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NAMIBIA: TOWARDS A LOGISTICS HUB FOR SOUTHERN AFRICA

MARK SCHOEMAN

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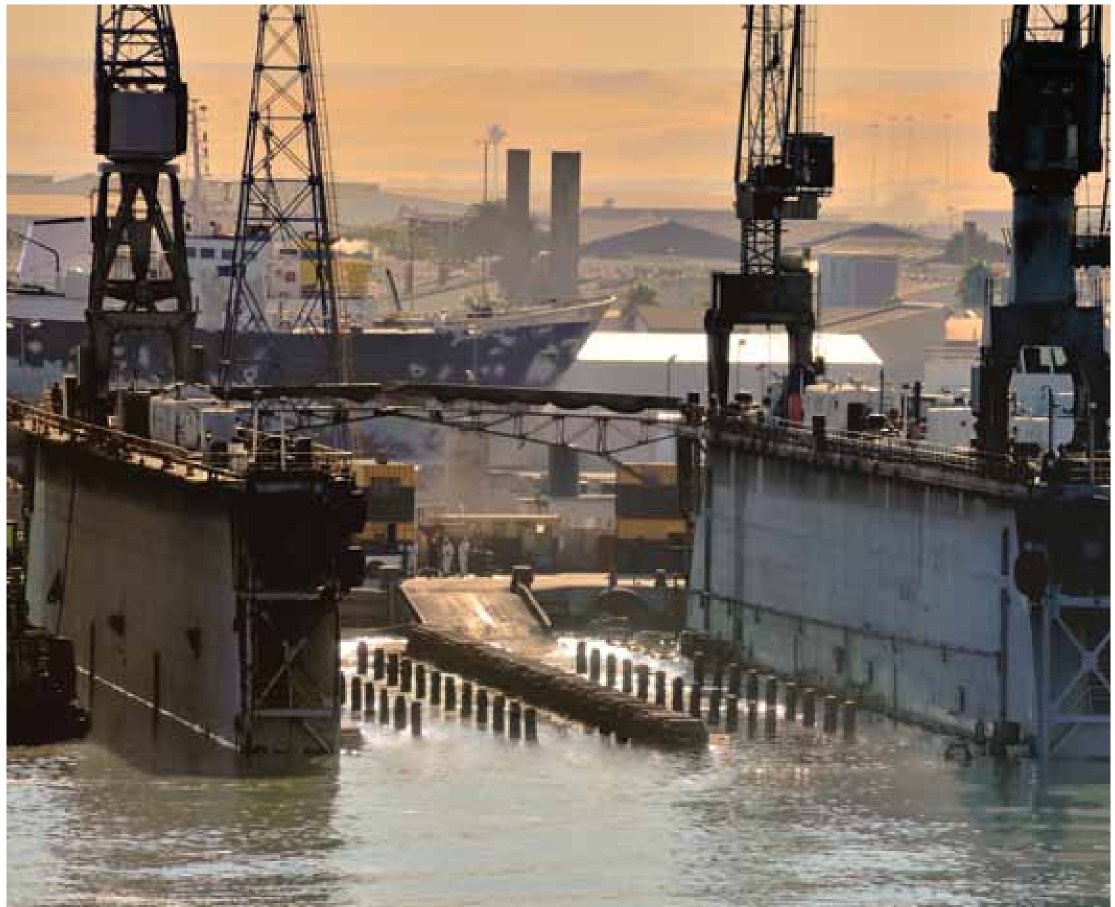

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PROGRAMME HEAD Talitha Bertelsmann-Scott
talitha.bertelsmann-scott@saiia.org.za

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ABSTRACT

Namibia's New Investment Bill represents a new foreign direct investment (FDI) regime in line with a recent shift in the developing world away from liberal FDI regulation, which favours foreign investors and restricts the state's right to regulate in the public interest. The bill creates provisions for reserving investment in certain sectors for Namibian citizens and introducing performance requirements for foreign investors. Mandatory equity, joint ventures, and employment and skills development requirements can greatly increase the cost of FDI, particularly where local capacity and skills are in short supply. In sectors where the state does not have much bargaining power, these requirements can deter foreign investors. Incentive schemes can reduce this cost and increase Namibia's attractiveness as an investment destination, but at the expense of forfeited state revenue. Whichever mix of regulation and incentives Namibia chooses, the policy approach should be clearly articulated and legislated to minimise policy uncertainty. The bill provides an interesting platform for a discussion on FDI, its role in the Namibian economy, and the impact FDI policy can have on development. This paper uses FDI in Namibia's logistics sector as a case study to investigate these issues. Logistics development is identified as a priority for inclusive economic growth in Namibia, with a focus on the Port of Walvis Bay and its associated transport corridors. FDI has played an integral role in the construction and operation of the port and the transport corridors.

ABOUT THE AUTHOR

Mark Schoeman is a development economist interested in research on and analysis of economic policy in sub-Saharan Africa. He is currently working as a Financial Services Strategy Consultant at a large economic consulting firm in South Africa. Prior to that he worked as a Researcher at the Economic Diplomacy Programme of the South African Institute of International Affairs. His primary focus was on international trade and investment policy and its ability to contribute to functional regional integration in bodies such as the Southern African Customs Union and SADC.

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ABBREVIATIONS AND ACRONYMS

BEE	black economic empowerment
BIT	bilateral investment treaty
BLNS	Botswana, Lesotho, Namibia, Swaziland
CHEC	China Harbour and Engineering Company
FDI	foreign direct investment
Namport	Namibian Ports Authority
NDP-4	Namibia's Fourth National Development Plan
NIB	New Investment Bill
NIC	Namibia Investment Centre
NTB	non-tariff barrier
RCC	Roads Construction Company
SACU	Southern African Customs Union
SADC FIP	SADC Finance and Investment Protocol
SME	small and medium enterprise
TEU	twenty-foot equivalent unit

