

Trade policy, poverty and inequality in Namibia¹

by

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Contents

1. INTRODUCTION: THE NAMIBIAN ECONOMY AND POVERTY.....	1
2. NAMIBIA'S FOREIGN TRADE AND TRADE REGIME.....	3
3. IMPACTS OF TRADE POLICY ON POVERTY AND INEQUALITY IN NAMIBIA.....	5
3.1. GROWTH IMPACTS.....	5
3.2. FISCAL IMPACTS.....	6
3.3. DISTRIBUTIONAL IMPACTS.....	9
3.3.1. <i>Farmers</i>	11
3.3.1.1. <i>Crops</i>	13
3.3.1.2. <i>Livestock</i>	16
3.3.2. <i>Business people and urban employees</i>	19
4. CONCLUSION.....	21
5. REFERENCES.....	23

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List of figures and tables

FIGURE 1 NAMIBIA'S EXPORT STRUCTURE (% OF MAJOR GROUPS), 1981-97.....	3
FIGURE 2 TRADE OPENNESS - RATIO OF IMPORTS PLUS EXPORTS TO GDP IN % (1990-96).....	4
FIGURE 3 COMPOSITION OF GOVERNMENT REVENUES IN % (1990/91 - 1999/2000)	7
FIGURE 4 EXPENDITURE STRUCTURE BY AREA (% OF TOTAL BUDGET), 1995/96-1998/99	7
FIGURE 5 GOVERNMENT EXPENDITURE BY ITEM IN % (1990/91-1999/2000)	8
FIGURE 6 PERCENTAGE OF FUNCTIONAL GROUPS BELONGING TO CERTAIN INCOME PERCENTILES	10
FIGURE 7 CEREAL PRODUCTION IN TONNES (1990/91-1997/98)	13
FIGURE 8 SECTORAL COMPOSITION AND PRICE CHANGES FOR WHITE MAIZE	15
FIGURE 9 CORRELATION BETWEEN PRODUCTION AND REAL OUTPUT PRICE INDICES FOR WHITE MAIZE: COMMERCIAL FARMERS.....	16
FIGURE 10 GROWTH RATES OF BEEF PRODUCTION AND PRODUCER PRICES (CARCASS) IN THE COMMERCIAL SECTOR (%)	17
FIGURE 11 GROWTH RATES FOR MUTTON PRODUCTION AND PRODUCER PRICES.....	18
TABLE 1 SACU IMPORT TARIFF RATES BY SECTOR (1996; IN %).....	5
TABLE 2 SPENDING OF FUNCTIONAL GROUPS ON DIFFERENT ITEMS IN %.....	11
TABLE 3 SACU'S CURRENT IMPORT TARIFFS AND WTO- CEREAL	12
TABLE 4 STRUCTURE OF GRAIN PRODUCTION IN NAMIBIA - NET PRODUCERS.....	14
TABLE 5 WAGES IN SOUTHERN AFRICAN COUNTRIES	21

Abbreviations

ASD	Additional Sales Tax
BLS	Botswana, Lesotho and Swaziland
BoN	Bank of Namibia
CBI	Cross Border Initiative
CBS	Central Bureau of Statistics
CET	Common External Tariff
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CROP	Comparative Research on Poverty
CSO	Central Statistics Office
EU	European Union
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GNP	Gross National Product
GST	General Sales Tax
IMF	International Monetary Fund
MAWRD	Ministry of Agriculture, Water and Rural Development
MLHRD	Ministry of Labour and Human Resources Development
MoL	Ministry of Labour
MTI	Ministry of Trade and Industry
NAMAC	Macro-economic model for Namibia
NDP1	National Development Plan 1
NEPRU	Namibia Economic Policy Research Unit
NHIES	National Household Income and Expenditure Survey
NPC	National Planning Commission
RoN	Republic of Namibia
RSA	Republic of South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SSA	sub-Saharan Africa

UNDP United Nations Development Programme
US United States of America
WTO World Trade Organisation

1. Introduction: The Namibian economy and poverty

Namibia gained independence in 1990. Its per capita income of US\$ 2,220 per year (1997; World Bank 1999) is more than four times as high as the average of sub-Saharan African (SSA). Although Namibia's growth record after independence is favourable, compared both with its past and the SSA average, it has, on average, not been higher than population growth, so that per capita average incomes have stagnated.

Furthermore, statistical averages conceal Namibia's reality. The local economy and society is largely characterised by a dualistic nature that emanates both from its mineral-based enclave economy and from past policy of racial segregation, *apartheid*, which restricted the benefits of much of education and other social services to the privileged.

