

International trade and south african rand



Introduction: Namibia is small flourishing country located in the south west of Africa. Its surrounding neighbors are Angola, Botswana, South Africa, and the South Atlantic Sea. The country is very young, and was recently liberated from foreign and South African rule, and was formerly known as South West Africa. Compared to all of its neighbors Namibia has an extremely low unemployment rate of 5.

3%, and a GDP per capita of 7, 500 USD. Even though the country appears to have a high per capita GDP compared to some of its other neighbors, the distribution of wealth in the country is one the “ world’s most uneven distributions of wealth”. Namibia also has close economical ties with South Africa, because the South African rand and the Namibian dollar are both forms of legal tender in the country, due to a Common Monetary Area. Namibia is still a new economically developing country that’s starting to prosper, wit the help of its natural resources, and financial aid from countries that support democracies.

They are also thinking about their future by trying to preserve, their natural resources and encouraging travel and tourism to the country. HistoryThe Republic of Namibia was granted their independence on March 21st 1990, although the path leading up to this process was long and bloody. Before Namibia was declared a republic, they were occupied by colonial rule from Britain, Germany, and South Africa, after almost a century of blood shed they were finally granted their freedom. The war was fought mainly by the SWAPO (The South West Africa Peoples Organizations), they were a Marxist guerilla group that lorded over the war of independence. During the first World War South Africa occupied Namibia and it became under South African

administration. In 1988 South Africa agreed to end its administration of Namibia under a UN peace plan for the region.

It was granted full independence on 21st of March 1990. After independence Namibia was governed by one man for 14 years Sam Nujama. Luckily for the people of Namibia he did succeed rule to free and faor elections 3 years ago instilling a democratic system. Due to the fact that Namibia was under the rule of the government of South Africa they also underwent the segregation that was apartheid, this contributed to many of their workforce problems that they experienced in modern times.

The total population of Namibia is an estimated 1. 8 million which consists of a diverse range of ethnic groups, the majority of them being Ovambo, and the rest consisting of Kavango, Herero, Damara, Nama, Caprivian, San, Baster, and Tswana. Their population growth rate is around 0. 9% due to a high rate of HIV and AIDS.

The legal system of Namibia is based on Roman-Dutch law, and their constitution which was written in 1990. The government system of similar to that of the United States, it has 3 branches of government, Executive, Legislative, and Judicial. Checks and balances are kept in place, so democracy is maintained. There are elections every 5 years to decide the new president. Sam Nujoma was the first president of Namibia he was the leader of the West Africa People's Organization, he served and 2nd term, and was also re-elected for a 3rd term due to special circumstances because he was not voted in for his first term.

His predecessor Hifikepunye Pohamba is currently serving his first term as president. There are a total of 7 different parties in Namibia. The current political situation in Namibia is stable, and foreign investment is encouraged. Namibia has an independent foreign policy, and mostly trades within the southern African region although they do have diplomatic terms with the United States, the Peoples Republic of China, Libya, Cuba, and other countries that help aid the country in gaining its independence. Namibia has a total area of 823, 145 sq. km.

and has costal, plateaus, and desert terrain. They have a GDP of 5. 5 billion, with an annual growth rate of 4. 3%, accompanied by an inflation rate of 3. 9%. Even though Namibia is rich in natural resources, their imports are higher to their exports, with the exports being at 1. billion and imports at 2. 3 billion.

Namibia has natural resources varying from diamonds, gold, and other metals, to farming and fisheries, and exotic wildlife. The economy is based on capital intensive industry and farming. Although the country has a high GDP amongst other developing countries, the wealth is not evenly spread out, they have a small working class of about 200, 000 skilled labors, while the rest rely on herding and farming. Namibia is trying to better its trade relations with out countries, they are apart of General Agreement on Tariffs and Trade (GATT), and World Trade Organization (WTO). The legal currency of Namibia is the Namibian dollar, but the South African rand is also accepted, although it's not true vice versa because of the Common Monetary Area (CMA). Tourism is the 3rd highest source of income for Namibia, it helps

provide job opportunities for Namibians in rural regions of the country, while helping to preserve the natural wonders.

