**Talk for Namibian senior civil servants on 2 November 2023**

*What is this talk about*

To start of I will tell you about the evolution of the world’s countries in terms of income per head over a period of 35 year, followed by a brief overview of the changing global geopolitical situation, and what the economic consequences would be for the world at large and for sub Saharan Africa in particular. Subsequently I will share with you my views on what factors make countries grow and prosper – I will argue that the main factor is productivity.

Mauritius and Botswana are Africa’s economic star performers. I will deal with the question what factors explain their respective success and, based on this, I hope to draw - together with you – a few suggestions that may further productivity growth of Namibia’s economic sectors.

Marein will send you the full text of my lecture which also includes a column I wrote about productivity growth some time ago.

*Introduction*

Development economics’ central question is: what factors promote or hinder economic growth? The problem is that we don’t have the one and only answer - there are various possible ones.

Regarding economic development theories, there are not just one but three generations of development economists. The third generation even includes different schools of thought on the matter, ranging from the institutional, via the geographical to the historical school of development. I have dealt with them in some detail in my book *Whatever Happened to the Third World?* [[1]](#footnote-1)

I will start my talk by telling you why, over the past forty years, the Third World as one bloc fell apart and evolved into three different groups of countries. I will then briefly touch upon the rapidly evolving geopolitical influence of existing and emerging power blocs.

Subsequently, I will dwell upon the notion of *productivity* which, in the end, explains economic growth.

I will share with you how I analyse (based upon the information I could find) some sectors of Namibia‘s economy and discuss what productivity potential they might have, while - where relevant - taking into consideration Mauritius’s and Botswana’s respective approaches.

But, first of all, let me show you what the literature understands by a Third World economy. Typically, such an economy is characterised by:

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| * A high proportion of the labour force engaged in agriculture with low productivity.
* A high proportion of domestic expenditure on food and necessities.
* An export trade dominated by primary products and an import trade dominated by manufactured goods.
* A low level of technology and poor human capital.
* A high birth rate coupled with a falling death rate.
* Savings undertaken by a small percentage of the population.
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*The Third World falling apart*

The fact of the matter is that to date there are ever fewer countries with these characteristics. This unprecedented development took place in a short span of time of roughly four decades. True, sustained high growth of, in particular, East Asian and South-East Asian countries explains to a large extent this remarkable development over these four decades. But some countries started this growth spurt earlier. For example, Japan’s economy really *took-off* right after the end of the Second World War.

**Figure I: Countries classification in percentages 1978 -2018**

Source: World Development Reports 1978-2018. [[2]](#footnote-2)

This spectacular development - as there is simply no other word for it - has had various consequences; some positive, others not so. Regarding some of the positive effects, the most important one is the rapid decline in absolute poverty in the world, from 1.9 billion in 1990 to 836 million in 2015. To date, 70% of the world’s population lives in middle-income countries, while less than 10% live in low-income countries.

**Figure II Countries classification thresholds and average GNI per capita 1978-2018.**

Another aspect concerns the distribution of the world’s income. The gap *between* rich and poor countries is getting smaller; a converging process is ongoing. Unfortunately, the income and wealth distribution *within* most countries is widening. This may create tensions. The great Chinese philosopher Confucius already observed that *inequity was worse than scarcity.*

Developing countries now have the means to invest more in their population’s health and education. People across the world grow older and more children, including girls, go to school. This is good news as the more education a girl receives, the number of children she will eventually get will go down. We can already see this trend reflected in the slowing down of the growth of the world population. Prestigious institutes project the world population to reach somewhere between 7 and 8.8 billion, rather than the 11 billion projected before.

What about the negative consequences? Global warming and climate change come to mind as the most pressing issues, and their enormous worldwide consequences. World leaders vowed to reduce carbon dioxide and nitrogen, as included in the 2015 *Paris Climate Agreement* and in the 17 *Sustainable Development Goals* of the United Nations, also adopted in 2015 by UN’s General Assembly. To date progress is slow in that the temperature target of 1.5 degrees Celsius increase, is not in sight; the world is more likely to reach 2 degrees Celsius, implying disastrous consequences.

But there are more challenges. I mention only three: (i) enhanced geopolitical tensions, (ii) employment and (iii) the plight of the poorest developing countries. As regards global tensions, I will tell you more in a minute. As for employment, will there be enough jobs for every citizen in the world to allow him or her to earn a decent income? And will the poorest developing countries be able to catch up, despite the various traps they are confronted with?[[3]](#footnote-3)

*Changing geopolitical situation*

*Renewed West - East divide*

All these spectacular developments have had their influence on the world’s geopolitical situation. There are no longer strong tensions between market economies in the West and the planned economies and autocracies in the East (the Soviet Union and its allies). After the fall in 1989 of the Berlin Wall and the collapse of the Soviet Union in 1991, the East-West divide was gone, and America became the undisputed superpower, it was thought. But China’s and India’s stratospheric economic growth triggered new geopolitical and economic tensions, this time between the West and the East and South. The war in Ukraine resulted in additional tensions, not just between Europe and Russia but, also between expanded NATO (led by America) and Russia. The war also resulted in steep price increases of oil and gas, and - perhaps even more tragically for Africa - the price of cooking oil and food grains. The recurrence of high inflation, and increased interest rates, only aggravate the situation, especially in sub-Saharan Africa.[[4]](#footnote-4) So apart from food prices, investment loans will be more expensive and the interest costs of sovereign debt are higher.

*BRICS+*

The United States is no longer the only superpower. China, and runner-up India, are formidable competitors in this realm, although China’s economy is sputtering – the country is undergoing a deflationary period. India’s economy is doing much better. Both China and India are leading BRICS nations. BRICS’s ambition (in particular China’s) is to broaden the membership so as to strengthen BRICS’s global political and economic clout, and thus to create a serious political and economic counterforce to the West. BRICS established two financial institutions, mirroring the World Bank and the IMF. The latter is the Contingent Reserve Arrangement, and the mini World Bank is the New Development Bank. Both institutions cannot as yet boast of impressive results. Nonetheless, BRICS total GDP is almost as large as that of the G7.

During the recently held BRICS Summit held in Johannesburg, Saudi Arabia, Iran, The Union of Arab Emirates (UAE), Ethiopia, Egypt and Argentina were welcomed as new BRICS members. The question now is: Are we going to see a successor of the G-77 group of non-aligned nations? Some analysts jokingly conclude that BRICS is without mortar, i.e., is there is no *unifying* purpose binding the old and expanded BRICS. True, major oil and gas producing countries are now also BRICS members, which may strengthen their political hand beyond OPEC+. And oil and gas dependent India and China are certainly happy to have these new members on board. Nonetheless, BRICS also suffers from internal political and economic tensions. For example, the relationship between the two hegemons India and China is fraught with tensions, including armed border conflicts, different political philosophies and both are vying to lead the ‘Global South’. BRICS+ will in future probably play a significant, but limited, role in the international arena, such as in infrastructure investment lending and now and again act together to block Western-led initiatives, suggesting that BRICS+ represents the Global South.

*Europe*

The European Union (EU) realised that the war in Ukraine forced the member states to invest heavily in their respective military establishments, not just to live up to their NATO commitments but also to better defend the Union’s territory on their own, should in future the US decide to scale down its support of NATO. Just recently, EU leaders met in Grenada, Spain, to exchange views on EU’s enlargement with 6 Balkan countries and three countries further East, bordering Russia. Should this go through, the EU will then consist of 36 member states. This would require fundamental changes in EU’s rules and its budget. This possible expansion will also force the political leadership how the expanded EU can translate its considerable territorial and -above all- economic clout into global political power.. It may also increase tensions within the Union between the members in the West and those in Central - and East Europe. Let alone global political tensions it could trigger. Just a few initial thoughts in this realm. Russia will feel even more threatened. As already noted, the US may gradually withdraw its military support and concentrate its attention more on the Pacific (read: China and Taiwan in particular). As no decisions about expanding EU membership have been taken, what I wrote is only preliminary. At any event, should a positive decision indeed be taken, it will take at least a decade before all potential members will become full members of the Union. To date, the EU is not really a global political entity having an influence on global affairs, as the recent brutal and at the same time tragic war between Israel and Hamas demonstrates

One issue which is ongoing is migration, in particular from Africa. Europe’s population is ageing which suggest that influx from foreigners would help solve employment shortages ranging from health care and care of the elderly to more sophisticated jobs in teaching, IT, Artificial Intelligence, and other sophisticated service sector jobs.