INTRODUCTION

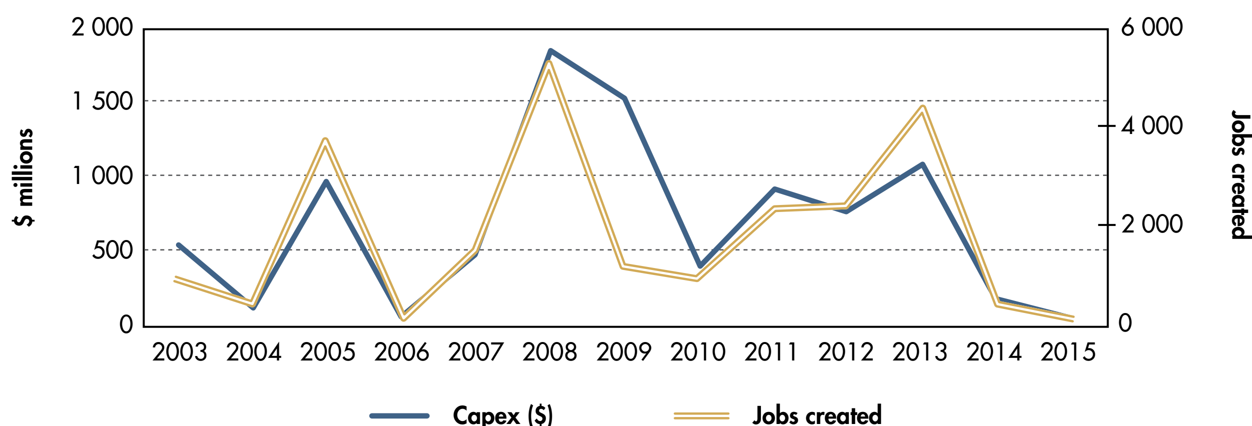
Foreign direct investment (FDI) is touted for its many benefits to developing countries. The skills and technology foreign investors bring with them can help to stem the huge skills and knowledge shortage that developing countries face until a well-trained labour force can be developed. FDI often boosts exports and earns much-needed foreign reserves while improving the competitiveness and efficiency of local producers. Until developing countries have the local capacity to do so, FDI can also facilitate the expansion of many of the fundamentals of growth, such as public infrastructure and information and communications technology.

However, there is growing recognition that FDI into the developing world has not brought many of these benefits where foreign investments have not been carefully managed. FDI is not a panacea for a country's development challenges and, as such, developing countries have become increasingly aware that attracting the 'right' kind of FDI is important for development. Foreign investments that create local employment, upskill the local workforce and contribute towards a country's industrial policy objectives are considered 'sustainable' and are desired above other kinds of investment. Yet most FDI in the developing world is focused on the extractives sector, where these spillovers often do not occur.

Namibia is no exception, with the greater part of incoming FDI flowing into the mining sector. Attracting the right type of FDI requires fierce competition among investment destinations, and the winning countries are those that can create the investment climate that foreign investors seek. Investors want to know that there are viable and sustainable business opportunities for them to exploit, and that the value of their investment will be protected by the host state. However, it is no longer the case that a red carpet is being rolled out for foreign investors without consideration of the domestic benefits they bring.

Inward FDI flows to Namibia have fluctuated since 2005, as shown by Figure 1. FDI's ability to create jobs is significantly linked to the magnitude of FDI flows, so these fluctuations are a concern in terms of Namibia's ability to achieve sustainable investment. This paper considers some recent developments in Namibia's FDI policy, and the contribution of FDI to regional integration in Southern Africa. Section two outlines the evolving regulatory landscape in Namibia post-independence and the implications of Namibia's apparent investment regulation shift for sustainable investment. Section three investigates the prospects for a regional investment framework in Southern Africa from the Namibian perspective, paying particular attention to the role of the Southern African Customs Union (SACU). Lastly, section four analyses the role that FDI plays in Namibia's logistics sector. Logistics have been identified as a priority sector for Namibia's economic development, and the development of transport logistics is essential for the success of regional integration in Southern Africa.

FIGURE 1 GREENFIELDS FDI FLOWS (BY CAPEX) AND JOBS CREATED IN NAMIBIA



Notes: Capex and job figures include estimated values

Source: fDi Intelligence database, the Financial Times Ltd., 2015

FDI REGULATION

> The Namibian government is dissatisfied with the role FDI has played in creating local employment, transferring skills and technology, and economically empowering previously disadvantaged Namibians

Despite the developmental benefits of FDI, there is growing recognition that many of these benefits have not accrued in countries where FDI has not been carefully managed. In the absence of a multilateral investment agreement, FDI regulation has primarily been governed by bilateral investment treaties (BITs), which have been criticised for favouring foreign investors and limiting the state's ability to regulate in the public interest. In response, a small group of countries (South Africa, Bolivia, Venezuela and Ecuador) have controversially allowed their BITs to expire and replaced them with domestic legislation governing FDI.

Namibia seems to be following suit with the proposed New Investment Bill (NIB) and the planned phasing out of its BITs. Namibia's old Foreign Investment Act of 1990 created a liberal FDI regime that opened the economy to foreign investment and allowed the signing of 15 BITs, seven of which are currently in force. However, the Namibian government is dissatisfied with the role FDI has played in creating local employment, transferring skills and technology, and economically empowering previously disadvantaged Namibians. In 2015 the country's unemployment rate was just over 28%.[1] The NIB aims to address this by reserving certain business activities for Namibian investors and the government, and introducing performance requirements for some foreign investors. The bill is in the final

1 Namibia Statistics Agency, *The Namibia Labour Force Survey 2014 Report*, 2015, http://cms.my.na/assets/documents/9b8e77842e3dec459407c2a76b9d79ab.pdf, accessed 15 August 2015.

draft stage, having already been approved by cabinet, but it still needs to be presented to the Cabinet Committee on Legislation. It was hoped that the bill would be implemented on time by the end of 2015.[2]

As with South Africa, reforming Namibia's FDI regulation and phasing out its BITs carries a risk of backlash among foreign investors. Namibia has a small domestic market with a population of just over 2 million people,[3] which drastically reduces its investment attractiveness unless production services the regional market. As such, Namibia has to compete with other emerging market countries in Africa, South America and South-East Asia. There is therefore concern that Namibia's new regulations may have an impact on much-needed investment flows. The plan to phase out Namibia's BITs may also carry unwanted repercussions, particularly from Namibia's European investment partners. For example, the German government will not provide investment guarantees to German investors in a country with which Germany does not have a BIT.[4] However, there is now a growing movement in the developing world towards using FDI regulation to maximise domestic benefits from FDI, and increased recognition of the problems with BITs and the investor–state dispute settlement system. The Ministry of Trade and Industry's Namibia Investment Centre (NIC) is confident that the NIB will not incur a significant backlash after having consulted its main foreign investment partners,[5] and while the NIB might influence investor sentiments it is not likely that this will be a more influential factor than other conventional aspects such as political and macroeconomic stability.

