Republic of Namibia

STATEMENT

BY

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MINISTER OF TRADE AND INDUSTRY

ON OCCASION OF

The Gala Dinner of the Oranjemund Branch of the NCCI

26 July 2014

Director of Ceremonies

Mr Israel Kalenga, Chairman of the NCCI Oranjemund Branch,

Hon Professor Peter Katavivi, Chief Whip in the National Assembly

Your Worship the Mayor, Mr Henry Coetzee,

Hon Councillor Elifas Iita, Regional Councillor for the Oranjemund Constituency

Mrs Inge Zamwani-Kamwi, Past President of the NCCI and CEO of NAMDEB

Mr John Akapandi Endjala, Past President and member of the NCCI Board,

Mr Tara Shaanika, CEO of the NCCI

Mr Shali Akwaayanga, CEO of the Oranjemund Town Council

Mr Riaan Burger, General Manager of NAMDEB,

Mr Prasad Suryarao, General Manager of Scorpion Zink

I am very please and thankful for having been invited by my old friend Cde Israel Kalenga to Oranjemund and this gala dinner. I want to thank NAMDEB for the hospitality afforded to me and my team. I also want thank NAMDEB for the very interesting tour of the mine this morning.

The portfolio I am responsible for covers not only trade but also investment and industrial development and given the fact that generally trade is closely interlinked with investment and industrial activity, permit me to speak on public-private relationship in respect of these three areas.

Director of ceremonies

Henry Ford said: “Coming together is a beginning; keeping together is progress; working together is success”. I firmly believe that only if we, the Government and the private sector, find each other and work together for a common purpose, only then shall we be able to create true win-win situations.

Prosperity is synonymous with wealth. Logically therefore, in order for us to create wealth and improve the quality of our people, we need to create and expand opportunities that will bring about the desired levels of economic growth, wealth and employment. The known source of economic growth, employment and wealth creation is largely private investment and economic activities complemented by social or public investments by the State, directly or through State-owned enterprises.

Ladies and gentlemen

In its present form, the Namibian economy is still narrowly based and primary sector driven. Namibia's economy depends on extractive industries and resultant exports of raw materials, a situation that does not only make us vulnerable to external shocks but also inadvertently results in forfeiture of economic opportunities for employment and wealth creation to the economies to which we export our raw materials.

We have therefore taken a conscious decision that in order for us to achieve the required levels of sustained economic growth and employment and bring about prosperity for our people, we need a paradigm shift and transformation from being an economy that largely produces what it does not consume, and consumes what it do not produce. We need to develop value chains based on Namibia' raw-material endowment.

The key areas of focus that have the best potential to create the necessary momentum for our desired higher economic growth are identified in our 4th National Development Plan, namely manufacturing, agriculture and ago-processing, transport and logistics, and tourism.

Esteemed Captains of industry, Ladies and Gentlemen

To balance out persistent inequalities in wealth distribution, to meaningfully elevate poverty and to significantly reduce high unemployment we require a focused and <u>co-ordinated action from the Government, the business sector, organized labor and civil society.</u>

Let me now examine public-private relations in terms of the conditions that the private sector often deems necessary for it to invest, on the one, and the roles of both government and the private sector in bringing about desired levels of economic growth and development on the other.

Capital is generally attracted to locations that offer a conducive set of conditions, which at acceptable risk levels ensure that shareholder interests are satisfied. I concur with Fischer (1993) and Sachs and Warner (1995) that choosing the right policies to ensure macro-economic stability and to promote economic growth and development is one essential for attracting and retaining investment. Namibia has sustained macro-economic stability since independence and is enjoying investment grade sovereign credit ratings, which is a show of confidence in the Namibian economy.

Another important measure of public-private sector friendliness or relations is the extent to which governments ensure the **<u>security of doing business</u>**.

The right and security of private ownership of property and the role of the private sector in the Namibian economy are enshrined in the supreme law of our land, the Constitution, specifically Articles 16 and 98 respectively. Building on this, we have subsequently adopted policies and laws that foster private investments, both domestic and foreign direct investments.

As a result Namibia has consistently been ranked among the top 5 best performing economies in Africa. Even globally the World Bank's Ease of Doing Business Report ranked Namibia high in some parameters. In a separate rating, the Global Competitiveness Report concluded that Namibia continues to benefit from a relatively well-functioning institutional environment, with well-protected property rights, an independent judiciary, and reasonably strong public trust in politicians. Its transport infrastructure is also good by regional standards, while its financial markets are reasonably developed and is supported by a high confidence in financial institutions.