The Namibian economy is essentially driven by a large non-tradable sector (government services) and an export oriented primary sector (fisheries, agriculture and mining). The fisheries and mining sectors are mature sectors and quite capital intensive, thus not able to improve the unemployment situation in the country. Moreover, the fishery and diamond mining sectors are quota-driven, while the remaining mining sub-sectors are demand-driven, indicating that growth is mainly influenced by external factors. Growth in the supply-driven agricultural sector has been low as a result of drought related shocks.

Agriculture loses labour (but remains by far the most important sector in terms of employment), as does the mining sector, while government (included in 'services') and finance/real estate are the most important growth sectors in terms of employment. Although visualised as the main engine of growth, the manufacturing sector has in fact only grown slowly.

Namibia's labour market consists of an informal and a formal sector. The scarce evidence on wages suggests that incomes of informal sector workers are largely market determined and probably stagnating, while formal sector workers, highly organised in various trade unions, have seen real wage increases, especially on the higher level. According to the Labour Force Survey 1997 (MoL 1998), unemployment has grown steadily since independence, from 19% (1991) to 33% (1997). The combined un- and underemployment rate is estimated to be as high as 60%.

Namibia has one of the highest income inequalities world-wide. Its Gini-coefficient of 0.70 (UNDP 1998: 9) is higher than any recorded in the latest World Development Report (World Bank 1999: 198-199). The income disparity between the poorest income groups and the highest income groups is vast (CSO 1996a): the household income of the highest quarter (N\$ 52,672) is 26 times that of the lowest 25% (N\$ 2,067). In the official statistics (CSO 1996b), 38% of the households are regarded as poor (spending 60% or more on food), while 9% are very poor (spending 80% or more on food). The income disparities are substantiated by relative figures. Since households of the lower income group consist of more members, the income inequalities per capita will be even higher than the inequalities between households.

34% of the households are based in urban areas, earning more than three times the amount of those in rural areas (CSO 1996b). Namibia is also characterised by huge regional income disparities. The northern, communal areas, where the majority of Namibia's population lives, are worse off (average household income of the poorest region Ohangwena: N\$ 6,439) than the affluent commercial agricultural regions of e. g. Karas (N\$ 26,991), Hardap, Omaheke and Otjozondjupa. However, high average income of these regions masks intra-regional income differences, since poor communal farmers exist besides affluent commercial farmers. The commercial and

political centre of Windhoek in the Khomas region has the by far highest average household income (N\$ 47,409).

The Namibian Government has set itself four key development objectives to address these challenges: economic growth, employment, alleviation of poverty and of inequality. In 1998 it adopted a Poverty Strategy (RoN 1998). As in other countries, policy makers focus on policies aiming directly at alleviating poverty (e.g. transfers, income generating schemes), and on investment in social sectors (education, health) which promise both a direct contribution to welfare enhancement and long-term benefits. However, the important impacts which other government policies have on growth, income distribution, and poverty, are hardly recognised.

The aim of this paper is to illustrate the influence which a wide range of policies, which are designed for completely different objectives, have on poverty (Lipton and Ravallion 1995). This illustration is made to strengthen the argument that in order to reduce poverty in a substantial and sustainable way, the whole set of government policies has to be scrutinised for its conformity with the aim of poverty alleviation (Hansohm and Presland 1997).

One policy area is selected here: trade policy. This is done because trade policy is currently of high relevance to Namibia, as different options with regard to membership in regional integration schemes are under consideration and controversial (although the implications for poverty are rarely recognised) and little is known on the impacts of the Uruguay Round on Namibia.

Until 1990, Namibia has been under South African rule and thus part of its economy. Together with Botswana, Lesotho and Swaziland (BLS), Namibia continues to be closely integrated with South Africa, notably as a member of the Southern African Customs Union (SACU) with BLS, and of the Common Monetary Area (CMA) with all except Botswana.

Further, Namibia is a member of the Southern African Development Community (SADC), and the Common Market of Eastern and Southern Africa (COMESA). It is also part of the Cross-Border Initiative (CBI), a grouping of Southern African countries aiming to reduce barriers to trade and investment on the basis of single country commitments, based on the disillusion with the slow pace of integration of the regional agreements (COMESA, SADC). Furthermore, there are a number of bilateral trade agreements planned. In existence is a scheme with Zimbabwe. The large number of partly overlapping and competing agreements in itself can be regarded as a barrier to trade and investment (Sharer 1998).