Namibia has a small domestic market with a population of just over 2 million people, which drastically reduces its investment attractiveness unless production services the regional market

The NIC argues that the bill will not constitute heavy regulation of Namibia's FDI, but will rather reserve certain business activities (not sectors) for domestic investors and the government, and create special entry requirements for some foreign investors. The business activity reservations are focused on small and medium enterprises (SMEs) rather than large foreign investors, such as taxi and shuttle services, small retail businesses, hairdressing and cosmetics, etc. The activities reserved for the Namibian government include money printing, the supply of utilities such as water, and rail and air transport (mostly through state-owned enterprises).[6]

This reservation of business activities for domestic SMEs could be problematic for a variety of reasons. Firstly, in most parts of the world many of the identified business activities are traditionally carried out by foreigners. The recent bout of xenophobic violence in South Africa has triggered a regional debate about the role of foreign nationals in employment creation. Research from South Africa suggests that international immigrants in these

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2 Based on primary interviews with the NIC (Namibian Ministry of Trade and Industry's Namibian Investment Centre), Windhoek, July 2015.

3 AfDB (African Development Bank), *African Statistics Yearbook 2014*, 2015, http://www.uneca.org/sites/default/files/PublicationFiles/african_statistical_yearbook_2014.pdf, accessed 15 August 2015.

4 Based on primary interviews with the German Embassy, Windhoek, July 2015.

5 Based on primary interviews with the Ministry of Trade and Industry's NIC, Windhoek, July 2015.

6 *Ibid.*

If Namibia is committed to the process of regional economic integration it should be trying to attract investment from regional SMEs and not just large multinational corporations

sectors are more likely to take jobs that locals are not willing to do, or enter the informal sector, where they provide employment for locals.[7] Secondly, in the Namibian context it is questionable whether these sectors are under significant threat from foreign investors.[8] Thirdly, if Namibia is committed to the process of regional economic integration it should be trying to attract investment from regional SMEs and not just large multinational corporations. Lastly, these types of regulation would make Namibia's investment regime inflexible once the bill is passed into law.

The proposal on performance requirements for large foreign investors relates to a broader economic policy debate on regulation versus incentives – the 'carrot vs. stick' approach to achieving policy objectives. The NIB will require all investors to be registered with the Ministry of Trade and Industry. Some large investors will also have to meet mandatory performance requirements, such as employing a certain number of Namibians or entering into a joint venture with local firms, in order to operate in Namibia. If foreign investors do not comply, the minister can revoke their business licences – the stick. The opposite approach is to induce desired behaviour among foreign investors by offering them incentives, such as tax exemptions or cash grants – the carrot. Namibia offers a comprehensive incentive scheme under its current FDI regulatory regime through incentives for foreign investors, special incentives for manufacturers and exporters, and export processing zone incentives. However, many of these schemes have not resulted in substantial host state benefits and there is concern about a 'race to the bottom' among developing country incentive schemes, leading to a loss of fiscal revenue.[9] What follows is an analysis of the trade-offs between these two policy options within the context of two objectives the NIB aims to achieve: 'Namibianisation' and human capital development.

'Namibianisation': Local ownership and joint ventures

Having a country's productive assets in the hands of foreigners is a common concern, and many countries use mandatory or incentive-based performance requirements to mitigate this. Such requirements hope to build capacity among local firms via exposure to modern technologies, management practices and global marketing channels. However, mandatory joint venture or domestic equity requirements are not an easy tool to get right. Joint ventures are ideally a strategic union between partners with complementary strengths. Forced joint ventures where strong local partners do not exist will seldom bring this benefit to the foreign firm, meaning it will not be committed to the partnership. Technology transfers in mandatory joint ventures are on average three to ten years out

7 Fauvelle-Aymar C, 'Migration and Employment in South Africa: An Econometric Analysis of Domestic and International Migrants', African Centre for Migration and Society, Migration for Work Research Consortium Report 6, August 2014.

8 Based on primary interviews with research consultants, Windhoek, July 2015.

9 British High Commission, *Doing Business in Namibia: A Guide for UK Companies*, 2014.

of date, and the degree of technical training provided to local staff is a fraction of that provided in wholly foreign-owned subsidiaries.[10]

The success of mandatory ownership requirements often depends on the bargaining power of the host state. Generally, ownership requirements have been more successful in the natural resources sector, where foreign firms do not have alternative sites for producing exports. The bargaining power of host states increases if there is a large domestic market, and decreases if the foreign firm exports non-resource-based manufactures or if the host state exists in a common market with alternative investment opportunities and tariff-free access.[11]

TABLE 1 TOP 10 NAMIBIAN SECTORS RECEIVING GREENFIELDS FDI BY CAPEX FLOW, JANUARY 2003–MAY 2015

Industry sector	Capex ($ million)	Companies	Projects	Jobs created
Metals	4 756.8	15	20	13 642
Coal, oil and natural gas	1 144.3	7	7	703
Building and construction materials	670.6	4	4	1 003
Real estate	495.8	5	6	2 834
Financial services	253.4	17	25	581
Minerals	232.9	11	12	1 211
Business services	220.4	4	4	227
Chemicals	208.2	5	6	237
Food and tobacco	205.0	5	5	1 393
Communications	176.1	5	5	149

Note: Capex and job figures include estimated values

Source: fDi Intelligence database, the Financial Times Ltd., 2015

As Table 1 shows, most of Namibia's FDI occurs in the mining sector, where the state enjoys greater bargaining power over resource-seeking firms that factor entry requirements into their costs. However, Namibia also relies on FDI in other strategic sectors such as transport and logistics infrastructure development, which is crucial to the country's

10 Cosbey A, 'Everyone's doing it: The acceptance, effectiveness, and legality of performance requirements', *Investment Treaty News*, 19 February 2015, https://www.iisd.org/itn/2015/02/19/everyones-doing-it-the-acceptance-effectiveness-and-legality-of-performance-requirements/, accessed 15 August 2015.

11 UNCTAD (UN Conference on Trade and Development), 'The overall picture', in *Foreign Direct Investment and Performance Requirements: New Evidence from Selected Countries*. New York & Geneva: UNCTAD, 2003.

The Namibianisation policy has resulted in a significant transfer of ownership, an increase in the number of Namibian-based vessels, and an increase in employment from local processing activities

plan to become the logistics hub of Southern Africa.[12] In these sectors, the cost of an unwanted mandatory joint venture may tip the scales in the cost/benefit analysis investors make when choosing a destination. There is a risk of scaring away much-needed FDI in non-resource-based sectors. Conversely, offering incentives to foreign firms to find local partners or divest equity to locals reduces the cost of local ownership and increases the likelihood that the foreign partner will engage in a meaningful transfer of expertise and technology.