Even though most of the tourism is from the local regions, by South Africa and other surrounding countries, they are trying to develop it and market it on a national level. External Factors impacting on the country Since independence in 1990 Namibia's currency the Namibian Dollar has been pegged to the South African Rand. This helps due to the fact that Namibia is characterized by a high private savings rate which due to a lack of investment vehicles has to be channeled into South Africa's financial markets . About 80% of total imports come from South Africa which internally absorbs 30% of its exports.

50% of Namibia's cereal is imported, with a vast majority of it coming from South Africa. By having the currencies pegged the exchange rate remains constant. This prevents any fluctuations that could increase the food price for Namibians and therefore create massive inflation. Namibia has been classified by the UN as a lower middle income country . There is heavy trade with the European Union which represents its main export market.

In particular would be the UK for diamonds and Spain for Fish. Diamonds and other minerals still represent over 80% of Namibia's exports .

TRADE	1986	1996	2005	2006	(US\$ millions)
Total exports (fob)	913	1,463	1,402	1,503	
Diamonds	310	543	600	630	
Other minerals	391	251	254	269	
Manufactures	178	343	318	371	
Total imports (cif)	651	1,555	1,980	2,090	
Food ..	N/A	333	424	447	
Fuel and energy ..					

92 117 123 Capital goods .. 516 657 693 BALANCE of PAYMENTS 1986 1996
 2005 2006 (US\$ millions) Exports of goods and services 997 1, 801 2, 233 2,
 501 Imports of goods and services 838 2, 136 2, 643 2, 860 Resource
 balance 159 -335 -410 -359 Net income -246 70 72 80 Net current
 transfers

.. ..

Current account balance 253 168 348 430 Financing items (net) .. -145 -323
 -402 Changes in net reserves ..

-23 -25 -28 Memo: Reserves including gold (US\$ millions) .. 195 371 410

Conversion rate (DEC, local/US\$) 2. 3 4. 3 6. 4 6.

8 As can be seen by the above economic data Namibia has a positive Net income and a Positive current account balance. This is partially due to the fact that they are a young country that has not had to resort to borrowing money yet from organisations such as the World Bank or the IMF. During it's time under South African administration any money that would have been borrowed would have been done in the name of the South African government. By having no debt to the world organisations and the governments of developed countries until recently, it puts Namibia at an advantage as unlike most African countries they are not have to use there revenue generated by exports to pay off the national debt.

With the current account balance fluctuating at between 5% and 10% of GDP it also gives the Namibia a cushion that is exports fall one year they do have money in their current account to cover any budget deficit. There has been a

budget deficit for the last two years (2005 and 2006) this is the main factor in the current account balance dropping to below 10% of GDP. Namibia's debt in relation to its GDP (External debt as a % of GDP), has been fluctuation between 23% in 2000 to a high of 28% in 2002 to its current rate of 26%. The governments goal is to reduce the national debt to 25% of GDP by the end of the decade. Namibia has recently been taking advantage of the African Growth and Opportunities Act (AGOA). With several apparel manufacturers from Asia forming one company with one or two subsidiaries (Ramatex).

They are investing in Capital Goods building factories and assembling facilities that are expected to generate over \$100 Million in exports. The AGOA has also managed to create over 6000 relatively unskilled but needed jobs. The major draw-back in the Asian manufacturing centres in Namibia is their constant threat of withdrawal. Rhino Garments shut down in 2005, while Ramatex has used the threat of doing so to win government concessions (especially in the area on environmental standards) and bully the trade unions.

The South African customs union of which Namibia is a member has recently engaged in a round of Free Trade Agreement (FTA) negotiations with other countries and regional blocs. These negotiations concluded agreements with the European Free Trade Association (EFTA) and the Southern Common Market (MERCOSUR). The Southern Common Market includes Argentina, Paraguay, Uruguay and Brazil . They are just waiting for these agreements to be inducted into the national laws of the countries concerned. Foreign Trade 2000 2003 2004 Merchandise trade (% of GDP) 84. 172.

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774. 7 Net barter terms of trade (2000 = 100)100. 097. 297. 2 Exports of goods and services (% of GDP)45.

651. 446. 3 Imports of goods and services (% of GDP)51. 255. 045. 0As can be seen there is not a substantial difference between the Imports and Exports of goods and services.