The old integration schemes of SACU and CMA are highly suspicious in Namibia because of their colonial origin. While the impact of SACU is in fact double sided, the benefits of CMA are clearer. SADC is seen more positively, although it has still a long way to go to become an integrated economic region - a free trade area (FTA) is planned within 8 years. International integration is seen by many as a threat, rather than as an opportunity. Economic welfare in the future is often equated with independence - from South Africa -, rather than with further integration. For this reason, notions of 'self-sufficiency' are popular.

This contrasts with the international academic discussion which is currently dominated by powerful arguments that 'open', 'outward oriented' economies have a better record both in terms of growth and poverty alleviation- a lesson which is believed to be especially relevant for Africa (e.g. Ng and Yeats 1997, Sachs and Warner 1997). However, this position is not undisputed (e.g. Wood and Berge 1997). This article intends to give an input to this discussion by examining the case of Namibia.

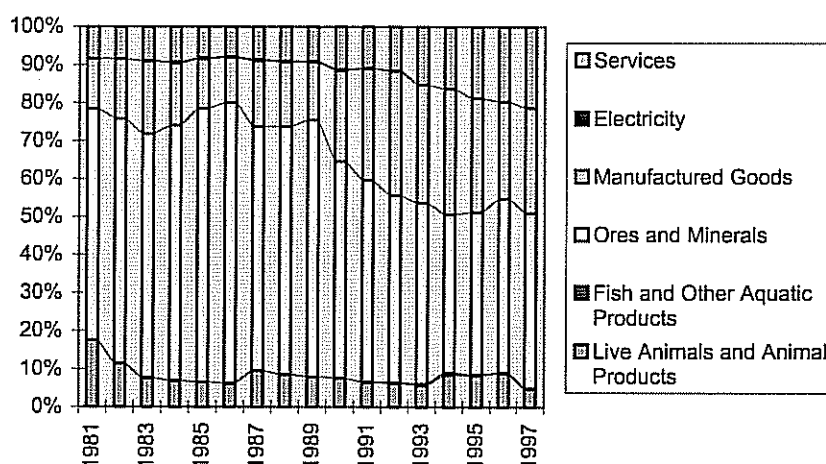
This paper analyses the impacts of a change of the trade regime on Namibia's poverty and inequality: unilateral trade liberalisation - Namibia leaves SACU and sets external tariffs to Zero and the quantitative restrictions on agricultural products are abolished.

This paper is organised in three additional sections. Section 2 introduces into the structure of Namibia's foreign trade and its trade regime. The main section analyses the impact of current trade policy and of trade liberalisation on poverty and inequality. The final section relates to the international discussion and offers some policy conclusions.

2. Namibia's foreign trade and trade regime

Namibia conforms to the classical picture of an African raw material producer (Figure 1). The traditional resource exports (diamonds and other minerals, fish, beef, fruit) still dominate. Manufactured exports increased from 13.1% in 1981 to 27.5% in 1997, down from a high of more than 30% in 1992-94. Within manufacturing exports, there is no sustainable trend towards diversification and deepening. Rather, the relative importance of raw material processing has increased - from 63% (1981) to 76% (1997).

Figure 1 Namibia's export structure (% of major groups), 1981-97

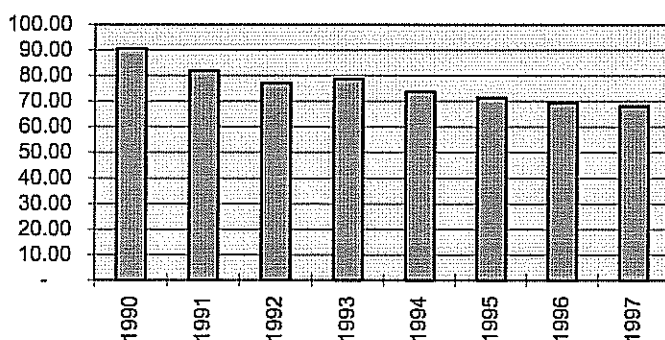


Source: CBS (1998)

In real terms, exports have remained stagnant, while imports have grown, leading to increasing trade deficits. The import structure has not changed much. Most important categories are services (around 1/4), intermediate goods (21-24%), food (15-18%), and capital goods (12-13%).

As the following figure shows, Namibia has become less integrated into the world economy since 1990, as far as foreign trade is concerned. Other ways of global integration (foreign direct investment [FDI], aid) do not outweigh this trend: FDI is somewhat picking up since independence, but remains small (6.9% of GDP in 1997; BoN 1999). Foreign aid shows a declining trend as in other SSA countries.