Namibia's fisheries sector is a good example where such incentives have been relatively successful. In 2009, Namibia introduced new fishing rights allocation and quota fee structuring to encourage local ownership, job creation and fish processing – a process referred to as 'Namibianisation' – in order to redistribute wealth and empower previously disadvantaged Namibians.[13] Rights and quota fee rebates were offered depending on the degree of Namibian ownership, employment of Namibian crew, and whether fish was landed and processed within Namibian borders. The Namibianisation policy has resulted in a significant transfer of ownership, an increase in the number of Namibian-based vessels, and an increase in employment from local processing activities.[14] However, the primarily Spanish fishing companies that had dominated the sector before the policy was implemented have been accused of maintaining their control of Namibia's fisheries by setting up joint ventures with politically connected Namibians who successfully secured fishing rights without being involved in running the new companies.[15] This fronting problem is similar to the one experienced by South Africa after it had implemented its black economic empowerment (BEE) policies. South Africa has now criminalised fronting,[16] a move Namibia should consider replicating to ensure that incentives result in meaningful ownership transfers.

Incentive schemes are only beneficial if they are well designed and monitored. Incentives should be dispensed over time and only once the investor has met the relevant requirement, not at the time of investment. Furthermore, it is important to complement local ownership incentives with capacity building for local firms so that they can properly absorb the technology and skills the foreign firm brings with it. While it would not be

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12 Republic of Namibia, *Changing Gear Towards Vision 2030. Namibia's Fourth National Development Plan (NDP-4): 2012/13 to 2016*/17, 2012, http://www.npc.gov.na/?wpfb_dl=37, accessed 20 July 2015.

13 Armstrong C *et al*., 'Benefits and costs of the Namibianisation policy', in Sumaila UR *et al*. (eds), *Namibia's Fisheries: Ecological, Economic, and Social Aspects*. Delft: Eburon Publishers, 2004.

14 Benkenstein A, 'Rents, Rights and Restructuring: Namibia's Lessons for the Governance of Africa's Fisheries', SAIIA (South African Institute of International Affairs) Occasional Paper 207. Johannesburg: SAIIA, 2014.

15 Garcia Ray M & J Grobler, 'Looting the seas: Spain's hake appetite threatens Namibia's most valuable fish', The Centre for Public Integrity, 4 October 2011, http://www.publicintegrity.org/2011/10/04/6769/spain-s-hake-appetite-threatens-namibia-s-most-valuable-fish, accessed 15 August 2015.

16 Republic of South Africa, 'Amendment to Act No. 46 of 2013: Broad-based Black Economic Empowerment Act 2013', *Government Gazette*, 37271, 2014.

covered in the NIB, Namibia also suffers from the lack of a coherent BEE policy defined by law. This increases policy uncertainty for potential investors, who need clear guidelines on how BEE is defined and will be implemented.

Human capital: Skills development and local employment

While foreign investments can stimulate local employment opportunities, foreign firms often prefer to hire abroad, particularly for technical and senior management positions. It is unfortunate that the countries that most need the use of human capital performance requirements are often those that have the scarcest supply of skilled labour. The control of foreign skills in Namibia is often cited as one of the barriers to doing business, as foreign nationals working in Namibia are only granted temporary work permits, which makes it unlikely that they will settle in Namibia and invest locally (in property, for example). As an example, a German aircraft repair and servicing company operating in Namibia reports that there is a severe skills shortage in this technical and highly regulated industry, which requires highly trained staff who are not available in Namibia or in neighbouring South Africa. When the operation was established 30 work permits were granted, which the company uses to bring in skilled employment from Germany. The company also has a local skills development programme to train local Namibians, although the programme was developed out of business need rather than being required by regulation.[17] Mandatory human capital requirements, in the absence of a sufficient supply of labour to match the foreign investor's needs, will greatly increase inefficiencies in and costs for foreign firms.[18] While an incentives approach will not address this local skills shortage, it at least reduces the cost of hiring and training locals. As such, an incentives approach will more likely see genuine attempts at local skills development and employment, and will attract (rather than deter) potential investors.

Regardless of which approach is taken, it is imperative that any policy aimed at inducing foreign firms to hire and train locals is based on a strong basic education and skills development foundation, as was the case in many of the South-East Asian 'Tiger' economies. The greater the availability of local skills, and the more trainable the local workforce is, the easier it is for foreign firms to source and develop skills domestically. Performance requirements cannot be a quick-fix solution to severe skills shortages, and a focus on the fundamentals of a well-functioning education and vocational training system is essential for human capital performance requirements of any description to work. However, this does not mean that the onus of skills development is solely on the state. It is common practice for skills development to be an institutionalised element of corporate social investment. Countries such as South Africa have implemented mandatory skills development requirements for all firms, domestic and foreign. Namibia followed suit in 2008 with the implementation of a vocational education and training levy on employers, but many South African firms operating in Namibia still prefer to train their

An incentives approach will more likely see genuine attempts at local skills development and employment, and will attract (rather than deter) potential investors

17 Based on primary interviews with German investors operating an aircraft repair and servicing operation in Namibia, Windhoek, July 2015.

18 See Cosbey A, *op. cit*.

staff at South African institutions due to a lack of training opportunities in Namibia. There is thus a need to strengthen Namibian tertiary and vocational training institutions.

Lastly, it is worth noting the labour implications of different sources of FDI. Countries such as Germany have a highly skilled labour force yet face the challenge of a shrinking population. As such, German firms operating in other parts of the world place a strong emphasis on local skills development and training. A prime example is the recent investment of $1.5 billion by German cement manufacturer Schwenk to establish the Ohorongo Cement Plant in Namibia. The investment included a sizable skills development component where locals were sent to Germany to receive vocational and technical training. In contrast, FDI in Namibia's construction sector has been criticised for contributing little to local employment or skills transfer, as Chinese or South Korean construction crews are brought onsite to carry out the construction.[19] Mandatory human capital requirements could be useful for self-selecting foreign firms that would engage in human capital development anyway, and incentives could be useful to entice those that would not do so.