*Global free trade in retreat*

The map of global trade is being redrawn: International free trade is in retreat; protectionist measures are being taken and each of the high-income countries and regions formulate their own national or regional industrial policies (including ‘decoupling’ or ‘de-risking’ investment to limit dependency on others), often accompanied by lavish government (green) subsidies.[[5]](#footnote-5) When free trade is in retreat, production costs will go up, making final products more expensive for the end customer. The World Trade Organization (WTO) estimates that global production will go down 5% as a result. Less international trade also implies fewer learning opportunities, especially for poorer countries. Neoliberal economists would maintain that free trade is the best system efficiency-wise and growth- wise. They have the tendency to turn a blind eye to climate change and increased inequality.

Harvard professor Danny Rodrik argues that the above-mentioned industrial policies involve challenges in the sense that it is difficult to achieve the multiple goals of tackling climate change, boosting industry and enhancing security. He says that this paradigm shift has the danger of promoting one-size-fits-all solutions that may not fit well for individual countries.

What does all this mean for developing countries such as Namibia? International demand for the country’s; export products may go down - Namibia’s industries supplying to international supply chains may feel the pinch. And, indeed, impots may become more expensive.

*Africa’s role*

What is Africa’s position in the international arena? The good news is that Africa is playing an ever more important role. Africa is endowed with strategically important raw materials, including vital metals important for the production of batteries and the like. Africa has oil and gas. The continent has large tracts of fertile land. Foreign countries like to invest in all these natural resource treasures. And, very important, the continent has a young population, representing, as we economists say, its *demographic* *dividend*. However, this dividend can only be reaped if African leaders manage to create 18 million formal jobs every year to absorb the swelling numbers of young Africans entering the labour market. And if the European Union would have a clear immigration policy in place that gives opportunities to African immigrants with the required professional qualifications. This would help curb the costly and dangerous movement of hopeful, but typically not so qualified, would-be immigrants from various parts of Africa now crossing the Mediterranean in unsafe vessels, putting their lives in the hands of smugglers and traffickers.[[6]](#footnote-6)

From a global political point of view, Africa is more and more taking matters in its own hand. Just three recent examples: (i) Kenya hosted an Africa-wide Climate Summit last September; (ii) South Africa’s President Cyril Ramaphosa led a peace mission to Russia, composed of a number of other African Presidents, to offer their services in brokering a peace deal between Russia and Ukraine. (iii) ECOWAS is leading diplomatic efforts to help restore democracy in Niger after the military coup in this Sahel country (Gabon is now also under military leadership).[[7]](#footnote-7)

Africa is the continent with the largest number of countries. Hence it is attractive for superpowers to win over African countries’ political support in international fora, such as the IMF, World Bank and the United Nations’ Security Council. Russia, China, and to some extent Turkey, are courting African leaders with summits, loans, and attractive - and not-very attractive - cooperation deals. During a recently held Summit in Paris where global issues were discussed ranging from climate finance, debt distress, and World Bank reform, the African delegates voiced their frustration about Africa’s marginalised position in the institutions mentioned above. They said that Africa, with 18% of the global population, is responsible for less than 4% of historic carbon-dioxide emissions, but at the same time has 16 of the 20 countries most vulnerable to climate change. Financial support has been pledged but it is not being delivered. In short, they pleaded for more African representation in these institutions.

Too much money is now going to Ukraine and climate change in the developed world, and too little is left for poor countries, these African representatives argued. They want an institution (read: World Bank) remaining strongly committed to end poverty. This plea is completely justified when taking into consideration that close to 60% of the people in extreme poverty[[8]](#footnote-8) live in Sub Saharan Africa (SSA). In addition, more than 50% of the poor countries in debt distress are African countries, while SSA has less than 10% voting rights in the World Bank Board and less than 5% in the Board of the Board of the IMF. Regarding the UN, Africa wants the Security Council to be reformed, in that the Council should be extended from 15 to 26 members, of which Africa would occupy two permanent seats and five non-permanent ones

*Africa’s* *challenges*

Surely, Africa faces problems, ranging from political instability in some parts of the continent (i.e. the Sahel), grinding poverty, to climate change, weak governance (i.e., poor adherence to the rule of law, inadequate public service, corruption), and inadequate infrastructure. Democratic governance is in decline, in particular in the so-called jihadist-infested ‘coup belt’. Jihadists also spread their influence across a large triangle of east Africa, from Somalia to Mozambique and Congo. Nine coups already took place during this decade. This number is higher than in any decade since the 1960s. Even Botswana’s population is not satisfied with the way democracy works for them. Economic stagnation compounds the political problems. Poverty is increasing again in the continent: From 1990 to 2018 the number of people living in extreme poverty rose from 284 million to 433 million.

*Financial-economic situation and prospects*

While many economies across SSA are still coping with repercussions of earlier adverse economic and climate shocks, recoveries have been tempered by weaker external demand, further tightening of global financial conditions, domestic policy tightening, and recent flare-ups of violence and social unrest. Higher costs of living across SSA – partly reflecting the effects of last year’s rise in global food and energy prices – have worsened the economic hardship of the poor and sharply increased food security. Moreover, prolonged draughts and armed conflicts have compounded these effects. As a result, the region entered this year with nearly 180 million people in acute food insecurity, which is 35 million more than last year.

High costs of living across the region are projected to continue to restrain private consumption, while limited fiscal space and tight monetary policies are likely to weigh on investment growth. These elevated domestic vulnerabilities together with tight global financial condition and weak global growth are expected to keep recoveries subdued over the forecast horizon.

Since South Africa is Namibia’s most important neighbour country, a brief overview of the situation there follows. Growth in South Africa decelerated sharply in early 2023, reflecting policy tightening and the impact of an intensifying energy crisis. The country’s power utility, Eskom, beset by chronic unprofitability and lack of maintenance, has been struggling to meet a post-pandemic rebound in electricity demand. Power outages crippled the economy. Headline inflation has receded from its peak, but it has been above 6% upper bound of the central bank’s target range since April 2022, prompting even more policy tightening in the first half of this year.

Although SSA headline inflation has recently moderated, annual food price inflation has remained above 20% in several large SSA economies, and in double digits in over 60% of countries. All told, per capita incomes will stagnate, it will grow by less than 1% a year on average in 2023/4. In over a fifth of the region’s economies, home to over 450 million people, average per capita income growth in 2023/4 is not expected to exceed o.5%, while in over a tenth, including Angola and South Africa, it will even be negative. Thus prospects for poverty reduction in the region remain bleak, with almost 40% of SSA’s population living in countries with lower per capita incomes next year than at the start of the Covid pandemic.

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| *Growth in Sub-Saharan Africa is projected to slow to 3.2 percent in 2023, as external headwinds, persistent inflation, higher borrowing costs, and increased insecurity weigh on activity. Recoveries from the pandemic remain incomplete in many countries, with elevated costs of living tempering the growth of consumption. Fiscal space has narrowed further, while surging import bills and higher debt burdens have heightened financing needs.* *Although the baseline projection for 2024-25 envisions a pickup in growth, per capita incomes are expected to expand much more slowly than needed to make progress in reducing extreme poverty.* *Risks to the baseline remain tilted to the downside. These include a deeper-than-expected global economic slowdown, deteriorating terms of trade, higher inflation along with further domestic and international monetary policy tightening, renewed financial distress in advanced economies, and more adverse weather events. Materialization of these risks would not only dampen growth, but also exacerbate poverty and limit the ability of many countries to strengthen climate resilience.* |

*Covid’s damages*

We may have the tendency to forget the damages done by Covid. This would be very wrong. In particular, the youngsters lost almost a year of education. They will face the consequences in future. Reports project that 15 years from now people will be writing papers documenting consistently lower earnings, productivity, and well-being for people who are now between six and 20 years old.

