ECONOMIC PROSPECTS FOR NAMIBIA

After more than one hundred years of German and South African colonial rule, the tripartite agreement signed between Angola, Cuba and South Africa on 22 December 1988 has finally cleared the way to independence in Namibia. The implementation of UN Resolution 435 from April 1989 is planned to lead to the UN-supervised election by proportional representation in November. During 1990 the assembly should adopt, by two-thirds majority vote, a constitution for Namibia which will determine the organisation and powers of all levels of government.

The new Government in Namibia will inherit a country of inhospitable terrain and an economy with a substantial natural resource endowment but characterised by extremely uneven development and dependence upon South Africa. This Briefing Paper considers the economic choices which await an independent Namibia.

Historical and political background

During the first world war South Africa occupied the German territory of South West Africa, which had been colonised in 1884. South Africa was given a mandate by the League of Nations in 1920 to administer the territory 'as a sacred trust of civilization'. From 1948, however, South Africa began a creeping annexation and in the decade from 1964 legislation was enacted which extended the South African apartheid system to Namibia including the formation of ten nominally self-governing 'homelands'. South Africa's mandate was revoked by the UN in 1966 and its rule subsequently declared illegal by the International Court of Justice in 1971. The South African Defence Force has maintained a strong presence in Namibia and developed a sizeable local army (the South West Africa Territorial Force) to contain civil unrest.

Resistance to the South African occupation was led by the main nationalist movement, the South West Africa Peoples Organisation (SWAPO), an Ovambo-led party (Ovambo speakers compose nearly one-half of the population), and, to a lesser extent, by the predominantly Herero South West Africa National Union (SWANU). From 1966 onwards SWAPO engaged in a guerrilla war against South African occupation and towards an independent Namibia; in 1973 SWAPO was recognised by the UN General Assembly as the 'sole authentic representative of the Namibian people'.

Faced with mounting international criticism and revolution in neighbouring Angola in 1975, South Africa attempted an internal political settlement by holding a constitutional conference at Turnhalle, which expelled SWAPO and all other black political parties. Since 1978, Namibia has been governed by a series of coalitions based upon representatives to the Turnhalle constitutional conference which have been elected by a limited grouping of around ten parties, comprising most notably SWANU. Many observers expect that SWAPO will take a majority of the seats although not necessarily achieve the two-thirds majority required to frame the constitution unaided.

The Economy

Production

The modern Namibian economy is heavily concentrated in the production for export of primary commodities (minerals and agricultural products). More than 60% of GDP is exported and most consumption and investment goods are imported, 90% from South Africa. Although per capita income, at US$720, is relatively high for sub-Saharan Africa, the income distribution is heavily skewed towards whites (6.6% of population) and a very few black professionals. Over 50% of the population are engaged in subsistence agriculture.

The last two decades in Namibia have been characterised by economic stagnation and then decline, with low growth (1.8% p.a.) in the 1970s and negative growth (−1.0% p.a.) in the 1980s. With population growing at 3% per annum by some estimates to 1.8 million in 1987 the decline of real per capita income in the 1980s has been high even by sub-Saharan African standards. Poor economic

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**Box 1: Economic indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
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<tbody>
<tr>
<td>Gross Territorial Product (GTP) (1987)</td>
<td>US$1.18 billion</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US$720</td>
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<tr>
<td>Real GDP growth 1980-87</td>
<td>−1.0% per annum</td>
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GDP share by type of economic activity (Average 1980-87 excluding informal sector):

- Agriculture & Fishing: 10.2%
- Mining: 13.3%
- Secondary Sector: 10.3%
- Trade/Commerce: 12.5%
- Other Tertiary Sector: 17.2%
- General Government: 17.8%

Agricultural Production Indices, 1987:

- Average 1976-1987 = 100
- Agricultural production: 104.6
- Per Capita Agricultural production: 85.9
- Per Capita Food production: 87.3

Principal Exports (1986):

- Diamonds: 336
- Uranium concentrate: 271
- Other Minerals and Metals: 118
- Cattle: 36
- Other: 118
- Total Exports: 879

Exports by Destination:

- Switzerland: 31%
- South Africa: 25%
- West Germany: 15%
- USA: 5%
- UK: 5%

Principal Imports (1986):

- Food and Beverages: 230
- Petroleum Products & Fuel: 190
- Machinery & Equipment: 100
- Transport Equipment: 80
- Other: 38
- Total Imports: 638

 Imports by Origin:

- South Africa: 75%
- West Germany: 10%
- USA: 5%
- Switzerland: 5%

performance can be ascribed in part to political uncertainty, violence and conditions which have lowered consumer and investor confidence and disrupted output, in part to a global mining slump, and in part to drought and ecological damage which have severely depressed agricultural production. A mild recovery has occurred over the last two years as a result of improved prices for commodity exports.