TABLE 2 TOP 10 NAMIBIAN GREENFIELDS FDI SOURCE COUNTRIES BY CAPEX FLOWS, JANUARY 2003–MAY 2015

Source country	Capex ($ million)	Companies	Projects
UK	1 666.3	8	13
Australia	1 198.5	5	7
Canada	1 113.2	8	8
Russia	1 039.8	5	5
South Africa	1 006.0	31	37
France	983.3	3	3
Germany	504.2	2	2
China	270.0	1	1
Belgium	178.8	3	3
Democratic Republic of Congo	160.0	1	1

Note: Capex figures include estimated values

Source: fDi Intelligence database, the Financial Times Ltd., 2015

19 Based on primary interviews with research consultants, Windhoek, July 2015.

REGIONAL INVESTMENT POLICY

A regional investment framework covering Southern Africa would hold a number of benefits for individual states. Foreign investors would be more likely to invest in cross-border operations, establishing and supporting regional value chains, if there were a harmonised regulatory framework among the individual countries within a region providing investors with policy certainty and reduced red tape for differing entry requirements. Furthermore, individual states would be able to co-ordinate their investment policies to maximise the domestic benefits of foreign investments by, for example, agreeing not to undercut one another with incentives and implementing similar entry requirements in the extractives sector. As members of SADC, Southern African countries are already party to the SADC Finance and Investment Protocol (FIP) which creates the impetus for regulatory harmonization across a variety of policies, including investment. As a move towards realising this goal, SADC has created a model BIT which provides a template for member states to adopt. While member states are not legally bound to use this template, it does provide a common basis on which member states can model their investment agreements.

The first relates to a general problem with SADC regional arrangements – the lack of accountability once member states sign up to an agreement. As with many regional economic communities in Africa, SADC has adopted a co-operative rather than litigious model of integration. This means that the obligations created by regional agreements are voluntary and that other member states cannot force their regional neighbours to adhere to these obligations. A prime example of this arises out of the SADC Trade Protocol, which prevents signatories from erecting non-tariff barriers to trade (NTBs). However, SADC's NTB Monitoring Mechanism lists a large number of NTBs currently in place, many remaining unresolved for years at a time.[20] With the SADC Tribunal in crisis, the implementation of SADC's agreements relies on political will in individual member states.

The second problem relates specifically to the SADC FIP and its model BIT given the apparent evolving regulatory landscape in Southern Africa. With South Africa having controversially let its BITs expire and Namibia following suit, the SADC FIP and model BIT are at odds with the regulatory direction in which key SADC states are moving. While the FIP's Annex 1 (Co-operation on investment) is currently under review, it is unclear in what direction SADC's regional investment framework will move.

The attitude of the NIC towards a SADC regional investment policy is that it should act as a guide for member states rather than a law to which they have to prescribe.[21] This is indicative of the nature of SADC and its regional agreements, as well as of perceptions of the value of SADC agreements among policymakers in its member states. Given that

20 SAIIA & GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), 'Regional Business Barriers: Unlocking Economic Potential in Southern Africa'. Johannesburg: SAIIA & GIZ, 2014.

21 Based on primary interviews with the Ministry of Trade and Industry's NIC, Windhoek, July 2015.

establishing functional regional agreements is extremely important for regional economic integration, an alternative is to use a smaller and better-functioning regional grouping as the 'building block' for larger regional arrangements. SACU presents a unique opportunity for this since its five member states – South Africa, Botswana, Namibia, Swaziland and Lesotho – are all member states of SADC. SACU is generally considered to be a well-functioning regional arrangement and is small enough to act as a testing ground for regional arrangements that can be adopted by a larger grouping if they prove to be successful, particularly since South Africa is one of the SACU member states.

BOX 1 SOUTHERN AFRICAN CUSTOMS UNION

Contained within the geographical bounds of SADC is SACU, one of the most effective regional trade agreements in Africa. Established in 1910, SACU incorporates Botswana, Lesotho, Namibia, Swaziland (BLNS) and South Africa and is the oldest customs union in the world.[22] Due to the colonial origin of the organisation, the first two SACU agreements largely allowed for tariff policy to be dictated by South Africa with little compensation or consultation given to the BLNS. The most recent SACU agreement, however, signed in 2002, contains three main features that have transformed SACU into a far more democratic and workable integration project. It allows for the creation of common policies, democratic decision-making bodies, and the use of tariffs as an instrument of development.[23]

Even though SACU can boast impressive longevity, the relationship between the BLNS and South Africa has been more one of animosity than harmony. The SACU states exhibit a striking asymmetry in their levels of development, which, in conjunction with the BLNS's economic dependence on South Africa and the political dominance of South Africa during apartheid, is a significant cause of regional tension. Similar to SADC, the variations in the size and development levels of the SACU states constitute the primary obstacle to SACU's development as a regional organisation.[24] South Africa is considered to be of central importance to both SADC and SACU as the most sophisticated economy in the region. South Africa provides a wide range of goods and services to the region that previously were too difficult or expensive to obtain, and as a result the region is an important destination for South Africa's value-added exports.[25]

Even though SACU can boast impressive longevity, the relationship between the BLNS and South Africa has been more one of animosity than harmony

However, the increasing trade imbalance between South Africa and the rest of the region continues to be a source of political tension. Most recently, SACU's revenue-sharing

22 Gibb R, 'The New Southern Africa Customs Union agreement: Dependence with democracy', *Journal of South Africa Studies*, 32, 3, 2006, pp. 583–603.

23 Draper P, Halleson D & P Alves, 'SACU, Regional Integration and the Overlap Issue in Southern Africa: From Spaghetti to Cannelloni?', SAIIA Trade Policy Report 15. Johannesburg: SAIIA, 2007.

24 Gibb R, *op. cit*.

25 Draper P, Halleson D & P Alves, *op. cit*.

formula (which sees a large amount of redistribution from South Africa to the BLNS) has created controversy and led to some stakeholders calling for South Africa's exit from the arrangement. The controversy around SACU's revenue-sharing formula is steeped in the institution's history. Payments were made to the BLNS as compensation for the trade-diverting effects of South Africa's protectionist tariff structure during apartheid.[26] The political imperative (induced by apartheid-era isolationism) of securing the BLNS's participation in SACU was behind the additional compensation in the revenue-sharing formula of 1969.[27]

The result was a relationship of dependence among the BLNS on South Africa's transfer payments, as the increased customs revenue the BLNS were receiving became a substantial portion of their fiscal revenue. Termination of the existing revenue-sharing formula could spell fiscal disaster for the SACU states. Botswana could, with a period of painful transition, adopt another source of tax revenue based on domestic taxes, but the same cannot be said for any of the other member states, including Namibia.[28] This dependency is made all the worse by the volatility and unpredictability of the SACU customs pool due to fluctuations in global trade trends.[29]

It is not clear that SACU is the appropriate body to house a regional investment policy since, as a customs union, it traditionally has a very narrow focus. As such, the NIC does not regard SACU as the correct body to deal with regional investment policy.[30] However, this narrow view of the institution as a source of revenue is not healthy for its smaller member states, particularly given the gap left by SADC's relatively unsuccessful regional integration policies. In fact, Namibia has expanded its view of SACU beyond simply a customs- and revenue-based institution after including a focus on a common industrial policy as part of the 2002 agreement. Part of the common industrial policy focus has been an attempt to establish cross-border value chains among the SACU member states. Unfortunately, not much progress has been made on this front due to member states' failure to agree on which cross-border value chains to prioritise.[31] Member states with vastly different macroeconomic conditions and developmental requirements find it difficult to adopt a common industrial policy. It would be easier to come to an agreement on a regional investment framework based on common interests and areas of co-operation.