Figure 2 Trade openness - ratio of imports plus exports to GDP in % (1990-96)



Source: BoN (1999)

The origin of Namibia's imports remains highly concentrated on SACU (imports from South Africa amount to 86.3% of total in 1993). Exports are less concentrated on South Africa (27.4% in 1993). The most important export market is the EU with more than half. Trade within the whole Southern African sub-region (SADC) remains unimportant. Only 1.8% of SACU's imports are from other SADC countries (World Bank 1998). This is partly due to a great number of remaining tariff and no-tariff (both traditional and non-traditional²) trade barriers within the region. But the main reason for the poor intra-regional trade is the similar resource endowment and limited production structure of all countries (with the exception of South Africa; World Bank 1993).

Namibia's trade regime is determined by South Africa, the dominant partner in SACU. Although it is becoming slowly liberalised, this system is protectionist. Presently, the simple average level of the Common External Tariff (CET) is around 15%, with substantial dispersion (WTO 1998: 29), amounting to an average weighted tariff of 24.4% (Ng and Yeats 1999: 28). In addition, there are numerous non-tariff barriers. Accordingly, a study on trade policy and governance in Africa assesses Namibia's trade policy as 'very poor', i.e. rather restrictive (Ng and Yeats 1999: 28). This implies a strong importance of SACU income in total revenue (see below Section 3.2).

The system of tariff and non-tariff barriers is very complicated and has some 7,800 lines, with a maximum rate of 61%. With the exception of the low taxation of capital goods, it is a system of cascading rates (lowest on raw materials, highest on consumer goods) and serves primarily the protection of South Africa's industry (see Table 1). Most important in terms of revenue collection are taxes on intermediate goods, which amount to 42% of all tariffs collected in 1996 (they have a simple average rate of 7.1%). Taxes on manufactured consumer goods come second with a share of 28.2% (average rate of 14.0%). These figures indicate the assembly type of South Africa's industries. The system establishes a bias towards import substitution, and therefore an anti-export bias.

² Traditional non-tariff barriers are defined as barriers to trade which can be addressed by means of changes in Government legislation, regulations and procedures. Non-traditional non-tariff barriers are, for example, the perception of traders; the capacity of trade promotion agencies; limited information on trade opportunities etc.

Namibia has established a number of export incentives in order to overcome the anti-export bias of the SACU system, including tax reductions, training allowances and export promotion allowances. However, the success of these schemes has remained limited by red tape (MTI 1999a).

Table 1 SACU import tariff rates by sector (1996; in %)

Sector	Trade wt'ed Ave. Rate	Collection Rate	Simple Ave. Rate	Maximum Rate	Minimum Rate	Share of Tariffs collected
All	6.1	4.5	8.3	61	0	100.0
Consumer Goods, Primary	1.1	0.7	6.4	35	0	0.3
Consumer Goods, Manufactured	11.1	10.8	14.0	55	0	28.2
Intermediate Goods, Primary	2.2	0.2	2.5	26	0	0.2
Intermediate Goods, Manufactured	5.7	4.5	7.1	61	0	41.8
Capital Goods	1.6	2.6	6.2	61	0	14.0
Textiles And Garments	27.4	14.5	13.0	52	0	9.4
Passenger Motor Cars	60.7	26.4	34.9	61	0	4.0
Petroleum and Power	0.0	0.0	3.5	15	0	0.1
Other	37.4	5.8	17.3	46	0	2.0

Source: World Bank (1999)

3. Impacts of trade policy on poverty and inequality in Namibia

One can distinguish three main effects of a liberalised trade regime. It may influence growth, the government budget, and income distribution. This section is structured along these dimensions.

3.1. Growth impacts

The effects of trade policy on economic growth are a controversial issue. A number of authors such as Sachs and Warner (1997, 1995), Edwards (1997) Ng and Yeats (1999) find empirical evidence for a statistical and significant relationship between openness and growth. Sachs (1997) shows that African countries would have grown 1.4 % higher if they had implemented the same trade policy as in South East Asia, but still have the adverse geographic and structural conditions (climate, landlocked and transport). Applying this scenario on Namibia's case, its growth rate may double. Other argues that it is a spurious relationship between trade policy and growth since growth may vary during periods when trade policies stay the same. It is according to Wood and Berge (1997:54) wrong to expect that open trade policy will lead to South East Asia's outcome when the country in question has a low skill/land ratio as is the case in Namibia. Countries will trade according to their resource endowments. Only when they have high skill/land ratios, they will export manufacturing products. Such products are assumed to have higher potential growth effects than primary products. An interesting contribution to this debate is Rodrik (1995) which shows that

investment, not trade was the engine to growth in South East Asia. On the other hand Rodrik argues that investments generated demand for imported input, supporting the idea that trade and economic growth are interlinked.

