozambique and Southern African Customs Union (SACU) member states convened at Swakopmund, Namibia to discuss EPA and the way forward. At that meeting, it emanated that countries represented were getting closer to signing the full EPA. This came due to concessions the EU made in terms of extending among others the infant industry protection – widened to include more industries, agreeing to allow export taxes to continue but new ones to be discussed. Outstanding is the principle of *most-favoured nations*. The expectation is that the final full EPA should be signed before the end of 2009. Recently the EU Parliament pushed for a speedy delivery of EPA signatures. It is feared that this expectation may frustrate ongoing negotiations.

What then should be done? The process of negotiating should continue. Weaknesses that the EPA negotiations have revealed would require the SADC to work hard to strive for cohesion. The need to strengthen the regional integration agenda should also be prioritised and might have gained momentum again with the conclusion of the tripartite agreement. The main challenge that remains to be unraveled though is one which requires casting a look beyond concerns of reciprocity on market access. SADC member states in their different negotiation forums should explore how the EU's hand could be twisted to channel what is referred to as *aid for trade* into infrastructural development projects of EPA signatories and make it mandatory upon signing of full EPA. There is a need find a solution on the outstanding issues of the MFN clause.

COMESA-EAC-SADC Tripartite Agreement

The year 2008 was characterised by a milestone launch of the SADC Free Trade Area (FTA) on the 17th August in Johannesburg, South Africa. In the same year, at a Summit that convened on the 22nd October 2008 in Kampala, Uganda, the Common Market for Eastern and Southern Africa

(COMESA), East African Community (EAC) and Southern African Development Community (SADC) agreed to begin the process of establishing an FTA that would involve about 26 countries. The intended aim of the tripartite alliance is to integrate economies of countries in the three trading blocks. This would entail integrating nearly half of African economies.

This tripartite alliance is envisaged to solve the trouble of overlapping memberships, most of the member countries belong to more than one regional grouping. However, the alliance would only solve this issue on a temporal basis due to the fact that all the three economic blocks have on their agenda the intentions to advance on the hierarchical ladder of integration, namely to form a Customs Union. The East African Union has launched the Customs Union already, while COMESA announced the launch for its July meeting.

What benefits would this alliance bring to member states? It is expected that a larger market will create more business opportunities. However, the size of the market is not sufficient when the purchasing power in the member states is low. Furthermore, experience within the three blocs has shown that intra-regional trade has remained at a low level while trade with outside parties such as the EU has increased. In the SADC it is only South Africa that dominates the supply trajectory

to member states. This raises a concern on how intra-trade in the tripartite alliance would be stimulated. The removal of trade tariffs is not enough to increase trade flows. Inherent problems in the three trade blocks need to be resolved by the new alliance. In addition, the alliance provides a platform for the harmonisation of trade policies.

Issues such as Non-Tariff Trade Barriers, Rules of Origin, aviation and safety, possibilities of having joint funding for infrastructural development, Information Technology infrastructure network, and regional energy priorities are identified as priority areas that need to be addressed. Although the larger number of countries may suggest that finding consensus could become even more difficult than in smaller regional groupings the new tripartite agreement also limits the political and economic power of dominant players and hence can increase the influence of smaller economies. In addition, the pressure to reach an agreement on outstanding issues has increased since the option for countries that are belonging to two or even more regional groupings to chose the groupings of greatest convenience does no longer exist. Therefore, the tripartite agreement offers the opportunity to resolve issues more speedily and find common political grounds that would strengthen the regional stance on other issues as well, such as the EPA negotiations.

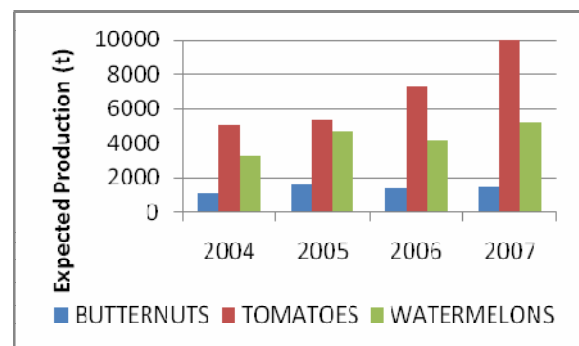
Agriculture – The impact of the fruit fly on the horticultural sector

Namibian fruit and vegetable producers remain in uncertainty regarding future income from exports to South Africa. Due to the infestation of some areas in Namibia by the fruit fly *Bactrocera invadens* end of last year the neighbouring country established export restrictions on selected fruit and vegetables produced in quarantine areas. Although the presence of the fly was not officially announced by the Namibian authorities, the infestation is widely acknowledged by Namibian producers and trading partners.