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26 Gibb R, *op. cit*.

27 Alence R, 'SACU and the Political Economy of Regionalism: Towards Deeper and Broader Integration?', SAIIA Trade Policy Briefing 12. Johannesburg: SAIIA, 2006.

28 Grynberg R & M Motswapong, *SACU Revenue Sharing Formula, the History of the Equation*. Gabarone: Botswana Institute for Development Policy Analysis, 2003.

29 Development Network Africa, 'Evaluation of an Appropriate Model for SADC Customs Union: Report Commissioned by the SADC Secretariat', 3 September 2007.

30 Based on primary interviews with the Ministry of Trade and Industry's NIC, Windhoek, July 2015.

31 Based on primary interviews with the SACU representative of South Africa's Department of Trade and Industry, Windhoek, July 2015.

After SACU's 2002 agreement, the SACU Secretariat has been housed in Namibia's capital, Windhoek. Namibia would therefore be well placed to spearhead an initiative aimed at creating a regional investment framework in SACU.

FDI IN NAMIBIA'S LOGISTICS SECTOR

Namibia's fourth National Development Plan (NDP-4) identifies logistics as an important sector for achieving the country's economic priorities of high and sustained growth, increased income equality and employment creation

Namibia's fourth National Development Plan (NDP-4) identifies logistics as an important sector for achieving the country's economic priorities of high and sustained growth, increased income equality and employment creation. Logistics is a priority sector due to the expectation of rapid economic growth in Namibia's SADC neighbours leading to higher export volumes, particularly in copper and coal.[32] Furthermore, Namibia has well-established diplomatic relations with its landlocked neighbours of Botswana, Zambia and Zimbabwe. These diplomatic ties, in addition to the SADC priorities of regional integration and trade facilitation, have provided added impetus for Namibia to position itself as a logistics hub for the region. The Namibian consumer market is very small with a population of only just over 2 million people, but the country's position on the coast provides an opportunity to service the import/export requirements of the many landlocked countries in Southern Africa. For example, Namibia has signed bilateral agreements with Botswana, Zambia and Zimbabwe that have allocated each of these countries land at the Port of Walvis Bay in order to construct dry docks.

The Port of Walvis Bay, operated by the Namibian Ports Authority (Namport), is currently operating at comparatively high levels of efficiency relative to other SADC ports. It takes 24 hours to unload and load container cargo, and goods delivered at the port take from two to five days to reach their destinations in the region. In comparison, competitor ports to similar destinations can take up to 14 days.[33] The government's vision to turn Namibia into the top logistics hub in the region will, according to the NDP-4, rely on the simultaneous integration of road, rail, air and maritime transportation. Of course, South Africa's Transnet has a similar ambition – and off a much higher base. As a result of the Port of Walvis Bay's competitive edge over traditional alternatives, traffic at the port and along the feeding transport corridors has grown significantly. Cargo volumes increased from 145 000 twenty-foot equivalent units (TEUs) to 337 000 TEUs between 2005 and 2012. Namibia registered a record increase in revenue of NAD[34] 755 million ($89 million) in 2012, exceeding the target of NAD 653 million ($77 million). The increased trade was mainly in transit and trans-shipment, which constituted the bulk of container traffic at the port. Trans-shipment traffic grew from 92 000 TEUs in 2006 to 218 000 TEUs in 2012.[35] If this trend continues, it could jeopardise the port's competitive edge, since an undoubted contributor to Namport's efficiency and close client relations is the relatively small size of

32 Republic of Namibia, *op. cit*.

33 DIRCO (Department of International Relations and Cooperation), 'Minister Nkoana-Mashabane in Namibia on a working visit, Press Release, 5 April 2012, http://www.dfa.gov.za/docs/2013/nami0405.html, Windhoek, 20 July 2015.

34 Currency code for the Namibian dollar.

35 AfDB, 'Project: The New Port of Walvis Bay Container Terminal Project', Project Appraisal Report, July 2013.

its ports. Namport is aware of this fact and recognises the need for serious infrastructural expansion in the medium and long term to keep up with the rise in cargo traffic volumes.

As such, Namport is currently undertaking two major infrastructural upgrades at the Port of Walvis Bay. The limited storage infrastructure at the port is being addressed by the construction of a new container terminal. This is a 36-month project that is already underway and scheduled to be completed in 2017. It involves extensive land reclamation on the southern end of the port, which will allow for the deployment of more modern crane and cargo-lifting equipment in order to increase the port's cargo capacity.

A far larger infrastructural upgrade of the port is planned in the medium term, namely the SADC Gateway Port. This centrepiece of the port's long-term enlargement will see the size of the port increased tenfold to provide 10 000m of quay walls, jetties with 30 large berths, world-class ship and rig repair yards, an oil and gas supply base, more than 100 million tonnes worth of under-cover dry bulk terminal, a car import terminal, and a passenger terminal. The SADC Gateway Port is also expected to feature a liquid bulk terminal for very large crude carriers, dry ports and backup storage areas, break bulk terminals, small boat marinas and a new high-capacity rail, road, pipeline and conveyor link.

FIGURE 2 COMPUTER-GENERATED IMAGE OF SADC GATEWAY PORT

Source: Graig A, 'Massive SADC gateway port', *Informate*, 2014, http://www.informante.web.na/content/massive-sadc-gateway-port, accessed 4 July 2016

The Port of Walvis Bay and its infrastructural upgrade projects are good examples of the important role that FDI plays in supporting the development of Namibia's logistics sector

The Port of Walvis Bay and its infrastructural upgrade projects are good examples of the important role that FDI plays in supporting the development of Namibia's logistics sector. While Namport is a wholly state-owned enterprise, it cannot provide all the services and operations relating to the port. There are many foreign shipping lines and foreign-operated terminals, such as South African-owned Grindrod, which operates the cargo handling at one of the terminals. Construction of the container terminal expansion began on 19 May 2014 and was on schedule for completion by the end of 2015. The construction is a joint venture between the Namibian state-owned Roads Construction Company (RCC) and a foreign private sector firm, China Harbour and Engineering Company (CHEC).[36] The SADC Gateway Port's first phase – a tanker jetty – began construction in March 2016. This phase of the SADC Gateway Port project is being jointly undertaken by RCC and CHEC, and Namport has noted that there is a large role for Chinese FDI in the construction of the rest of the project and the establishment of a marina. These developments will also require a large amount of financing and technical expertise, which will likely be sourced from the foreign private sector.[37]