Like Martin J. Staab, it is also our view that “Just getting policies right, as important as that is, may not be enough to promote growth and development in countries where strong and effective public-private sector relationships are lacking.” This is supported by Rodrik (2004) who noted that governments (especially in developing countries like Namibia) are increasingly expected to perform a strategic and coordinating role in the productive sphere of the economy beyond simply ensuring macro-economic stability, contract enforcement and property rights (Rodrik, 2004).

In this regard, the Namibia Government has, in addition to devising a business friendly policy and regulatory framework, also invested in developing a closer link with and boosting the institutional capacity of formal industry organisations, notably the Namibia Chamber of Commerce and Industry and the manufacturing fraternity under the umbrella of the Namibia Manufacturers Association, through improved dialogue and direct financial support.

We have also ensured consistent involvement of and inputs from the private sector in ongoing negotiations of external market access at regional and multilateral levels through the Namibia Trade Forum, a private sector consultative structure that came into existence with financial and technical assistance from the Government. We have equally engaged the private sector (industry sectors) for inputs on policies related to investment, trade and industrial development.

The Government’s role in support of the private sector has also been notable in its interventions aimed at b**oosting local industrial and supply-side capacity** through a range of measures such as targeted support to the small and medium scale industry sector, as a viable source of sustainable economic development, jobs and poverty reduction, as well as the implementation of temporary infant industry protection and industrial upgrading and modernisation measures to safeguard existing and new value chains and manufacturing operations and opportunities.

Another aspect that is often used to examine how the public sector relates to the private sector is broadly termed **Government Supportiveness.** According to Martin Staab, one way by which to gauge government supportiveness is to examine the pattern of public expenditure especially in infrastructure development. This is collaborated by Blejer and Khan (1984) and Greene and Villanueva (1991) who observed that public investment in infrastructure, such as transport, power, water and telecommunications directly supports and enhances the productivity of private sector investments.

There is a general consensus that a reliable, integrated and efficient infrastructure and logistics network is critical and enhances a country's ability to harness domestic investment and foreign direct investments, to engage in and expand trade as well as to achieve export diversification and economic growth. This is also our view in Namibia as evident from the large share of the national budgets that we have consistently allocated towards the development and upgrading of basic social (especially education and skills development) and economic infrastructure since independence.

On its part, the Ministry of Trade and Industry's intervention includes the acquisition of un-serviced land for development and leasing for industrial and commercial purposes.

In order to reduce transactional costs and difficulties being experienced in trading across borders, the Cabinet of the Government of Namibia has approved the establishment of a Single-Window Facility, a system which entails simplified customs clearance and trade facilitation procedures by the various authorities and agencies involved in handling trade transactions.

Director of ceremonies
Ladies and gentlemen

Quite often, discussions on public-private partnerships are largely skewed towards what the Government or State need to do to ensure an enabling environment for private sector investment. I wish to raise some specific expectations on the private sector to not only take advantage of the positive climate and opportunities but also to support of the role of Government in effectively dealing with a number of challenges in its continuous effort to maintain a business friendly atmosphere and the realization of set national industrial and economic development objectives.

Wim Naudé and Adam Szirmai have identified the following challenges that developing countries in particular face in their endeavour to industrialise. Firstly, developing economies like ours face the challenge to achieve industrialization in a highly unequal and globalized world economy, dominated by large multinational companies and characterized by fragmented global value chains. The emergence of global value chains is largely driven by improvements in transport, freight, information and communication technologies as well as the liberalization of trade, but leaves developing economies at the bottom of the value chain.

A related challenge is that while strategic integration into world trade requires active government policies and the establishment of public-private partnerships to fill institutional voids in this regard, countries like ours that are still at the beginning of their industrialization process are threatened by a loss of policy space. This is an aspect described well by Joseph Stiglitz in his book "The Price of Inequality" where he says, and I quote: "*In developing countries, changes in inequality are related to international rules of the game that are beyond the control of individual countries. And here too, it is politics, not just economics that matters; it is the international rules that govern globalization. When those rules allow rich countries to subsidize their rich farmers, global agricultural prices are depressed, and many of the poorest in poor countries, those working in agriculture, suffer. When countries in the advanced industrial world fail to regulate their banks adequately and to manage their macro economics well, the developing and emerging markets often suffer from the collateral damage. And it is typically the poorest that suffer most.*"

The other challenge which I am sure you can attest to is the accelerating rate of technological change in manufacturing. The increasing automation of production while necessary to advance efficiency gains is on the other hand increasingly affecting the comparative advantages that developing countries may have in that it is making labour less important. This is a problem given the very high rates of unemployment in our country.