Although Namibia does Import more than it Exports (Trade Deficit), it is only by a small margin of GDP. Although last year in 2006 booming exports of Zinc, Gold, Copper and Diamonds and higher international prices helped to narrow the trade deficit. Also a surge in receipts from the SACU (South African Customs Union) helped to boost the current account balance surplus. The current account is also expected to benefit from increased tourism revenue and higher receipts from investment abroad.

Although FDI (Foreign Direct Investment) is heavily biased towards the mining sector which receives 65%. With regards to Foreign Aid. According to the OECD, " Namibia's status as a middle Income country does not facilitate access to concessional finance". External grants dropped from 1. 5% of revenue to 0. 6% of revenue between 2006 and 2007.

These funds were exclusively from the European Union and were destined mainly for rural water and roads projects. The Dutch and British agencies ceased their funding in 2006. Although recently it has been deemed eligible for the US's Millenium challenge account and is expecting to receive \$450 Million for Education, livestock, tourism and an environmentally friendly scheme. Internal Factors Traditionally in developing countries they start off

as being dependant on Agriculture, then moving to industry followed by the Services sector. This proves a problem for Namibia as only 0.

99% of the land in the country is Arable. They also have periods of prolonged droughts. This equates to their high imports in cereal. They also have limited water supplies and 14% of the land is protected (they were the first country to put environmental issues in their constitution).

The population is only around 2 Million people (according to the UN about 31% of these live in Urban areas) , but high aids rates (21. 3%) and declining birth rates have left the population growth at only 0. 478%. This is a major problem, because as the economies grows it will need labour to fuel that growth . One just has to look at a country like Ireland that traditionall in past decades at sky high unemployment but has now accepted nearly 400, 000 migrants in the past decade. The labour force is divided up as follows:
Agriculture: 47% Industry: 20% Services: 33% The reason for the high percentage of people in agriculture is that most do not have jobs and depend on subsistence agriculture for daily survival.

Which is extreamally difficult considering the land is not deemed good enough for agriculture. 34% of Namibia's population live on less than \$1 per day which is the below poverty standard for the United Nations and 55. 8% live on less than \$2 per day . Namibia is classed as a lower-middle income country, although this classification is not a true indication of how the vast majority of the population live. It has a GDP per capita of over \$7, 500. It is this indicator which classes it as a lower middle income country (which is a good classification by the continents standards).

What it does not show is the wealth distribution in the country. The GINI coefficient which measures the distribution of wealth in countries on a scale of 0 to 1. The closer to 1 the more unequal a society, the closer to 0 the more equal it is. Namibia's GINI was 0.

6, showing that the wealth distribution was poor. With over 30% of the population living in extreme poverty. The Human development index which was developed by the UN and looks beyond the economic indicators at the well-being of a country's population. It looks at factors such as education, life expectancy, standard of living (PPP, purchasing power parity). Namibia ranked 125 out of 177 countries on the index and 57 out of 102 countries on the developing index. To put this into perspective Bangladesh has roughly the same HDI but has a GDP per capita of less than \$2000.

The table shown below is done by The Economist magazine. It is called the 'Big Mac Index'. It works on the economic principle of purchasing power parity (PPP). According to which exchange rates should adjust to equalise the price of a basket of goods around the world. The goods in question they have used here is a Big Mac burger from Mc Donalds.

. The Namibian Dollar is pegged to the South African Rand and the burger price is the same making South Africa's position on the Big Mac Index the same as Namibia's would be. This just shows how the currency is undervalued and that is there was instilled investor confidence in the region the exchange rate should go from around 7 - 1 to 4 - 1. This in turn would help Namibia's economy as they are a nation heavily reliant on imports.

Although the vast majority of their GDP is generated through the exporting of minerals, making it a double edged sword. As with any developing country within Africa, Namibia has many State owned Enterprises (SOE's), and they play a vital role in it's economy. According to the latest reports , Namibia's ten largest SOE's had a total turnover of N\$ 4357 Million, now compare that to a GDP of N\$ 38 400. This shows that the SOE's are generating between 10 and 15% of the GDP. Eight of these ten companies are making a profit, thereby generating revenue for the government, rather than having to be supported.