Uranium, diamonds and base metals (particularly copper, lead, tin, zinc) account for between one-third and one-half of GDP. The mining industry is likely to continue to be the chief export earner and a major source of government revenue for the foreseeable future. Government fiscal policy is likely to be aimed at obtaining a larger share of the mining sector surplus through taxation, notably by revising tax regulations for diamonds and uranium. The global recovery in prices and demand for mineral products has been reflected in an upturn of profits and investment for the Namibian mining industry. The uranium outlook is improving. Global stockpiles are being run down and Namibian prices should increase as independence will remove the discount on Namibian uranium on the spot market. In the diamond market sales volumes are at record levels and prices stable, particularly for high value gemstones where Namibian production is concentrated. Metal prices (particularly copper) have also been rising rapidly. Despite the improved outlook, none of the big three mines appears to have plans for immediate expansion of output, (Box 2) which has not progressed as forecast in terms of new plant as it has at Tsumeb. Employment opportunities for diamonds and uranium is comparatively small compared to some of the Beers ventures in Namibia. Approximately 50% of all Namibian food requirements are imported.

Labour

The non-white rural population has generally been confined to racially segregated 'homelands' regions accounting for only 31% of farmed land. The combined effects of over-population on poor quality land and the imposition of taxes has sustained the contract labour system supplying cheap labour to the mines. In response to war and the relaxation of control on internal migration the urban population doubled in the 15 years to 1985. There was also

**Box 2: Mining and multinationals**

**Uranium — Production (1987) 3,450 tons**

Export earnings $336 m (1986)

The Rössing mine, which contributes 18% of GDP (1985) is managed by the British metals and fuels conglomerate RTZ. Rössing has been profitable in recent years ($30m in 1987, $100m in 1986) despite previous global stockpiling of uranium. The standard long-term contracts at fixed prices above spot rates. The future of RTZ at the Rössing mine after independence is unclear, because voting control will be held by the new government after the anticipated transfer of shares presently held in trust by South African state corporations. Rössing has been the target of much criticism because it was developed since 1966 during South Africa's illegal occupation of Namibia. RTZ expects to maintain its presence at Rössing due to its dominant managerial, technical and financial resources.

**Diamonds — Production (1987) 1,02 m carats**

Export earnings $271 m (1986)

Diamonds are mined by Consolidated Diamond Mines (CDM), a wholly-owned subsidiary of De Beers, itself linked to South Africa's Anglo-American Corporation. CDM output is compared to long-term contracts fixed at prices above spot rates. The company has been faced with violent and assaultive resistance which has lowered yields. The government Thirion Commission in 1966 for practising land control in Africa's illegal occupation of Namibia. RTZ expects to maintain its presence at Rössing due to its dominant managerial, technical and financial resources.

**Metals and other Minerals**

Export earnings $118 m (1986)

A number of small-scale mines produce copper, lead, zinc, cadmium, silver and gold and are largely owned and operated by smaller mining and processing companies. In the late 1960s because of ineffective conservation. The immediate prospects for increasing the output of the fishing and fish processing industries are not promising as depleted stocks will not sustain an increase in take. An alternative objective would be to

**Prospects For Growth**

In contrast to the long-term constraints on development caused by the narrow production base, there are reasonable short term prospects for economic growth in Namibia. Real income growth of 4-5% per annum could be obtained with continuing recovery of commodity prices and from economic opportunities arising from independence such as the revitalisation of agricultural production in previous war zones. Sensitive to the problems of foreign ownership of mining production SWAPO's position has shifted away from the advocacy of nationalisation of major industries to that of a mixed economy with compensation for (the transfer of shares presently held in trust by South African) any) of private property. Recent dialogue between SWAPO and the major multinationals is evidence both of the political importance of the former and the key role which the 73 different multinationals (35 from South Africa) located in Namibia will play in attaining future economic growth.