The latter results into jobless growth in manufacturing. In many countries, the growth of employment in manufacturing has been slowing down to increasing capital intensity and labour-saving technological change. Therefore industrial development is no longer able to absorb large increases in labour supply.

The last challenge in the industrialization process that I would like to touch on is the great emphasis that is increasingly placed on environmental issues such as low-carbon industrialization, which calls for innovation and use of environmentally sustainable technologies. As much as they are needed, they increase costs of industrialization.

In addition to the above, I wish to highlight the following issues related to investment by the private sector.

From investment trends analyses, it is obvious that a large share and type of foreign direct investments that flow into Namibia and Africa in general, are predominately resource-seeking investments. In examining the relationship between the economic rankings and actual FDI flows, it becomes evident that, with a few exceptions, the top destinations for FDI flows in Africa as recorded in the UNCTAD World Investment Report are (without mentioning names) oil and gas producing and exporting countries, most of who have been ranked among the poor performers by the Global Competitiveness Index.

In order to get out of the natural resource curse trap, we need more or at least an equal flow of private investments into the resource value addition and manufacturing sectors.

On a related note, I agree with Mo Ibrahim who is calling on the business sector, domestic and foreign, to play its full role in helping to drive employment in Africa. He said and I quote: “This means supporting development which goes beyond extracting and exporting raw commodities”. He goes on to say: “Too many multi-nationals (and the same goes for some domestic companies as well) avoid paying tax in the countries where they do business.” You will no doubt agree that the State depends on such taxes to finance the provision of basic infrastructure and improve the quality of services in social sectors such as education and health where our country continues to perform poorly according to the rankings.

This reality gives credence to measures being pursued by Namibia and other African countries to regulate access to and exports of raw commodities in favor of increased value addition and manufacturing and exports of processed or manufacturing, which will in turn bring about real Growth, employment and wealth creation in the country where the often non-renewable resources have been extracted. It is obvious, as it is evident from the EPA negotiations, that such policy measures and space are not supported by those developed economies, who continue to top the chart of top performers, but continue to heavily rely on the least developed and developing countries for supplies of raw materials as inputs into their industries.

The mismatch between actual FDI flows and the GDP-based economic performance assessment that I have just referred to also tend to go contrary with the original notion of resource-seeking investment, where according to Asiedu (2002), the objective of such investment “is to make use of the host country’s resources to produce goods for sale outside the local market”. The reality on the ground in Namibia and other resources producing countries is that investments in resources extractive industries have largely resulted in exports of raw materials without any local processing taking place, not to talk of processing such raw materials into finished goods.

In an effort to stimulate economic growth, government through the Ministry of Trade and Industry has identified interventions to support those in manufacturing and value addition sector, such as the infant industry protection and safeguard measures. You may recall that during the past two years government has taken policy decisions to develop and safeguard Namibia's interest in the cement, poultry and dairy industries. These interventions should not be seen as barriers to trade but rather as contingent measures enacted to defend local producers in certain circumstances. Infant industry Protection is a significant tool of policy-making in the world, both in historical and current context. With the exception of Hong Kong, no country has industrialised without resorting to some form of infant industry protection. Indeed both early-industrialised and newly-industrialised countries applied the same principles, although to varying degrees and in different ways.

Ladies and gentlemen

Another area that requires improved public-private partnership is business financing, especially start-up and venture capital financing to SMEs. This is one of top 5 problem areas hampering investments and business development in our country, according to the Global Competitiveness Report, a findings that the Government fully agrees with, hence the establishment of the SME Bank and DBN, but more help is needed.

While the state is generally expected to invest in the development of basic infrastructure for education and training, transport, water and power, there is a strong inclination towards public private partnership in the financing, development and management of such infrastructure globally. In the case of Namibia the government has developed a public private partnership framework to guide and regulate contractual relationship between the government and the private sector in the provision of public goods and services in a manner that ensures shared risks and benefits.

I wish to end my address by re-affirming the Government's commitment towards fostering a business friendly climate in the country as well as towards creating opportunities for export and enhancing the capacity of the private sector to take advantage of the benefits that regional and global trade links and market access provide. We will continue to play a leading role in addressing the various developmental challenges facing the country, through a range of strategies and measures that have been articulated in the Vision 2030 document, National Development Plan 4, Industrial Policy and our *"Growth at Home"* Strategies, including enhanced public-private dialogue and partnerships.

I thank you for your kind attention.