Essential to Namibia's strategy of becoming the logistics hub of Southern Africa is the development of transport corridors attached to the port to create a 'hub and spoke' logistics distribution model. The involvement of foreign firms in the construction and maintenance of these corridors – collectively referred to as the Walvis Bay corridors – reemphasises the role of FDI in actualising Namibia's vision for its logistics sector. These corridors are managed and developed by the Walvis Bay Corridor Group – a public–private partnership established in 2000. The construction of these road and rail corridors has been supported by South African and Chinese construction firms operating in Namibia.[38] Furthermore, a number of the transporters operating along these corridors are South African or Angolan.[39]

Air transport in Namibia is also supported by FDI, through the construction of air transport infrastructure and the servicing of air transport routes. For example, Namibia undertook an upgrade to its Walvis Bay airport in 2015 to service the town's increasing industrial and business activity. The new airport is intended to become a regional aviation hub providing direct flights and airfreight exports to Europe, as well as a last refuelling point for cross-Atlantic flights to the Americas. Construction was scheduled to be completed by early 2016. The construction was undertaken by a Chinese construction company, New Era.[40] In terms of air transport, while Air Namibia is a solely state-owned enterprise, foreign firms provide the support services for airline operations. For example, the Aviation Centre in Windhoek is the primary aircraft maintenance and servicing company for commercial aviation in Namibia. The company was bought by German Rheinland Air Service GmbH in

36 Based on primary interviews with the Namibian Ports Authority (Namport), Windhoek, July 2015.

37 *Ibid.*

38 Based on primary interviews with the Ministry of Trade and Industry's NIC, Windhoek, July 2015.

39 Based on primary interviews with research consultants, Windhoek, July 2015.

40 Steenkamp F, 'Airport terminal completed by 2015', *Informante*, 2 October 2014, http://www.informante.web.na/airport-terminal-completed-mid-2015.14908, accessed 15 August 2015.

2013. There are two parts to the business – general aviation, which only services domestic flights, and regional aviation, which services international flights such as Air Botswana and South African Airways.[41]

BOX 2 THE WALVIS BAY CORRIDORS

The Walvis Bay corridors have the potential to provide the shortest possible route for SADC countries to markets in Europe and the Americas and to become a logistics hub as a result of the country's geographical location. The corridors consist of the following elements:

Port of Walvis Bay

Namibia's largest commercial port links the country's multimodal transport corridors to landlocked SADC countries and international markets. The port receives about 3 000 vessels and handles 5 million tonnes of cargo each year. Its port infrastructure ranks among the best in Africa and offers competitive tariffs. It is also less congested than its main competitors in East and Southern Africa.

Trans–Caprivi Corridor (Walvis Bay–Ndola–Lubumbashi Development Corridor)

This route can be accessed by road and rail, and is mainly used to transport exports from and imports to Zambia, Zimbabwe, the Democratic Republic of Congo and Malawi. A rail line has been established from the Port of Walvis Bay to Grootfontein in Namibia, and funding is currently being explored to extend it.

Trans–Kalahari Corridor

This corridor is accessible via road and rail and is mainly used by Botswana and the northern provinces of South Africa, specifically Gauteng. While the road infrastructure has already been developed, the railway line – which will bring coal mined in Botswana directly to the Port of Walvis Bay – has yet to be constructed. The Namibian and Botswana governments have signed a memorandum of understanding to this effect and are currently putting together a project team to execute this construction. This will involve both Namibia and Botswana's national rail operators and the appointment of a private rail developer to construct and manage the railway for a period of 25 years, before handing it over to the national governments. No timeframe for the completion of this project has been announced yet, but there appears to be significant political will driving the development.

Trans–Cunene Corridor

The route connects southern Angola through Tsumeb, largely for the transportation of goods and construction materials imported for the redevelopment of southern Angola.[42] This corridor has already been established, with an existing railway to the border of Angola.

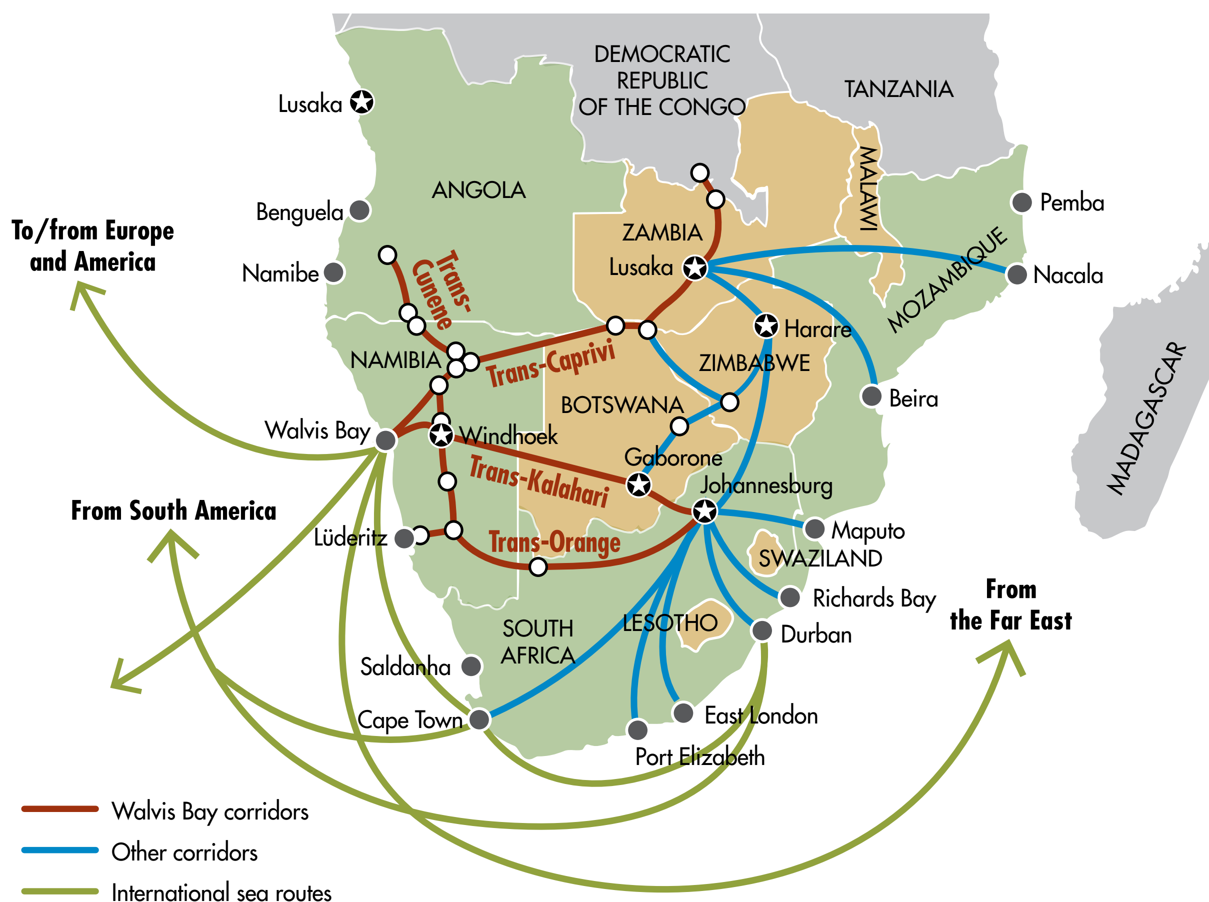
41 Based on primary interviews with the Aviation Centre, Windhoek, July 2015.