Before the pandemic, 57% of ten year-olds in low and middle-income countries could not read a simple story. The estimate is now 70%. Schools in sub-Saharan Africa were closed during the pandemic for 32 weeks on average. In South Africa, for example, primary schoolchildren tested after a 22 week closure were found to have learned only about one-quarter of what they should have. I am sure you know the figures for Namibia. At any event, the damage done is massive in middle-income countries (Namibia is one of them), which are together home to 75% of all school-age children.

*Which factors promote growth*

International trade and globalisation played an important growth-promoting role: borders opened, tariffs and quotas were slashed, transport and communication costs went down as well. The Internet served scientists, producers and consumers alike, contributing to a global sharing of scientific insights. Market information helped to lower input and output prices (apart from productivity gains) from which consumers the world over benefitted. All this combined, resulted in an enormous widening of world markets and international trade, and healthy economic growth figures.

There were also other factors that contributed to the spectacular developments in the developing world. Interest rates were extremely low over the past few decades, promoting investment and government borrowing, facilitated by globalised finance. Finally, large demand for industrial commodities from rapidly industrialising countries like China and India, resulted in high raw material prices. It seems, however, as if the good times are over, at least for the time being.

*The role of productivity*

Thinking about the above growth-promoting factors, they contribute to an economy’s *productivity;* or more precisely: to its Total Factor Productivity (TFP).[[9]](#footnote-9) The relationship between growth of the manufacturing sector and productivity was captured by British-Hungarian economist Nicholas Kaldor’s three growth laws, reflected below:

There is a strong positive correlation between the growth of manufacturing output and GDP growth. This is Kaldor’s first growth law. His second law says that there is also exists a strong positive correlation between growth of manufacturing output and productivity growth of manufacturing. Law umber three has it that there is a strong positive relationship between growth of manufacturing output and growth of productivity outside manufacturing.

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| *A theoretical elaboration*There is more to say about productivity than reflected in Kaldor’s growth laws. Productivity growth is not exclusively a result of sustained economic growth, it can also boost economic growth; in other words productivity contributes to economic growth, but economic growth can also contribute to the enhancement of productivity. Development economist and Harvard professor Danny Rodrik has interesting things to say about productivity’s role. Rodrik starts by describing the standard way in which economists think about the determinants of income. The total output of an economy is a function of its resource endowments (labour, capital, human capital) and the productivity with which these endowments are deployed (both *endogenous* factors) produce a flow of goods and services (i.e., GDP). These determinants are causal factors.Afbeelding met tekst, Lettertype, lijn, wit  Automatisch gegenereerde beschrijvingRodrik elaborates this statement along the lines of an economy-wide production function:y= ak*a* (hl) 1-*a*, meaning: GDP growth = capital deepening + human capital accumulation + productivity growth. Rodrik explains: ‘We can express this relationship in the form of an economy-wide production function, with *a* representing factor productivity. Note that *a* captures not just the *technical* efficiency level of the economy, but also the *allocative* efficiency with which resource endowments are distributed across economic activities. The growth of per capita output can thus be expressed in terms of three *proximate* determinants, as chosen by Rodrik: (a) physical capital deepening, (b) human capital accumulation; and (c) productivity growth.’[[10]](#footnote-10) But this is not the whole story. Accumulation and productivity are endogenous factors. In the absence of additional factors, such as technological change, the incentive to accumulate would have been much lower. Rodrik then proposes other fundamental determinants, which imply that growth is not only the result of factor endowments and productivity, but growth can also promote accumulation and productivity. He presents three deeper determinants: (i) geography, (ii) integration (trade) and (iii) institutions, as reflected in the figure below. Afbeelding met tekst, diagram, Plan, Lettertype  Automatisch gegenereerde beschrijvingObviously, geography relates to the advantages or disadvantages posed by a country’s location. The determinant integration relates to market size, and the benefits (as well as costs) of participation in international trade in goods, services, capital, and, possibly, labour. Institutions refer to the quality of formal and informal sociopolitical arrangements that play an important role in promoting or, indeed, hindering economic performance. On the basis of extensive country studies, Rodrik concludes that all three deeper determinants are closely correlated with the level of per capita income. The arrows included in the figure above suggest feedback effects, both from growth back to the causal factors and, indeed, among the causal factors. Rodrik observes that there are reasons to think that as countries get richer they will trade more and acquire higher-quality institutions. Recently, institutional economists provided convincing evidence that institutional quality is truly causal, in that they are of great importance to initiate and sustain economic growth, as elaborated in the section about Botswana below. Similarly, there are also indications in the empirical literature of a two-way interaction between trade and institutions. In other words: better institutions foster trade, and more openness to trade begets higher-quality institutions. Determinants like geography and institutions change slowly, or hardly at all. But what about China and India, that both demonstrated spectacular growth in just a few decades? This suggests, concludes Rodrik, that moderate changes in country-specific circumstances, often interacting with the external environment, can produce discontinuous changes in economic performance, which in turn set off virtuous or vicious cycles. Rodrik mentions in this realm China’s dual-track reform, which liberalised prices at the margin while maintaining the so-called ‘plan-track’ in place, and township and village enterprises, which represented an intermediate form of ownership between private and state ownership.  |

*Back to the economic sectors and productivity*

The two figures in the box above depict that growth is determined by proximate plus other fundamental determinants. Yet I want to return to Kaldor’s three laws through which a development process promoted by the manufacturing sector contributes to GDP growth. Growth of the manufacturing sector in turn triggers growth of this sector’s productivity. And, on top of that, there is a positive relationship between the growth of manufacturing output and growth of productivity *outside* manufacturing. So, implies Kaldor, productivity growth in manufacturing would have positive productivity effects on the other sectors of the economy. While keeping Rodrik’s more expanded growth analysis in mind, I underscore (as also presented above) that productivity growth can at the same time be the cause and result of sustained economic growth. In the *annexe* to this lecture’s text, a brief historical overview of productivity’s growth and slow-down is provided.

In following Kaldor, let us first pay attention to the dynamics of the economic sectors of an economy, followed by some observations and challenges for Africa. I conclude with an analysis of Namibia’s economic sectors and discuss options for productivity enhancement, after a brief presentation of Africa’s growth champions: Botswana and Mauritius.

*Dynamics of the three sectors of an economy*

Starting from the agricultural sector, economic *structural transformation* involves the development of the industrial sector. After all, it was the Industrial Revolution that enabled sustained productivity growth in Europe and, later, the United States at the time. And, again, it was industrialisation that permitted catch-up and convergence with the West by non-Western nations, starting with Japan.

Industrialisation contributes to growth both because of its relocation effect (from agriculture to manufacturing) and because manufacturing contributes to strong productivity growth over the medium to long term. It is during this structural transformation process that the economy’s *total factor* *productivity* improves. While industrialisation attains maturity, the service sector starts its ascent, eventually overtaking the industrial sector in economic and employment terms. This was the standard thinking; that is, until recently. I share the latest insights with you because I believe they are relevant for your work.

*Fresh insights*

In 2015 Dani Rodrik published an article entitled *Premature deindustrialisation* [[11]](#footnote-11) which challenged the graduation process of the economic sectors in a developing country setting. Rodrik’s main finding is that most of the advanced nations have long moved into a new post-industrial phase of development. Their economies have been *deindustrialising* for decades, with the main result that - while manufacturing value-added (MVA) may not have been diminished - the employment share in manufacturing went down. The main ‘culprits’ of this evolution, says Rodrik, are for developing countries international trade and globalisation, and for advanced economies technological progress.

Over the last three decades, Rodrik observes a trend of deindustrialisation in low- and middle-income countries. With the exception of some Asian countries, developing countries have experienced falling manufacturing shares in both employment and MVA since the 1980s. The low-income economies of sub-Saharan Africa (SSA) have been affected nearly as much by these trends as the middle-income economies of Latin America, although there was less manufacturing in SSA countries to begin with. Nonetheless, many SSA countries are typically poor and were, as such, regarded as the next frontier of labour-intensive export-oriented manufacturing (think e.g., of textiles). But, unfortunately, this may not happen, concludes Rodrik.