By stinging, the female fly deposits its eggs in the fruit, causing it to rot. Preferred are mangoes, citrus, tomatoes and fruit of the *Cucurbitaceae* family, of which watermelons are particularly vulnerable to infestation. Because of its fecundity – one female fly lays up to 700 eggs in its lifetime – and its aggressiveness, this particular fly is known to destroy the entire crop of infested field or orchards. To prevent the fly from spreading to other areas, transport of food is to be prohibited to contain the pest in affected areas where it can be managed within the framework of the International Standards for Phytosanitary Measures (ISPM).

While some areas to the North of Tsumeb show a relatively high prevalence of the fly, it has not yet established itself south of Windhoek. As consequence, southern producers were

excluded from the restrictions, while in the North, especially watermelon producers are affected. Although a local wholesaler agreed to buy all watermelons produced, due to oversupply of melons the price was significantly lower than anticipated, depriving producers of an estimated half of expected revenue. To make matters worse, since no measures are in place to contain the fly in already infested areas, the export restrictions are not unlikely to be extended to the south of Namibia, holding a serious threat to the viability not only of Hardap fruit and vegetable farms but also to the grape industry at the Orange River and the fruit and vegetable production in general.



Source: Namibia Agronomic Board

Historically Namibia only had a minor horticultural sector. This changed during 2004

with the establishment of the National Horticulture Development Initiative. Hectares planted more than doubled since 2005. Moreover, as indicated in the figure, since its implementation production increased significantly. Although watermelon producers were hit hardest by export restrictions, failure to bring the pest under control will seriously stem

enthusiasm of Namibian farmers to invest in fruit and vegetable production. Lasting export restrictions will cause producers of fruit and vegetable known to be susceptible to infestation to adjust production to the small Namibian market which holds far-reaching implications for linkage industries and labour market.

Macroeconomics – The impact of the economic crisis

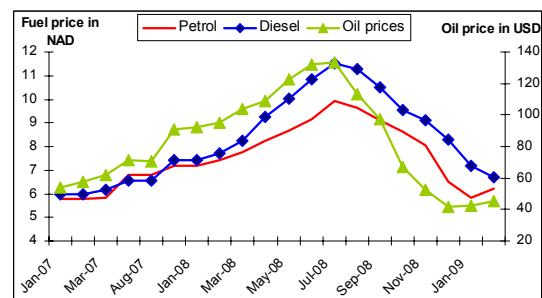
Prospects for the Namibian economy at the end of 2008 were less positive than at the beginning of 2008 but also not too gloomy. This has changed during the first quarter. Growth projections were constantly adjusted downward with some institutions fearing a recession looming. Expected GDP growth of 1% to 2% for 2009 has turned into negative growth of up to 1.6%. This is the result of a substantial drop in demand and hence prices for minerals in particular diamonds. Subsequently, the copper mine was closed in December 2008, while the on-shore diamond mine closed for a three-month production holiday at the beginning of 2009. Off-shore diamond mining that contributed about 50% to total output continues its operations but below production capacity. Diamond mines contributed about 4% directly to total government revenue in form of diamond royalties and company taxes. The drop in demand for diamonds has also affected the diamond cutting and polishing industry and resulted in retrenchments there.

The service sector is not spared from these developments. A decline in business activities results in a decline of the demand for business services, be it legal, financial or other business-related services. Other sectors such as tourism will feel the impact of a drop in disposable income in developed countries. It is expected that number of tourist visiting Namibia will grow at a slower pace than in the past and that the tourists will spend their money more cautiously.

Overall it is expected that more than 2,000 workers have or will lose their jobs in the mining industry including diamond beneficiation. The subsequent drop in consumer demand will spill over into other sectors such as wholesale and retail trade and certainly into the informal sector especially in the northern communal areas that are relying on transfers from migrant workers.

In order to break this cycle, the Namibian Employers Federation has called on its members to avoid retrenchments and look for innovative ways of adjusting total working hours to the decline in demand for goods and services. For instance, salary freezes or even cuts in case of a reduction in working hours are preferable as opposed to retrenchments. This calls for close consultations between employers and employees and their representatives respectively.