42 AfDB, 'Namibia: Country Strategy Paper 2014–2018', SARC (Southern Africa Resource Centre), February 2014, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2014-2018_-_Namibia_Country_Strategy_Paper.pdf, accessed 15 August 2015.

Trans–Oranje Corridor (formerly the Southern Extension)

This is the tarred road linking Walvis Bay and Lüderitz Bay with South Africa's Northern Cape province. There is also a railway line from the Port of Lüderitz running southwards to the Northern Cape via Upington. Construction of the 40km railway line extension between Aus and Lüderitz was completed with Chinese financial aid in 2010, providing a rail link from the Port of Lüderitz to the corridor.[43]

FIGURE 3 THE WALVIS BAY CORRIDORS



Source: AfDB, 'Namibia: Country Strategy Paper 2014–2018', SARC (Southern Africa Resource Centre), February 2014, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2014-2018_-_Namibia_Country_Strategy_Paper.pdf, accessed 4 July 2016

43 STC B.V. (Shipping and Transport College Rotterdam), 'Fact-finding Walvis Corridor', Report, http://portandcorridor.org/wp-content/uploads/2013/03/Factfinding-Walvis-Bay-2012.pdf, accessed 15 August 2015.

CONCLUSION

Namibia is right to be concerned about the role of FDI in achieving its developmental objectives. On the regulatory front, the policy goals of increased Namibian ownership of the country's productive assets, wealth redistribution to previously disadvantaged groups, and increased employment and skills development are not contentious. However, what the best policy tools are to achieve these objectives is open to contention.

In the extractives sector, where the state has greater bargaining power over foreign firms, the use of mandatory performance requirements is more likely to be successful. In other sectors, particularly manufacturing, foreign firms have a greater choice in investment destinations and there is fierce competition among developing countries to attract FDI. The use of mandatory joint ventures and domestic equity, as well as local employment requirements, will considerably increase the cost of foreign investments and potentially divert FDI to other locations, particularly given Namibia's skills shortage and incapacitated domestic private sector. Incentive schemes, while costing the state in forfeited revenue, reduce the costs of investing in Namibia and therefore do not carry this risk.

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However, FDI incentives need to be well designed and carefully monitored to ensure they are achieving their objective and not resulting in wastefully forfeited fiscal revenue. Countries such as Namibia, with its small domestic market, would do well to co-ordinate with other countries in the region to prevent a 'race to the bottom' in FDI incentives. This emphasises the importance of a regional investment policy in Southern Africa. In this regard, Namibia should take a more active role in spearheading a regional investment framework that provides coherent and harmonised entry requirements for foreign investors wanting to establish cross-border operations. In particular, Namibia should use its role in SACU to create the building blocks of a regional investment framework among SACU members that can be adopted by larger regional groupings.

The two policy options of regulation and incentives are not binary, and Namibia can pursue a mix of mandatory and incentive-based performance requirements, as well as an array of other FDI regulation policy tools. The Ministry of Trade and Industry has indicated that performance agreements will be established on a case-by-case basis for the largest foreign investors.[44] This ad-hoc approach is beneficial in terms of being able to tailor the agreements to the foreign investor and sector at hand, but carries the cost of policy uncertainty. Investors tend to favour clear and upfront entry requirements, the details of which are legislated rather than being up to the discretion of the minister.

Since the majority of Namibia's poor reside outside urban centres, the NIB also needs to address the spatial considerations of FDI distribution given the dearth of investments

44 Based on primary interviews with the Ministry of Trade and Industry's NIC, Windhoek, July 2015.

in rural areas. With a Gini coefficient of 61[45] and a Miser Index[46] of 6.5,[47] Namibia is a highly unequal society. As such, investment policy should also consider how to unlock economic potential within rural areas if serious poverty reduction is an end goal. One way of achieving this is connecting value chains in urban centres to rural areas, as opposed to encouraging urbanisation.

Namibia's logistics sector is a prime example of the role that FDI plays in providing network services that are important to a country's domestic development and the process of regional integration. Improved transport and logistics infrastructure can lead to greater trade facilitation, allowing companies conducting cross-border trade to achieve economies of scale and become more globally competitive. While the development of roads, railways, seaports and airports are long-term undertakings, ensuring sufficient storage capacity for goods in transit, and developing network linkages between sea- and airports, will go a long way towards benefiting regional trade and development. The foreign sector in Namibia plays a crucial role in the provision of these network services and allows Namibia to develop successful transport corridors and logistics infrastructure until the domestic sector is sufficiently capacitated to carry out these tasks.

45 World Bank, Gini Index (World Bank Estimate), http://data.worldbank.org/indicator/SI.POV.GINI, accessed 15 August 2015.

46 The Miser Index, developed by the Centre for the Study of Equality, Social Organisation and Performance at the University of Oslo, provides a measure of how 'miserly' a country is, with a country being considered more miserly if it is very rich and has large differences between rich and poor in terms of living standards. The index can be interpreted as the total income gap needed for all the poor to have an income above the poverty line. The greater the index rating the more 'miserly' a country (and the more unacceptable high rates of inequality should be).

47 UiO (University of Oslo) ESOP (Centre for the Study of Equality, Social Organisation and Performance), 'The Miser Index', http://www.sv.uio.no/esop/english/research/theme/the-miser-index/, accessed 15 August 2015.

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Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339–2021 • Fax +27 (0)11 339–2154
www.saiia.org.za • info@saiia.org.za