**Mining**

The mining industry is likely to continue to be the chief export earner and a major source of government revenue for the foreseeable future. Government fiscal policy is likely to be aimed at obtaining a larger share of the mining sector surplus through taxation, notably by revising tax regulations for diamonds and uranium. The global recovery in prices and demand for mineral products has been reflected in an upturn of profits and investment for the Namibian mining industry. The uranium outlook is improving. Global stockpiles are being run down and Namibian prices should increase as independence will remove the discount on Namibian uranium on the spot market. In the diamond market sales volumes are at record levels and prices stable, particularly for high value gemstones where Namibian production is concentrated. Metal prices (particularly copper) have also been rising rapidly. Despite the improved outlook, none of the big three mines appears to have plans for immediate expansion of output, (Box 2) which has not progressed as forecast in terms of new plant as it has at Tsumeb. Employment opportunities for diamonds and uranium within Namibia are limited and metal processing cannot be easily extended further at the Tsumeb mine. Employment opportunities in modern sector mining for Namibia's rapidly expanding workforce are limited and increasing government efforts to create employment opportunities have reduced the workforce to under 13,000 today (less than 5% of total employment) from 24,500 in 1981. Encouraging an expansion of small-scale mining particularly in minor mines abandoned during the mining slump would however return total mining employment to an upward trend.

**Fishing**

Namibia has benefited little from the post-Second World War exploitation of its long Atlantic coastline. Both inshore and offshore fishing grounds have been severely over-fished by foreign fishing fleets, with current catches at only a fraction of their peak in the late 1960s because of ineffective conservation. The immediate prospects for increasing the output of the fishing and fish processing industries are not promising as depleted stocks will not sustain an increase in take. An alternative objective would be to
increase Namibian ownership of inshore fishing fleets which are currently owned but predominantly worked by Namibians. Without control of Walvis Bay port, access to processing factories and the monitoring of catches cannot be assured. Income could be raised through taxation by implementing a 200-mile exclusive economic zone, although enforcement will be a problem because South Africa claims a string of small, offshore islands and their corresponding fishing zones along the coast, in addition to Walvis Bay. Estimates of revenues from fishing rights are uncertain. SWAPO have quoted an optimistic estimate of a potential R 2 bn per annum (R800 m) income from the hake catch alone. This is considerably higher than other estimates of total revenues from all types of fish and crustaceans.

Agriculture
Agricultural production has remained stagnant for at least the past decade. Poor and deteriorating land quality, the driest climate in sub-Saharan Africa and the lack of surface water restrict the development of crop and livestock production. Nearly 60% of farming land is owned by white farmers (about half are absentee landlords) predominantly in the central stock-raising plateau. This land is in general suitable only for extensive ranching, sustaining one head of cattle per fifteen hectares. Although some areas have increased crop potential with careful development of boreholes, the fragile ecology of Namibia (much of which is under threat from salt deposits at two metres below ground) limits overall agricultural expansion. The changes in agriculture are more likely to come from changes of ownership away from large farms and ranches towards smallholder agriculture (see below).

Manufacturing and other sectors
Namibia's low domestic demand for consumer goods and its distance from other regional markets will make manufacturing production difficult to develop. There will, however, be some opportunities for growth, for example in food processing (particularly for meat), in the construction industry and light industrial goods. Encouragement of foreign investment could lead to the exploitation of known offshore gasfields and foreign companies (WIZ Oil, Brillund) are interested in oil concessions in the Etosha Pan region of Northern Namibia. The service sector has some growth potential, albeit dependent upon growth in the rest of the economy. The potential for increasing tourism exists, and with the advent of peace in Namibia the number of foreign visitors will be increased. This will be in marked contrast to the majority of sub-Saharan countries which have high debt service ratios. Despite the new government pronouncements, action and persuasion.

Economic Policy Choices
Independence is expected to bring benefits to the Namibian people through a more equitable distribution of land and income and increased access to social services. It will be a major task for the Namibian government to design and implement policies which will bridge the gap between the current situation and expectations generated before and during the independence process.

Land Reform
The execution of land reform policies is likely to be critical in responding to Namibians' expectations at independence.