Even though the theoretical foundation for such a relationship is yet not clear, some mechanisms of open trade policy stimulate economic growth. Openness to trade may effect the level of the steady state income through learning effects from the use of imported goods or through technology spillovers. Increased competition may also enhance total factor productivity and therefore economic growth. Trade may also facilitate the mobility of factors and therefore promote the convergence of income across countries.

Leaving this controversial growth issue aside, few disputes the fact that trade liberalisation has static income effects (one-off increase in income level). Different estimates are given in the literature, but they are generally assumed to be in the range between 2% -10% of GDP. Trade liberalisation will also influence the distribution of income and thereby the poverty situation. The scarcest factor of production loses, while the abundant factor gains. We assume that similar mechanisms occur in the Namibian case.

3.2. Fiscal impacts

One key concern with trade liberalisation is the negative impact it may have on social spending through the negative impact it will have on taxes on foreign trade - in general, developing countries are highly dependent on taxes on trade - Namibia is a case in point. However, to assess the fiscal impact on the poor and on income distribution in general, a more comprehensive analysis is necessary:

- The poor are concerned as tax payers.
 - The overall tax burden (tax revenue as % of GDP) is important - a high tax burden will stifle economic activity and thus hurt the poor.
 - The distribution of taxes will affect income distribution.
- The poor are concerned as beneficiaries of expenditure.
 - Less expenditure means in general less expenditure for social spending.
 - However, the distribution of expenditure in general, as well as of social expenditure, is relevant.
 - The efficiency of public spending is important.
- If expenditure is financed through increasing debt, the poor are negatively affected, as an increasing share of expenditure will have to be devoted to debt service.

Namibia's tax burden has increased significantly over the last years, from 29.5% in 1994 to 33.7% in 1999. Only a few high income countries surpass this rate. This has an anti-poor impact by stifling business activity and thus employment.

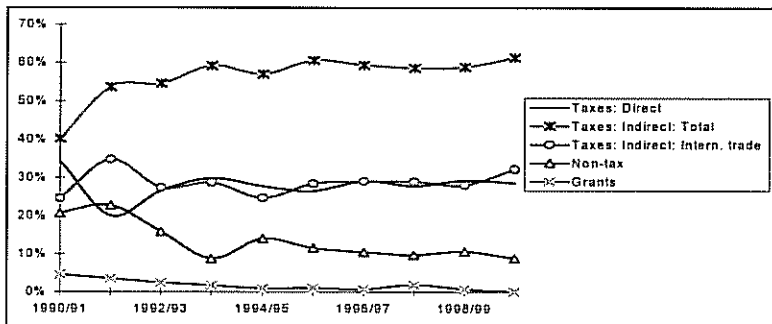
The most important tax source are indirect taxes, notably General Sales Tax (GST) and Additional Sales Tax (ASD). Presently, there is less than perfect compliance with the GST. Especially in the North, where most of the poor live, tax enforcement is weak.

About 30% of tax income comes from SACU. As this is a tax on imported consumer goods, the impact on consumers is dependent on the import-intensity of their consumption basket. In a developing country, one would expect a lower import intensity for poorer and for rural households. However, this difference is not big

because few consumer goods are produced in Namibia, and the import intensity of poor and rural household consumption is high. As far as production inputs are taxed, the impact depends on the import-intensity of the production process of the enterprises.

Direct taxes amount to less than 30% of total tax income. The poor are less affected by direct taxes. Thus, a higher contribution of direct taxes could be expected to be pro-poor. However, experience shows that higher taxation of labour incomes increase the price of labour and thus reduce employment growth. In general, high direct taxation is not advisable because it results in a reduction of entrepreneurship and investment, and thus higher unemployment for low-income households. It is expected that any gain to these households from redistribution from higher taxation would be less than the gain to them from maintaining the growth of income and employment. Namibia's over-complex system of company taxation, including a myriad of exemptions to promote specific sectors, cheapens the cost of capital relative to that of labour in many sectors. This is an anti-poor policy (World Bank 1995: 139).