Besides the negative impacts there are positive factors that cushion the economic downturn. The substantial drop in oil prices benefited the transport sector and energy-intensive industries such as the mining sector, but also fisheries. Low oil prices were however somehow diluted by the depreciation of the Namibia dollar. Inflationary pressure has not declined as strongly as anticipated amongst others because of imported inflation and persistently high food prices. However, since other macro-economic indicators are sound the Bank of Namibia lowered the repo rate that determines the prime rate of commercial banks by 100 basis points and further interest rate cuts are expected during 2009.



This leaves more disposable income in the pockets of consumers and businesses. Adding to this are income tax cuts announced in the 2009/10 national budget that benefit all income earners with an annual income of less than NAD1.2 million. The cut in interest and tax rates reduces the risk of defaults on home loans and other credit lines and could stimulate additional demand and investment.

Furthermore, manufacturing companies supplying the Angolan market are still doing well. Angola is the strongest growing economy in the world reaching 17% in 2008 based on its oil resources. Despite the drop in oil prices demand remains strong because of ongoing infrastructure projects.

The sharp depreciation of the Namibia Dollar versus the US Dollar, Euro and British Pound resulted in mixed blessings. Export industries benefitted from increased income in local currency and for instance tourists could spend more with the same budget of foreign currency. On the other hand, price pressure increased on imported products such as oil, but benefitted

local producers competing with imported products from Europe.

Government has embarked on another expansionary budget in order to cushion the drop in private demand. However, what matters is not just the amount of money government spends but the quality of spending. Ideally, government interventions would target bottlenecks for private sector expansion, such as red tape, and projects with a high potential for crowding in private investment. Targeted subsidies for a limited period of time could be introduced to encourage businesses to invest in innovative technologies. For instance, the potential of solar and wind energy is hugely untapped. Subsidising investment in renewable investment would not only encourage private investment but would also address energy supply side constraints.

Furthermore, the effectiveness of government spending depends on the speedy implementation of projects. The capital budget of the government is often under spent. This is of a concern not only because delays in the finalisation of projects but because social and economic benefits are reaped later than anticipated. However, speedy budget

implementation needs to be matched with careful implementation in order to ensure funds are well spending and quality goods and services are procured.

Namibia is characterised by a small market in terms of population. Unequal income distribution and persistent poverty makes matters worst. Addressing these issues will increase the demand for locally produced goods and services and subsequently lessens the exposure of the economy to external shocks. Investment in the social safety net and in labour-intensive industries

The economic downturn has resulted in an increase of protectionist policy stances in other parts of the world. This does not bode well and would not be the way forward for small and export-dependent economies such as Namibia. There is certainly room for more coordinated efforts on the regional level (SADC, SACU) to stimulate the economies. Addressing constraints to regional trade such as lack of transport infrastructure, insufficient border facilities, cumbersome customs procedures etc. would contribute to increasing the competitiveness of the region and subsequently stimulate trade, investment and employment.

New publications – also available on NEPRU's web site www.nepru.org.na

Anton Bösl, Willie Breitenbach, Trudi Hartzberg, Colin McCarthy, Klaus Schade (Eds.), Monitoring Regional Integration in Southern Africa Yearbook 2008 –

Mona Frøystad, Jürgen Hoffmann, Klaus Schade, Agriculture: Future Scenarios for Southern Africa – Country Briefing Namibia – NEPRU Working Paper No. 113

Christoph Stork, Price transparency for Namibia's Telecommunication sector No. 3 - NEPRU Policy Brief No. 22/3

Trends in macroeconomic indicators - also available on NEPRU's web site www.nepru.org.na

Inflation rate	Namibia ¹	11.20%	↑	South Africa ²	8.6 %	↓	Euro Zone ³	1.2%	↓	USA ⁴	0.2%	↑
Interest rate	Namibia ⁵	9.00%	↓	South Africa ²	9.50%	↓	Euro Zone ⁶	1.50%	↓	USA ⁷	0.25%	→
Exchange rate²	NAD:1USD	9.53	↓	NAD:1GBP	13.74	↓	NAD:1EUR	12.79	↑	YEN:1NAD	10.20	↑
Commodities	Copper ⁸	4,030.00 USD/t	↑	Zinc ⁸	1,300.00 USD/t	↑	Gold ⁹	924.48 USD/oz	↑	Uranium ¹⁰	42.00 USD/lb	↓
Agriculture	White maize ¹¹	1,690.00 ZAR/t	↓	Wheat ¹¹	2,615.00 ZAR/t	↓	Beef ¹²	22.39 N\$/kg	↓	Sheep ¹²	19.23 N\$/kg	↓

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

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

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Macro-economic indicators compiled by Taimi Amunkete

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