SWAPO's land reform policy envisages the creation of a mixture of state farms, cooperatives, peasant family farming and private commercial farming oriented towards domestic consumption. The policy choices centre upon which ownership types are to be most favoured and how fast the division between 'homeland' subsistence farming and white commercial ranching is to be eroded. Any move away from commercial agriculture and beef and Karakul furs, however, is physically constrained by the difficult farming environment which favours large-scale extensive production. One option is diversifying into other livestock types. With Karakul fur production in decline, alternative small ruminants produced in South Africa and mohair are under consideration. A more ambitious long-term strategy could include the possibility of commercial game ranching.

Social Infrastructure
Although Namibia has a well developed transport infrastructure (2340 km railway, 4318 km tarred roads) social services have been badly neglected. Expanding the existing adult literacy and language programmes is likely to be a post-independence priority. The Zimbabwean experience has shown that significant improvements in basic adult literacy can be achieved at relatively low cost. Estimates suggest about 100 new schools are required to provide adequate universal primary education, at a 1987 cost of US$ 250 million. Some observers have called for a doubling of the existing low-income housing stock over the next decade to 140,000 units to meet growing housing shortages in urban areas. However the average 2.5 occupants per household is below the normal household standard. The severe shortage of adequately qualified Namibians across all productive sectors in the modern economy and in the civil service. About 2,500 Namibians have further or higher education qualifications which, although considerably short of UN estimates for skilled personnel requirements, is a higher level relative to population than was the case for neighbouring states (Angola, Botswana, and Zambia) at independence.

Government Revenue
At Independence, the expansion of government services will be constrained by insufficient revenue. In 1988/89 the government deficit was estimated to be 13% of GDP (US$ 187 mn) and nearly half of total revenue was received from South Africa either as a direct subvention ($123 mn) or as payment for customs duties ($157 mn). With the subvention being phased out (it was cut by nearly three-quarters in 89/90) and customs revenues subject to renegotiation with South Africa (see below) new tax-raising measures or more general tax reform will have to be considered. Reforms could include increased taxation of the mining sector (13% of revenue 1988/89) or a more progressive income tax system (1% of revenue 1988/89). Savings could be made from 1990 onwards by the rationalisation of recurrent expenditure. Without direct subvention and South African regulations apply to all international financial transactions in Namibia are made in South African
The shortfall in state revenue at a time when Namibia will be aid largely through UN or voluntary agencies, with notable bilateral donors in the pre-independence period have channelled restricted by the political situation to $17 m in 1987 (1.3% of GDP). Period. Official development assistance within Namibia has been of paramount importance of foreign aid in the immediate post-independence period.Src: © Overseas Development Institute, London 1989 ISSN 0140-8682

Conclusions
The experience of neighbouring Botswana has shown that sustained economic development and political autonomy are not necessarily mutually exclusive objectives for Namibia. Zimbabwe provides a model for the transition from white minority to black majority rule, with land transfer, in the context of a strengthening economy.

Political independence is unlikely in itself to bring about a long-term resumption of economic growth or a major expansion of employment opportunities. It will, however, raise expectations of individual welfare.

Namibia is rich in natural resources and independence offers the opportunity to maximise the benefit to the country and the nation of their exploitation. Mining and fishing could provide additional sources of government revenue at a time when pressures to increase expenditure on social infrastructure and investment will be great and a large proportion of revenue received as a transfer from South Africa is likely to be withdrawn. Agricultural production could increase as the northern war zone is returned to cultivation, but the fragile ecology limits readily achievable productivity increases.

Despite increasing political autonomy, economic dependence upon South Africa is likely to remain for the foreseeable future. With three quarters of imports coming directly from South Africa, virtually all imports transported through South African-controlled territory, a significant South African business presence and at least three-quarters of the skilled white population holding South African passports, Namibia will remain an economically dependent state. The prospects for reducing heavy export-orientation and its economic dependence on South Africa are, at best, long-term, although some initiatives for such a strategy could be put in place soon after independence. These would include measures to develop transport and trade links with neighbouring countries and to ensure that access to Walvis Bay is maintained.

Now that independence is near, SWAPO has considerably modified its economic policies emphasising flexibility and the mixed economy, in contrast to a previous dirigiste policy of public ownership and control.