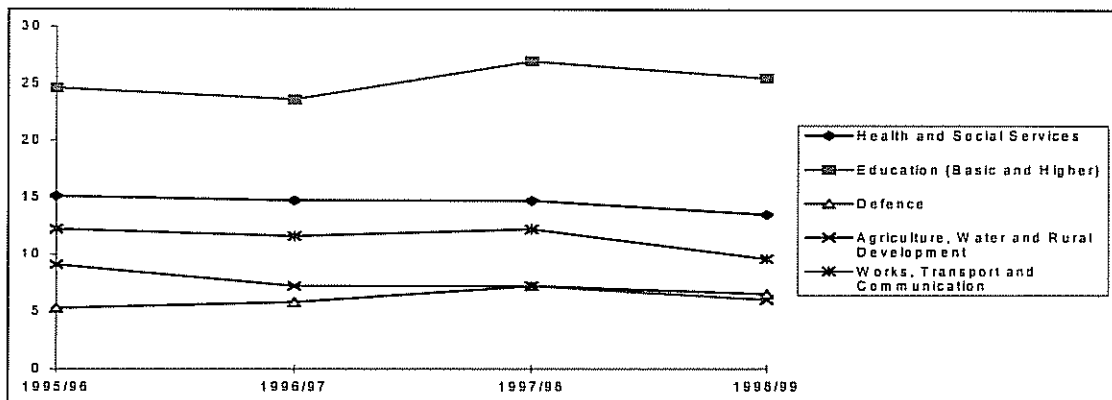
Figure 3 Composition of Government revenues in % (1990/91 - 1999/2000)



Source: Republic of Namibia, 1999

Trade liberalization leads to lower income from trade taxes. This will lead to a pressure to reduce spending, among others on wages and salaries and social services. A reduction of public wages would mainly affect the non-poor, while a reduction of social spending would rather have an anti-poor bias. The following figure shows the high importance of spending on health and social services, and education.

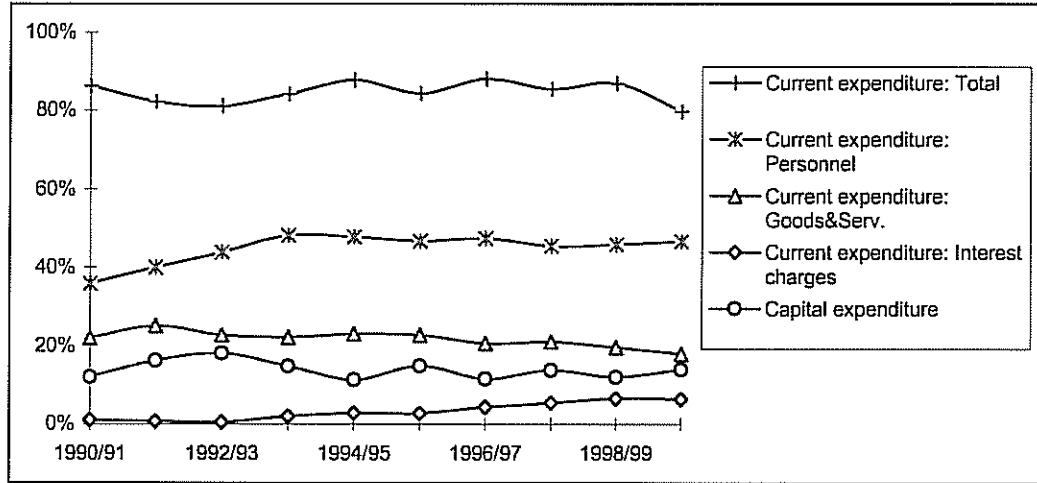
Figure 4 Expenditure structure by area (% of total budget), 1995/96-1998/99



Source: Government budgets, different years

Of concern is the increasing share of personnel costs (Figure 5), which squeezes capital expenditure, thereby reducing productivity of the publicly employed. Public employment in itself is not a pro-poor policy, as it is not primarily the poor who are publicly employed (see Figure 6 below). Furthermore, the increasing public employment contributes to the bloated size of the public sector, both from the revenue and the expenditure side.

Figure 5 Government expenditure by item in % (1990/91-1999/2000)



Source: Republic of Namibia (1999)

Namibia affords an exceptionally high share of public expenditure on education (9.4% of GNP), more than double of the average of countries with comparable incomes. This seems appropriate in light of increasing acknowledgement of the importance of skills and thus education as a powerful explanatory factor for growth. Expenditure on education is also directly pro-poor, as education is an important way out of poverty. However, the efficiency of the expenditure on education remains limited, as shown by the high rates of drop-out and repetition of students (Schade et al. 1998: 39-45). Areas limiting poverty alleviation include:

- the high subsidisation of tertiary education (which has higher private than social returns);
- persisting regional inequities (to the debit of the poorest regions with most of the poor);
- limited attention to needs of the labour market (e.g. emphasis on vocational training, entrepreneurship).