The consequence has been that developing countries are turning into service economies without having gone through a proper experience of industrialisation. This is Rodrik’s *premature deindustrialisation*. Late industrialisers are unable to build a large manufacturing sector. Worse, they are starting to deindustrialise at considerably *lower* levels of income and productivity, compared with early industrialisers. This may have detrimental effects on economic growth as manufacturing tends to be technologically a dynamic sector, triggering – indeed - rapid productivity growth. As for employment, manufacturing traditionally absorbed significant quantities of unskilled labour (coming from the overpopulated agricultural sector). And manufacturing is a tradable sector, implying that it is not constrained by a (small) local market. It can expand and thus absorb more workers.

In short, manufacturing used to be *the* growth and productivity engine for developing economies. Now, redundant unskilled labour from the agricultural sector cannot any longer be absorbed by the industrial sector. This prompts the question how can these redundant unskilled labourers make a living? The typical answer is that they move to low productivity services, including the informal sector.

The consequence is lower overall growth and fewer employment opportunities in the formal sector. Given this, one wonders why in the recent past quite a few SSA countries registered reasonable growth figures. As noted before, this was facilitated by capital inflows, remittances, and a raw materials boom. The problem, however, is that all of them lack *sustainability.* True, service-led growth is a possibility, for example led by high productivity and tradable sub-sectors such as IT and finance. However, both require highly educated personnel, which is yet in short supply in the typical developing country. In addition, these sectors cannot absorb many workers. Other service sector activities are typically labour-intensive (such as tourism); are technologically not very dynamic; have a limited productivity enhancement potential; and are often non-tradable.

*There is hope*

Would there not be any perspective for developing countries wishing to grow and prosper? Yes, there is, says Rodrik. Moderate growth is indeed possible through improved fundamentals; i.e., better institutions and growing stocks of human capital, skills, and knowledge.

*SSA’s Manufacturing*

Recent research suggests that African industry is doing better than originally projected by Rodrik. *The Economist*, a weekly newspaper, reported that Senegal embarked on an ambitious industrialisation plan. Ghana has attracted car-assembly plants from Nissan and Volkswagen. Ethiopia too, bets heavily on manufacturing. A paper issued by the University of Groningen, the Netherlands, says that the share of people working in manufacturing in SSA has risen from 7.2% in 2010 to 8.4% now.

A long decline in manufacturing‘s share of GDP has bottomed out and its share is now around 11%. Output is up by 91% in real terms since 2000. Also the World Bank confirms that industrialisation remains viable in SSA. Also Mr Rodrik is now more hopeful, suggesting that in many African countries the share of workers in manufacturing could reach 20% - more than double the current level. However, optimism in this realm is tempered by the fact that labour productivity is not improving much, caused by jobs created by small, inefficient companies, while larger, more efficient firms have not been hiring much. Another reason may be that big African firms are tied into global value chains. And in order to sell to companies in rich countries they have to use the latest machinery (requiring fewer workers) to meet the highest standards. Another setback is that wages in most parts of SSA are higher than in the poorest countries in Asia, negatively affecting SSA’s international competitiveness.

Yet SSA countries could attempt to attract big foreign firms that are withdrawing from China and other Asian countries, looking for alternative locations. Governments could construct the required infrastructure, doing away with unnecessary red tape, offer temporary subsidies, and, equally important, improve technical and academic schooling of their youngsters. Access to investment capital and micro credit could be improved as well.

*The African Continental Free Trade Area Agreement* can help ease of doing business across African borders. The World Bank estimated that, should the agreement function, it could help double the intra-African trade in manufactured goods by 2035. Should this indeed happen, it will certainly contribute to SSA’s productivity and employment opportunities.

*Other options*

The authors of *Industrial Policy in Developing Countries [[12]](#footnote-12)* proposed additional options. One of them concerns value chains as organised by transnational corporations. Developing countries, the authors argue, need to understand what drives global production networks and value chains and find ways of insertion that allow them to enhance productivity and create income. Another one is foreign direct investment. There is a shared interest on the part of both governments and foreign companies to develop local supply capacity; for the former from a perspective of creating productive employment and strengthening the ‘missing middle’ of the domestic economic fabric; for the latter from the perspective of creating viable local sourcing options for parts, components, and services that otherwise need to be imported at high transport costs.

*Digital and other recent developments*

We live in the digital age, so to speak. This affects many aspects of our life, including economic growth and development. And digital innovations go fast; think of the internet of things, artificial intelligence, big data, robotics, cloud computing, 3D printing, nanotechnology, smart machine learning, and ChatGPT. Some argue that these innovations represent the *Fourth Industrial Revolution*. Growth patterns as we knew them are changing and digital developments may affect access to technology and markets. A *digital strategy* is therefore called for.

Let us look at a few changes which can be discerned. First, the sectoral transformation processes I mentioned will change. The industrial/manufacturing sector is already being eclipsed by the service sector. More and more, service value chains will replace industrial global value chains. Nowadays both already contribute the same value to the world’s economy.

Africa’s economic growth is increasingly generated by the service sector. The manufacturing sector will no longer create lots of jobs as production is being repatriated and work there will be done by robots. This implies that in future labour costs will no longer be a competitive advantage. As mentioned, in many African countries labour costs are already too high to be competitive. It is more effective to being close to large markets, avail of human and physical capital, and develop institutional and logistical capacity. Cities, where banks, consultant’s services, law firms and research institutes will be concentrated are now more import than factories, as engines of change and development. Cities are more and more becoming *brain hubs.* In sum, service-led transformation will more and more emulate manufacturing-led transformation.

New developments such as high-end and low-end tele migration will be stepped up. Kenia, for example, is training 1 million persons to prepare them for low-end tele migration. India’s economic strength lies in both types of tele migration.

As for access to technology, some influential countries (read: China and Russia) block access to the internet if they find that in their interest. Now, suppose developing countries become under the ‘spell’ of one of them, free access to the internet may be jeopardized. This may seriously limit these countries’ technological and growth possibilities.

As for access to markets, technological developments may result in blocking developing countries from accessing markets. Global *superstar firms* wield a lot of power. They can simply buy up potential competitors, frustrate investments in new markets, and create entrance barriers for newcomers, including developing country investors. As already noted, protectionism is on the rise. This means that access to markets is being limited. It also implies that internationally tradable goods will probably become more expensive than in the past. It is too early to analyse the international trade consequences of increased protection, but, in general, it can be stated that it is not good news for developing countries wishing to expand their exports and benefit from cheap imports.

The demand for human capital is rapidly changing. Robots and automation will replace unskilled and semi-skilled labour. Sophisticated technical skills and cognitive abilities will become more important in the labour market in order to cater to the demands of the digital age. Given the fact that in the typical developing country the quality of education in this realm is not always up to speed, the education challenge is rather urgent.

*Success stories*

Before discussing Namibia, let me present two growth success stories. The purpose is to provide possible suggestions for Namibia’s future economic growth. The first story is about Mauritius; the second star performer is Botswana. Although each country is obviously unique in its historical, political, economic, and social build-up, yet the factors explaining their success may be interesting to discuss in the context of Namibia’s future economic development.

*Mauritius*

Mauritius is not really a SSA nation. It is located in the Indian Ocean, many miles away from Africa’s East coast. Yet, in the literature Mauritius is treated as belonging to SSA.

In the early 1960s, Mauritius was said to have a bleak economic future. Economics Nobel laureate, James Meade projected that Mauritius would not overcome its very dominant sugar exporting nature, and import substitution culture, and would not embark on a manufacturing drive which, as we saw, was the typical first step on the way to a country’s economic structural transformation. Indeed, Mauritius’ higher level of initial income, its commodity dependence (sugar), and unfavourable geographic location (island in the middle of the Indian Ocean) exerted a drag on growth.