They include: Telecom Namibia, NamPower, TransNamib, The Roads Contractor Company, NamWater, NamPort, NamPost and the Namibian airports company. Considering these are non-regulated monopolies they have very healthy asset ratio's. This shows great promise by Namibia's management, as most monopolies and State run enterprises in Africa either make a loss and are a black hole for government funds or have rampant corruption. Transparency international is an organisation that monitors world corruption in both the public and private sectors. Each year it publishes a report ranking the countries in the world from the least to the most corrupt.

Namibia was ranked 57 out of 150 countries for its corruption. . By comparison Poland and Croatia which are both in the EU were ranked ten position below Namibia and Greece was only on the position above at 56. Namibia is still considered third world whereas these countries at least politically are regarded as developed nations. Comparison to other Economies: Namibia is still a very young developing economy. When compared to other developing countries, or even its neighbor South Africa.

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Economy GDP (purchasing power parity) GDP (official exchange rate) GDP - real growth rate GDP - per capita (PPP) Labor force Unemployment rate Public debt Exports Imports Namibia \$15. 27 billion \$5. 245 billion 2. 9% \$7, 500 657, 000 5.

3% 30. 7% of GDP \$2. 655 billion \$2. 558 billion South Africa \$587. 5 billion \$201. 4 billion 5% \$13, 300 16.

96 million 25. 5% 33. 3% of GDP \$63. 77 billion \$69. 94 billion India 3.

319 trillion ———- 6. 2% \$3, 100 482. 2 million 9. 2% 59. 7% of GDP \$69.

18 billion \$89. 33 billion Even though Namibia is not strong financially, their GDP is very strong compared to other developing countries. They have a low unemployment rate and low Public debt. Their exports compared to their imports are slightly higher, but since Namibia is still yet developing the figures shown above are relatively low in comparison. Namibia still needs work in order to develop their economy further, and to move out of the developing class, but that is a long term goal. If the country keeps managing their finances the way they are, they are looking towards a very prospering future, with a well balanced economy, which is better than high GDP with an uneven distribution of wealth.

Plans for Future Development The Namibian government has outlined three major strategies to promote growth in the countries economy over the next few years. The first two being the ' Vision 2030' and the second the NDP (National Development Plan) . They both tackle issues facing the country from different perspectives. The Vision 2030 promotes industrial

development and is looking to get growth in the economy to 6%, whereas at the moment it is hovering around 5%.

The NDP is the translation of the Vision 2030 into actual plans and policies. Currently Namibia is busy creating the 3rd NDP for the time between 2007 and 2011. It also aims to tackle underlying problems in order to promote Macro-economic growth. To use a metaphor, when Rudi Giuliani set out to tackle the high murder rate in New York he started by punishing people for small crimes such as littering and parking offences. This created an attitude of no tolerance that excuse the pun, killed the murder rate.

So Namibia in the same vain wants to tackle the big issues by encouraging Pro Poor growth. The other Fiscal policy they are implementing is the MTEF (Modern Term Expenditure Framework). This is a plan to set the budgetary spending guidelines for the government and it should be in-line with the NDP. There are 3 Pillars for this plan: 1)Consolidation of Macro-economic stability through fiscal policies and peg to the South African Rand.

)Promoting Pro-Poor Growth through stimulating consumption and promoting industrial diversification. 3)Combat poverty by injecting resources into health, education, as well as growth based transfers (such as non-contributory pensions). Conclusion and Recommendations At present the Namibian economy is based exports of primary and unrefined goods. . They need to invest in the education of their population and bring the next generation up to the level whereby they can get jobs refining goods such as diamonds and converting ore to a procesable form. This would create much needed jobs and income for the economy.

By doing this they would be tackling industries that have already strong foundations in the country (so they would not be having to re-invent the wheel per say). They should also seriously consider implicating exchange control. So they should control the amount of money that is allowed to leave the country (even if just for the next few years). As one of the largest exports at the moment is their own capital. As Prime Minister Nahas Angula said only two weeks ago " In addition to this I can mention that Namibia is even an exporter of its own savings in the form of capital". Namibia is a young country in a struggling continent that is taken for granted by the developed world.

They have a strong and what appears to be just political leadership and a plan for great development that they are nearly on track to meet. To quote Nelson Mandela " After climbing a great hill, one only finds that there are many more hills to climb. " Bibliography ? OECD - Africa Outlook Namibia 2007, PG 413. [HTTP://dx. doi.](http://dx.doi.org/10.1787/1707438272131)

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