Namibia's health expenditure is also exceptionally high (more than double of SSA average). This is principally pro-poor, both directly by improving the living standard of the poor, and indirectly by improving the quality of the labour force. Health indicators (e.g. infant mortality) do already show improvement. Limitations of poverty orientation are continuing regional inequities (bias against the poorest regions) and limited accessibility of health services.

Namibia inherited a non-contributory pension scheme. Every old, blind or disabled person is eligible to a monthly pension of N\$ 160. This system plays an important role in poverty alleviation, as it is a major income source for the poor, reaching through the extended family beyond the beneficiaries. Drawbacks in terms of poverty alleviation are the fact that it is not targeted (the non-poor also benefit) and the fact that not all eligible persons actually receive their benefit: It is estimated that

only 79% of the elderly and 27% of the disabled receive their pension (UNDP 1996: 70).

In the Namibian agricultural context subsidies proved to have often detrimental effects and have not reached the target group. A drought scheme aiming at helping communal farmers to market their cattle that was implemented in 1995 led actually to an increase in the head of cattle. Obviously, money realised from the marketing scheme was used to purchase more cattle putting more pressure on already overgrazed land (Mupotola-Sibongo 1997: 54). Subsidies for tractor hiring, ploughing, other inputs and credit have had some shortcomings concerning the target group. A study in the northern communal areas found, that not only very few farmers received subsidies, some 3,500 out of 159,000 communal farmers (2.2%), but that particularly not the poorest farmers have benefited from these schemes, but farmers who were easily accessible and more vocal (NEPRU 1995). This example provides evidence that a cut in government expenditures will not necessarily hurt the poor.

In summary, Namibia can afford high social expenditures. Such expenditures are important to enable the poor to benefit from market integration and trade liberalisation. However, there are problems of inefficiency and of targeting of the poor. In general, the poor have less access to facilities as primary schools and clinics/hospitals. Other countries achieve more with lower levels of social expenditure.

Budget deficits have remained around 5% of GDP over the years, and public debt has increased steadily to around N\$ 4.5 bn in 1999 (equal to 23.5% of GDP). This limits increasingly the freedom of government to spend on poverty alleviation.

The Namibian experience is in line with international experience. There is no *a priori* relationship between fiscal discipline and level of social expenditures. One can even argue that countries which have been able to reduce their fiscal deficits, bring down inflation and achieve macroeconomic stability did not abate their allocations to social expenditures, while countries with unsustainable fiscal deficits had to cut social expenditures more heavily than others. Political commitment seems to be the decisive determinant of social expenditure (Husain 1996).

3.3. Distributional impacts

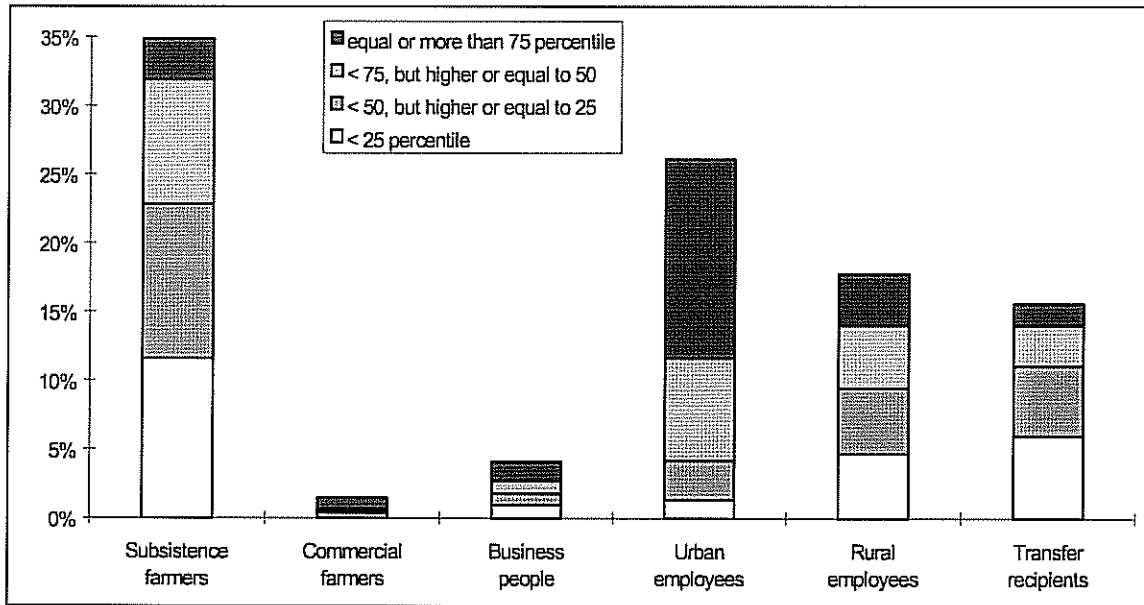
Key channels of impacts of trade liberalisation on the poor are their participation in the production process on the one hand, and their consumption structure on the other hand. There is evidence that the impact of trade liberalisation on income depends more on the household's sector of activity than on the income interval it is belonging to (Khan 1997). Therefore, functional groups were constructed, based on the 'main source of income' that was indicated in the NHIES survey. Information available is restricted to the main sources. This is unsatisfactory insofar as especially the poor tend to rely on more than one income source.