But Meade was wrong. In actual fact, between 1973 and 1999, real GDP in Mauritius grew on average by 5.9 percent per year compared with 2.4 percent in Africa. The income of the average Mauritian has increased three and a half times over a 40-year period, while that of the average African increased by 32 percent.[[13]](#footnote-13)

So, what happened? It was in the late 1970s and early 1980s that the Mauritian transition to very high growth rates occurred. It maintained these high levels of growth in the 1990s, resilient to the depressed global conditions at that time and, I add, to the financial crisis in Asia that happened later in the decade. The boom was principally created by the textile and apparel industry. The process of diversification was furthered by the policy thrust that favoured new sectors such as tourism and financial services. Sugar export remains a prominent export earner (25% in 2003). An important driver of export in 1970 was the creation of the export processing zone (EPZ) with the purpose of diversifying exports into manufactures. After 1980 the EPZ performance improved through technological change and to some extent through outsourcing. Employment in the EPZ grew from approx. 21,000 to 90,000.

Growth during the 1980s was driven by input growth: capital and labour, while economic growth in the following decade was driven to a greater extent by productivity growth. As wages started to climb, firms economised on its use of labour, focussing instead on sustaining growth through higher *productivity*, plus heavy intervention to promote the latter (among others through the tax system), part of the anti-export bias was offset. The creation of the EPZs was the distinctive aspect in the evolution of Mauritius’s economy. The segmentation (with imports being ‘closed’ and exports relatively open) and the EPZ’s were the heterodox aspects thereof. As regards segmentation, Rodrik observes that through a policy of heterodox opening, Mauritius ensured that the returns to the export sector were high, effectively segmenting its export sector from the rest of the economy and preventing a restrictive trade regime from spilling over to this sector. This combination ensured that the returns of the export sector remained high, and high enough to prevent domestic resources from being diverted to its inefficient import-competing sector.

Added to them, is the preferential treatment of sugar and textiles offered by Mauritius’s major trading partners: the European Union (initially through the Lome Convention). They acted as an export subsidisation that allowed the original anti-export bias to be fully offset. What also helped was that transaction costs were kept under control: Ports have been well managed and rendered efficient services; the financial sector is well developed, and telecommunications are efficient.

Yet Mauritius’s trade performance was average, not exceptional, unlike the performance of Asian Tiger countries Taiwan and South Korea. Mauritius was thus not so much a super trader but a super grower. To a considerable extent strong domestic institutions (i.e., democracy and strong participatory institutions) contributed substantially to the country’s growth. Still they do not explain fully Mauritius’s exceptional growth performance.

It is also the diversity (originally French settlers and indigenous population) and ethnic fragmentation (Indian and Chinese). They both created positive externalities, in that a political equilibrium was created, law and order was maintained and conflicts were mediated. Ethnic networks, initially Chinese, facilitated foreign direct investment, and Indian networks helped the establishment of the country’s offshore financial sector.

Equally, the economic elite (the French) exercised their clout and ensured that an outcome adverse to them did not happen. The sugar sector could continue to contribute to the owners’ income and government’s coffers through taxes. Thanks partly to the latter, the civil service could be well paid and a generous system of social protection was established. Thus Mauritius’s successful sugar industry can be seen as an example of optimal rent sharing between the political (predominantly Indian) and economic elites (predominantly non-Indian).

In concluding, both politics and economics were shaped by the diversity of the population and the need to accommodate it in the face of large fissures. The authors warn that it may be difficult for other countries to replicate the key elements of Mauritian globalisation strategy (heavy intervention, extensive subsidization, and targeting, including the creation of EPZs) because the preconditions for ensuring that an interventionist strategy succeeds, notably high-quality domestic institutions and political processes, may not be in place.

This is, in a nutshell, what Subramanian and Roy concluded in 2003. Now, the global economic environment is fairly dramatically different from the one of 2003. Yet perhaps some successful policies conceived and implemented by Mauritius’s political and economic leadership (see box below) may still have merit for Namibia.

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| I could, for example, think of:(i) EPZs combined with appropriate, segmented, tax and subsidy policies, (ii) diversification of the manufacturing and services sector, combined with productivity boosts, both supported by an appropriate trade tax regime, (iii) open borders to facilitate labour and capital import, (iv) benefitting from preferential trade with the EU, (v) efficient port services and top-notch telecommunications, cutting down transaction costs. Please note that I leave out important endogenous institutional arrangements which partly explain Mauritius’s sustained economic transformation.  |

*Botswana*

Botswana has performed better than any other country in the world in the last 35 year, write the authors of the essay about Botswana.[[14]](#footnote-14) The country had a PPP-adjusted income per capita of $5,796 in 1998, almost four times the African average; between 1965 and 1998, it grew at an annual rate of 7.7 percent. The uninformed reader may say that it was easy for Botswana to perform so well because the country is endowed with lots of diamonds. However, this is not the only explanation. The authors also emphasize the importance of Botswana’s good economic policies and its institutional track record in the country’s rapid and sustained economic evolution, as we will see.

Like Mauritius, Botswana did not start out with favourable initial conditions at independence. When the British colonisers left, there were only 12 kms of paved roads, 22 Botswana had graduated from university and 100 from secondary school. Botswana’s GDP per person was half the average in SSA. In addition, the country is landlocked and sparsely populated.

Botswana achieved its impressive growth performance because it adopted good policies, elaborated below. These policies resulted from an underlying set of institutions - institutions of private property that encouraged investment and economic development. As for Botswana’s institutional set-up, the authors observe that the basic system of law and contract worked well. State and private predation have been quite limited. Botswana’s institutions include traditional tribal institutions that encouraged broad-based participation and *constraints* on political leaders during the precolonial period. The British colonisers, having taken little interest in Botswana, did not change them much.

There is something distinctly successful about Botswana’s economic policy. Now, what is it? The authors maintain that Botswana’s economic success is a reflection of its institutions. One important additional factor was the farsighted leadership of Botswana’s first president Seretse Khama who was able to have sensible laws passed by Parliament. All told, Botswana was able to grow rapidly because it possessed the right institutions and got good policies in place.

The large revenues from diamonds have not induced domestic political instability or conflict over control of this resource. Diamond proceeds helped (i) finance public investments in health, education, and infrastructure; (ii) the creation of rainy day funds; (iii) to keep public debt low. The government developed a meritocratic, relatively noncorrupt and efficient bureaucracy. Although there was a government marketing board, this board was not used (as in so many other African countries) to extract resources from the rural sector to subsidise the urban sector. In addition, fiscal policy has been prudent and the exchange rate has remained closely to the fundamentals.

What explains Botswana’s good economic policies? The authors observe that good economics is often bad politics, i.e., good economic policies often do not generate enough rents for politicians, or they make it more likely that the government will be overthrown. In contrast, in Botswana the government pursued sound economic policies, and there is little evidence of infighting across different tribes for control of the state apparatus. In Botswana good economic policies reflect institutions of private property.[[15]](#footnote-15) Just one last explanatory observation: the income from diamonds generated enough rents for the main political actors (chiefs and large cattle owners) to increase the opportunity costs of further rent seeking.

Botswana benefitted from the European market in that beef was sold there in large quantities, creating a handsome income for cattle ranchers who also benefitted from large infrastructural development in the sector. As a result, they did not feel threated by the growth of the diamond sector; they did not use their political clout in order to expropriate the revenue from diamonds.

The proceeds from diamonds contributed to the consolidation of the institutions of private property. By the time the diamonds came on stream, the country had already started to build a relatively democratic polity and efficient institutions. Diamond rents were widely distributed and the extent of this wealth increased the opportunity cost of undermining the good institutional path. In other words, no group wanted to fight to expand its rents at the expense of ‘rocking the boat’.

In sum, not any of the key success factors by itself but a juxtaposition of them explain Botswana’s exceptional success.

This all sounds too good to be true, and indeed, it is not the whole picture. Some worrisome aspects: Botswana had one of the highest adult incidences of AIDS. Also, unemployment is very high and inequality is also remarkably high.

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| Diamonds account for over 80% of Botswana’s exports and roughly a third of GDP. President Masisi wants to get more out of the deal with De Beers, the diamond company with whom Botswana has a long-standing agreement. He also argues that Botswana should do more of the ‘downstream’ business, such as cutting and polishing. Masisi said in March last that his government would buy a 24% stake in HB Antwerp, a Belgium-based diamond firm, a move that is being watched by other African governments keen to move beyond the exporting of raw commodities. On 10 June last, *The Economist* noted that Mr Masisi’s language worries Botswana’s Western champions. He also has protectionist instincts. He banned the import of some vegetables from South Africa and he has limited foreign ownership of businesses in certain sectors . |

In concluding, Botswana’s economic development trajectory is as unique as Mauritius’s. In some respects, Botswana resembles Namibia more than Mauritius does: Namibia is also a diamonds producing country, it is also a small country, population-wise. But here end the similarities.

According to the essay’s authors, good policies and Botswana’s institutional framework, evolved from the country’s traditional institutions; both explain Botswana’s exceptional economic success. However, Botswana’s political leadership may wish to dramatically change its longstanding relationship with de Beers, which in turn may negatively affect Botswana’s international reputation. All told, the way in which Botswana managed its diamond wealth so far, deserves to be copied by other countries, being endowed with valuable natural resources, like Namibia.

What shines through in Botswana’s growth and that of Mauritius is that good economic policies in conjunction with a conducive institutional framework explain to a considerable extent their growth success. Mauritius’s economic growth contributed to productivity growth. The Botswana essay did unfortunately not touch upon this relationship.

*Namibia*

I visited Namibia in 2012; it was a wonderful experience. The countryside is beautiful; vast tracks of land are empty, which is especially attractive for the Dutch as we live in one but the most populated country per km2 in Europe. In short, there is much to admire from beautiful sceneries to wild animals. Moreover, the hotels I visited were first class! Namibia is an upper middle-income country – the GDP per head was $4,754.- last year; an unfair classification, according to the country, as it does not take into account the highly skewed income distribution. The classification hinders Namibia, among others, obtaining concessional loans.

As already mentioned, each country is unique and, therefore, requires *a tailor-made* economic development policy that takes into account its historic, political, economic and cultural record.

*Namibia’s development and Covid-19*

Namibia’s economy was badly affected by the Covid-19 pandemic. In 2020 GDP shrank by 8%. Over 2021, GDP grew by 2.7% and last year by an estimated 3.5 %, according to the World Bank. This year the Bank’s GDP growth projection is 2.4%. For next year the projection is 1.7%, while in 2025 growth is expected to *improve* a bit to 2.1%. These projections are based upon the analysis that the Bank undertook for the entire SSA region which I presented.

Negative net exports will weigh on aggregate demand despite the anticipated narrowing of the current account deficit. Other factors that risk eroding Namibia’s economic outlook include, among others, South Africa’s dismal growth, high unemployment levels and widening income inequality, exacerbated by the Covid pandemic.

The AfDB expects that the fiscal deficit will likely be financed by local debt issuance in the medium term. However, this will pushed public debt up to 72% of GDP according to the IMF. Yet Namibia’s highly liquid financial sector provides a large resource pool, particularly through pension funds and insurance companies, whose assets amount to the equivalent of 120% of GDP. The financial sector at large has the potential to develop long-term innovative financing instruments to fund national development projects.

In *monetary policy* terms, Namibia’s Central Bank kept its key lending rate at 7.75%; the highest percentage in the country’s recent history.

The AfDB advised that in the medium to long term, the government should implement measures to promote value addition to natural resources, expand mineral beneficiation, and diversify export destinations (read: broaden export clients). The government should also pursue structural reforms to create a conducive and macroeconomic environment to boost investor confidence and diversify the economy and thereby build resilience.

However, AfDB’s advice was given before Namibia’s five pillars *Harambee Prosperity Plan II 2021-2025* was adopted. So, what does this Plan look like; does it present a clear strategic vision? Another question, relevant for this talk, is whether this would be in line with the latest insights in productive sectoral development?

*Productivity boosts*

In what follows I will not deal with monetary and fiscal issues, nor with governance; in other words I assume them to be in line with contemporary insights in these issues. I will zoom in on the Plan’s strategic choices vis-a- vis Namibia’s three productive sectors.

At the beginning of my talk I stressed that economic growth in the end is all about *productivity*, exploiting a country’s unique comparative advantages, including its factor endowments. The question is thus how do Namibia’s agricultural, manufacturing and service sectors appear in the Plan, and are the Plan’s strategic choices in line with what the literature says about productivity? Before looking into the Plan, I took a look at the situation and relevance of the three sectors in order of their respective economic importance.

*The sectors at present*

The manufacturing and mining sector combined still constitute Namibia’s largest economic sector(s). Yet, it seems as if a home-grown dynamic industrial sector has not yet emerged. Mining is still the largest industry, suggesting that Namibia is possibly faced with a *natural resource curse* to some extent.

The service sector, especially tourism, comes second. Tourism is a significant labour-intensive sector, with future economic potential. Transport and logistics also have potential given Namibia’s attractive location: Walvis Bay port, airport facilities, and Namibia’s land and rail transportation network. Taking into consideration Namibia’s small economy, further regional integration with neighbouring countries is the way forward, facilitated by regional and Africa-wide trade agreements, such as The *African Continental Free Trade Area Agreement*., which according to a World Bank promotion video offers huge advantages for participating countries, including Namibia, given its attractive location.

Agriculture comes third, although it has growth potential. 50% of Namibia’s population is involved in subsistence farming, which partly explains the country’s large income and wealth gap. Commercial fishing and fish and meat processing have large potential in terms of its contribution to employment, export earnings and GDP growth.

Agriculture, manufacturing and the service sector are the three sectors identified by economists. Arguably, the largest economic sector is the *informal sector*. I have collected data (see footnote) on Namibia’s informal sector; it is indeed a sector to be reckoned with![[16]](#footnote-16)

*The Harambee Prosperity Plan II*

Now, what does the Plan say about Namibia’s three sectors? The *Economic Advancement* pillar’s approach is a targeted one, to facilitate inclusive and sustainable levels of economic growth to redress inequality, alleviate poverty and unemployment. It is to harness the economic potential of the country. It will strengthen the stewardship of the natural resources, enhance productivity of key sectors and develop complementary engines of growth and create employment plus macroeconomic stability.

All the right things are being written, which could apply, sorry to say, to any developing economy. So, we need to look into *Namibia’s sectoral specifics* of the Plan. Doing so reveals some flaws, in that elaboration of important intentions is not provided, as flagged below.

Nonetheless, the Plan’s second pillar’s situation analysis is spot on. Its focus is on employment (official unemployment percentage is 20.95%) and productivity enhancement. Income inequality is also a prime concern. The Plan should also be commended for spotting the potential of the *Fourth Industrial Revolution*. In other words it is a forward looking plan, so to speak, while warning that reaping the fruits should not contribute to more income inequality.

*Manufacturing/mining*

Mining is still Namibia’s lead economic activity. The objective is to maintain its competitive advantage as an investment location. In addition, Namibia has ‘green and blue potential’. The potential for green electricity production, for example, is many times the country’s domestic electricity consumption. The solar and wind resources are one of the world’s best. The objective: Namibia becoming the first African zero-emission country! Through available concessionary funding this potential is to be reaped. One concrete plan is a feasibility study of green hydrogen and ammonia as a transformative strategic export industry. In short, the government will focus its efforts on achieving large-scale, low-cost renewable energy development.

This appears to bear fruit: *The Economist* reported in November 2022, that Namibia struck a deal with its preferred developer *Hyphen*, which is a German-led consortium. It could lead to an investment of $9.4 billion – a huge boost for the country’s GDP of about $ 12 billion. The magazine added that Namibia’s green-hydrogen project is symbolic of the optimism about renewable energy in Africa. Many hope, therefore, that the continent will ‘leapfrog’ past fossil fuels. In addition, it said that Namibia showed that a bankable project can be put together. The government has prioritised the scheme, establishing a ’green hydrogen council’ to streamline decision-making. It has gone out of its way to minimise the risk of corruption, for instance by installing 24-hour surveillance cameras in the facility where contractors’ bids were scrutinized. The article also noted that the project was attracting finance from the Netherlands and Germany, which has lowered the risk for private investors.[[17]](#footnote-17)

I assume that the Namibian Investment Promotion Act has by now been adopted, accompanied by a new regime of Special Export Economic Zones, to attract foreign investors. Namibia’s Investment Promotion Development Board will invite investors with skills, capital and ambition to establish businesses in Namibia. Financing of SME development will be promoted through a credit guarantee scheme, a mentoring and coaching program, skills lending and a public venture capital fund. HPPII will partner with the private sector to offer an MSME fund with all 4 components.

*Observations*

The Plan does not show signs of having been sensitive to Rodrik’s initial notion of *premature deindustrialisation*. This is laudable, as the manufacturing sector can best boost Namibia’s productivity. The Plan mentions initiatives in the realm of green and blue energy. Is this sufficient to limit Namibia’s dependency on mining (capital-intensive and labour-extensive), and are there no other options for diversification in the manufacturing sector? There is no textile, clothing or electronics industry in Namibia. Would this be explained by the fact that, on average, labour costs are higher in Namibia than in competing countries? What about Namibia’s potential to join some of the global value chains; if so, which chunks would be appropriate for Namibia to produce? These two observations have not been specifically elaborated, as far as I could deduce. Nor, the value to be added and addition to employment. True, the Plan mentions that, in total, 42,000 jobs were to be created and NS 27.7 billion value is to be added; but, as noted, no breakdown per sector.

SME development, which is a cross-cutting theme by the way, is very important not just because of the labour-creating potential but also to strengthen forward and backward linkages in production chains. SME’s have been assisted in the previous Plan, so one wonders what the lessons learned would have been in the sectors at hand?

The projected EPZs surprise me, as the one so far in operation had very little development impact, unlike the ones in Mauritius.

And what about the challenges and opportunities provided by the imminent 4th Industrial Revolution? What will be done is expansion of the coverage for information and communication technologies. A *Digital Labour Profile* was to be designed plus the establishment of reskilling requirements. In addition, is the education system going to be adjusted to train the necessary home-grown expertise in these fields?

*Vision 2030* projects that Namibia becomes a developed industrial nation by 2030. Hopefully the diversification process included in the Plan would have been sufficiently developed in eight years’ time so that Vision 2030’s objective will be achieved.

*Agriculture*

The agricultural sector will undergo an unlocking of its potential - horticulture is promising in this sense. This is to be done through making communal lands more productive through land legislation, financial (read: credit) and PPP means, while unlocking the production of high-value crops, contributing to (youth) employment, export, and GDP growth. Food security and self-sufficiency remain principal objectives – very good!

*Observations*

One wonders why these initiatives would not have been taken sooner; what were the bottlenecks? I would not be surprised if legal aspects regarding land ownership and land tenure have proven to be hurdles. After all, this sector has large productivity, green, and labour-creation potential. Regarding this latter aspect, the Employment Impact Assessment was to provide the necessary information in the future. As far as I could see, the fishing sub-sector is not mentioned, apart from a review of the allocation of fishing rights, while commercial fisheries and fish processing (belonging to the manufacturing sector) is fast growing in terms of employment, export earnings and its contribution to Namibia’s GDP.

*Service sector*

The sector has not been treated as such in the Economic Advancement pillar. Yet, it is one but the most important sector, as it arguably is not just Namibia’s ‘sector of the future’, but also because it is the sector providing most jobs. Unfortunately, it is sensitive to the international business cycle and - as we saw recently – tourists stay away when the economy is down or fear they may get infected by viruses. Nonetheless, above I wrote that in future service-led transformation will eclipse manufacturing-led transformation. The literature now recognizes that the sector includes sub-sectors, such as financial services, tele-migration, etc., that can contribute more to productivity than other sub-sectors, such as tourism.

*Observations*

There are two aspects which Namibia shares with e.g., Singapore, when it started its steep economic rise: a small home market and an attractive location. Singapore set out on a export-led industrialisation process. One of Namibia’s comparative advantages is, indeed, its location. Moreover, its ports have been properly developed and maintained during HPP1. Windhoek’s airport could evolve into a regional-international airline hub and Namibia’s road network is connected with most neighbouring (land-locked) countries. So, enhanced regional integration, benefitting from regional and Africa-wide free trade agreements is a logical strategic choice, promoting economies of scale and foreign direct investment. This is not adequately elaborated in the Plan.

Namibia’s financial services sub-sector is relatively strong. It is not clear how this sub-sector will be further developed to contribute to the country’s *productivity* and how many jobs can be created, not least since financial services are relatively labour-intensive.

What about the positive implications of the 4th Industrial Revolution? Reference is made to Kenya’s example: the country is training 1 million persons to prepare them for low-end tele migration, while India’s strength lies in both, high- and low-end tele migration.

At any event, the demand for human capital is already rapidly changing. Robots and automation replace unskilled and semi-skilled labour. Technical skills and cognitive abilities will become more important in the labour market to cater to the demands of the ‘digital age’.

*The informal sector*

Given Namibia’s high unemployment rate and the large section of the population involved in subsistence farming, I assume this sector to be large in terms of the number of people involved, but small in its contribution to Namibia’s GDP. I also assume that there are no, or very few, relevant data available to capture this sector’s true (in)significance. Yet, economists and planners should not close their eyes for this sector. There is indeed a growing attention for this sector and for the poor within it trying to earn a living wage. Perhaps the World Bank’s 2014 World Development Report may provide approaches that can be implemented to help the poor. The report contains descriptions of behavioural economics approaches to the challenges involved. In addition, the Poverty Action Lab of the Massachusetts Institute of Technology (MIT) can be helpful in the design and application of randomised control trials to test the effectiveness of poverty alleviation projects. By the way, two Economics Nobel Laureates are associated with the Lab: Abhijit Banerjee and Ester Duflo.

*Government’s role*

In general, government is to play a very large inspirational implementation part. The question is whether it can bank on the capacities required to not just meet the deadlines as established in the Plan but also on the necessary expertise in a wide range of technical and financial fields. There are other limitations. HRRII concludes by stating that given government’s limited fiscal space and unrelenting socio-economic pressures from covid, it wants to attract private sector investment. It is fostering synergetic partnerships with members of the private sector.

**Annexe**

**Productivity**

*For economists productivity is a magic term. It is the elixir of economic growth, less poverty, higher incomes, better social services and more opportunity to counter climate change and global warming. However, the question is whether productivity is going up or down?*

A couple of years ago, I wrote a review of *The Rise and Fall of American Growth (2016),* written by Robert Gordon, professor in the social sciences at Northwestern University, USA. The book’s central message is that after the American Civil War, spectacular economic growth improved the standard of living. Americans enjoyed a doubling of real output every 32 years. Total factor productivity jumped sharply, in particular between the 1920s and 1950s. What caused this revolutionary improvement? Electric lighting, indoor plumbing (i.e. water taps, toilets, showers), motor cars, air travel, air conditioning and television dramatically transformed households and workplaces. Between 1870 and 1970, medical inventions improved Americans’ life expectancy from forty-seven to seventy-two years.

Gordon wondered whether this era of unprecedented growth had come to an end? He concluded that, indeed, it had because all these life-changing inventions could not be repeated. American productivity slowed down from 1970 onwards. And it was further held back by growing inequality in the American economy, the ageing population, rising debts of the federal government as well as debt incurred by college students. Gordon concluded that the younger generation would be the first in American history failing to exceed their parents’ standard of living. A bleak prospect indeed. But was Gordon right in his gloomy projection?

It seems that he may be wrong, as there are signs that productivity might be growing again. True, the covid-19 pandemic may temporarily have affected labour productivity; yet, it may well be that once the covid-19 pandemic is brought under control, we may see a return of economic dynamism, propelled by a resurgence of productivity growth.

But what is productivity growth exactly - what does it consist of? Economists distinguish labour productivity from total factor productivity. Labour productivity increases after improvements in education, rising investment, and adoption of new innovations. In simple terms: a worker produces more than before. Indeed, productivity grows when more output is wrung out of available productive resources. Now, total factor productivity *(*TFP) is a measure of productivity calculated by dividing economy-wide total production by the inputs of labour *and* capital. It shows growth in real output which is in excess of the growth in inputs. As for a rise in TFP (or the efficiency with which an economy uses its productive inputs), this requires the discovery of new production technologies, or – alternatively – the reallocation of scarce resources from low-productivity firms (or entire sectors) to high-productivity ones. In sum, productivity is the ultimate source of long-run increases in incomes and wealth.

Beyond 1970, productivity slumped until the mid-1990s, after which it suddenly increased in advanced economies. However, it levelled-off in the early 2000s. Surely, emerging economies also enjoyed rapid productivity growth prior to the outbreak of the global financial crisis in 2008. This increase was triggered by high levels of investment in these economies combined with an expansion of trade which, in turn, brought more sophisticated technologies. Developing countries also saw the productivity of their economies rising, benefitting from their participation in global supply chains.

But since the global financial crisis, a persistent slowdown in productivity growth ensued. The World Bank calculated that 70% of the world’s economies saw their respective productivities go down. As regards emerging economies, slowing trade growth and fewer opportunities to adopt and adapt new technology from advanced economies put a brake on productivity growth. Across economies worldwide, sluggish investment resulting from the 2008 financial crisis explains the general productivity slump, aggravated by ageing and shrinking workforces in some countries.

How come? After all, cloud computing had meanwhile been introduced and robots began replacing workers in increasing numbers. Some analysts say that these inventions are simply not as productivity-enhancing as optimists claimed. Others maintain, however, that in the medium-term Artificial Intelligence (AI) may well result in productivity growth. As a positive side-effect of covid-19, cloud computing and video conferencing proved their economic value, enabling large amounts of productive capacity to continue without interruption despite the shuttering of many offices. So, new technologies are certainly able to give productivity a boost.

Another productivity-enhancing inspiration could well be resumed growth of aggregate demand. A small example: before the outbreak of covid-19, demand in the US increased, resulting in unemployment falling. Wages started to increase, but labour productivity picked up as well, from 0.3% in 2016 to 1.7% in 2019, resulting from demand pressure.

There is a third explanation for a possible resurgence of productivity, which concerns the use of the new technologies I mentioned above. AI is a so-called general-purpose technology, like electricity, having the potential to boost productivity not just in one industry, but industry-wide. But it takes time and experimentation to use AI and other new technologies in an effective manner. The build-up of know-how in this vein is an investment in intangible capital, which can work out like a so-called J-curve. This means that once these intangible investments bear fruit, productivity will surge, because output rises sharply without inputs having changed much.

This J-curve phenomenon is not really new. Way back in the 1980s and 1990s, computers did not seem to contribute to productivity. However, during the 1990s there was a sudden productivity increase: an early example of the J-curve. Even covid-19 may have a J-curve effect. During the pandemic quite a few firms started to adjust their production processes (robotics, among others) and organisational overhaul (working from home, fewer overseas business trips) which in the medium- term may result in productivity improvements.

There is more. The pandemic boosted distance education and telemedicine delivered by the cloud. These new phenomena help promote growth in services trade, triggering economies of scale in the service sector which has long struggled to register productivity gains.

Governments will have a role to play in boosting productivity. After Covid-19, they must help recover aggregate demand. This was already done in a formidable way by the Biden Administration, sending out $1600 checks to every American citizen and by many other governments. Another activity for the government is tackling the educational shortfalls suffered by many students as a consequence of school and university closures.

In sum, private - and government investments combined will probably unleash the productivity- boosting potential offered by a variety of new technologies coming to fruition.

**(April 2021)**

1. De Haan, P. (2020) *Whatever Happened to the Third World? A History of the Economics of Development*. London: Palgrave Macmillan. [↑](#footnote-ref-1)
2. The 1978 World Development Report (WDR) also includes two categories: (i) capital surplus oil exporters (3) and (ii) centrally planned economies (11). I included the 3 surplus oil exporters in the industrialised (high-income) group. As for the 11 centrally planned economies, given their respective income levels, I included 5 of them in the lower middle-income and 5 in the upper middle-income group. Number 11, the DDR, is included in the high-income group. The 1988 WDR distinguishes between lower middle-income and upper middle-income countries. However, the report does not provide a threshold figure for the latter category. I chose $1,799 as the threshold for upper middle-income countries. A further operational classification used by the World Bank is the list of countries in Fragile and Conflict Affected Situations. [↑](#footnote-ref-2)
3. A conflict trap, a natural resource trap, a landlocked and bad neighbours trap and a bad governance trap. [↑](#footnote-ref-3)
4. The International Monetary Fund (IMF) calculated that since 2020 the costs of staple foods across sub Saharan Africa has risen by almost a quarter. In addition, the prices of locally grown food has also increased partly as a result of climate change, droughts, and so on. Inflation and rising interest rates result in poor countries’ greater risk of default. These countries have 1.4 billion people, or 18% of the global population, and face a huge humanitarian challenge with high inflation, debt loads, and expensive oil and food. [↑](#footnote-ref-4)
5. American decoupling i.e., moving production out of China to US- friendlier exporters, may not achieve its intended effect. The practice is that although direct trade between China and the US is decreasing, trade between US-friendly exporters (such as Mexico, Vietnam, India, Thailand) is on the increase with China. How come? These exporters now import more intermediate goods from China that will go into the final products exported to the US. In sum, countries that had the strongest trade relations with China in a given industry have been the greatest beneficiaries of America’s redirection of trade, suggesting deep Chinese supply chains still matter enormously to America. [↑](#footnote-ref-5)
6. Africans having the appropriate professional qualifications, such as medical doctors or engineers, meet fewer obstacles reaching Europe. For example, over the past years 5,600 doctors have left Nigeria for Britain, leaving only 24,000 registered doctors to cater for Nigeria’s large and rapidly growing population. This is just one example of the ongoing *brain drain*. Britain also offers global talent visa valid initially for five years and doles out thousands of student visas. Most recipients fail to return home. The positive side of this development is that annual remittances of African migrant workers constitute an important income for their home countries. In the case of Nigeria this source of income outstrips the amount of foreign direct investment. [↑](#footnote-ref-6)
7. At this time of writing no concrete actions have been taken. This could be explained by the fact that ECOWAS, and the African Union for that matter, have lost effectiveness, in that sanctions imposed by them are now being ignored by the likes of Russia and China who are interested in expanding their influence in the continent. [↑](#footnote-ref-7)
8. Living on $2.15 a day at 2017 purchasing power parity. [↑](#footnote-ref-8)
9. Regarding TFP, there are indications that, thanks to a spurt in innovation in e.g. health, energy, Artificial Intelligence (AI) and robotisation TFP may be boosted during this decade. Some commentators already call it *The Roaring 20s*. [↑](#footnote-ref-9)
10. Rodrik, D. (Ed.) (2003) *In* *Search of Prosperity; Analytic Narratives on Economic Growth.* Princeton: Princeton University Press, 4. [↑](#footnote-ref-10)
11. Rodrik, D. *Premature deindustrialization*. Published online: 27 October 2015. [↑](#footnote-ref-11)
12. Altenberg, T., Lütkenhorst, W. (2015*) Industrial Policy in Developing Countries; failing markets, Weak States.* Cheltenham: Edward Elgar [↑](#footnote-ref-12)
13. Subramanian, A. and Roy, D. (2003) Who Can Explain the Mauritian Miracle? Meade, Romer, Sachs, or Rodrik? In*: In* *Search of Prosperity,* 205-243. [↑](#footnote-ref-13)
14. Acemoglu, D., Johnson, S., Robinson, J. (2003) An African Success Story; Botswana. In: *In* *Search of Prosperity,* 80 – 119*.* [↑](#footnote-ref-14)
15. Other factors were also mentioned by the authors, but I trust my Namibian audience is familiar with them. [↑](#footnote-ref-15)
16. Namibia follows global trends in terms of the informal economy's contribution to overall economic health. This is according to industrialisation and trade minister Lucia Ipumbu, who said it is estimated the informal economy contributes about 24% of the country's GDP and around 56% of the labour force. [↑](#footnote-ref-16)
17. *The Economist*, 5 November 2022, pp 33-34. [↑](#footnote-ref-17)