We distinguish 6 functional groups: subsistence farmers, commercial farmers, business people (urban and rural), urban employees, rural employees, and recipients of transfers.

Poverty is concentrated among subsistence farmers, which also have the lowest average income. The other two main pockets of the poor are among rural employees and transfer recipients. On the other hand, urban employees overwhelmingly benefit from high wages and salaries in the formal sector, their average income being almost as high as that of business. Interesting to note is that the percentiles are almost equally represented within the functional group of rural employees indicating that poor and affluent people are alike represented. The non-poor rural workers are predominantly formal sector workers, in particular in the

mining sector. The stark urban-rural differences are exemplified by the fact that urban employees receive wages and salaries that are almost two and a half times higher than those for rural employees. As importantly, there are few urban employees in the poorest quartile, while more than half of them are in the richest.

Figure 6 Percentage of functional groups belonging to certain income percentiles



Source: CSO (1996a)

Households are also affected through their consumption patterns. The following table shows that rural groups (subsistence farmers and rural employees) spend most on food in relative terms. These groups will be most affected by price changes of food, unless they are net producers, i.e. they produce more than they consume. In absolute terms, recipients of transfers spend least (N\$ 274) followed surprisingly by commercial farmers (N\$ 414)³ and subsistence farmers (N\$ 485) whereas urban employees spend most (N\$ 1,191). Households dependent on transfers (pensions, cash remittances) will also be hard hit unless they are involved in subsistence farming and are net producers. Net consumers will lose. As expected, urban employees allocate the highest share of all groups on housing, whereas commercial farmers have to spend a good deal of money on transport and communication.

³ This figure could be explained by the small number of households belonging to this group. Extreme low figures given by a few respondents do influence the mean value markedly.

Table 2 Spending of functional groups on different items in %

	Subsistence farmers	Commercial farmers	Business people	Urban employees	Rural employees	Transfer recipients	Total
Education	1.9	5.2	3.0	2.8	2.6	2.3	2.4
Food	57.5	35.6	40.9	35.7	52.8	51.8	49.1
Housing	24.4	22.7	28.5	31.9	20.0	31.1	26.8
Transport and communication	2.6	18.7	9.6	8.8	5.8	3.2	5.4
Clothing	5.4	1.0	6.2	6.3	6.0	3.2	5.4
Other	8.1	16.8	11.8	14.4	12.9	8.4	10.9
Total	100.0	100.0	100	100.0	100.0	100.0	100

Source: CSO (1996a)

A more detailed breakdown into percentile subgroups reveals that the lowest percentile group within each functional group spends always least on education, transport and communication, and clothing, but most on housing. This indicates that rather than the income than the functional group itself determines the consumption patterns.

Different population groups are affected in their capacity as participants in the production system as well as consumers. Our presentation will concentrate on the distributional effect of trade liberalisation on farmers, but we will also cover business people and urban employees. The reasons for this emphasis on farmers are as follows:

- Agriculture includes two production sectors that corresponds to two functional groups; subsistence farmers and commercial farmers.⁴ Subsistence farming is the most important income source for 35 % of the households in Namibia and the relative importance of this sector is increasing.
- For agriculture in particular, the functional group in which a household belongs to, influences whether you are poor or not. In the poorest 25 % of the households (lowest quartile), subsistence farming is the main income source for 46 % of the households. On the other hand, 54 % of commercial farmers belong to the richest quartile of the households.

3.3.1. Farmers

According to Table 1 above it can be seen that SACU's CETs are higher for manufacturing products than for agricultural products. In a general equilibrium model, one would expect that the removing of all tariffs will lead to a *relative* price increase of agricultural products - as the prices of imported manufactured goods fall more than those of imported agricultural goods - which in the longer run may stimulate the production and growth of agricultural products.

This is also what is expected as a result of the Uruguay Round. Industrialised countries such as US and EU are committed to reduce their subsidies on food products. One is therefore expecting an increase in border price (import parity) prices of these goods (Goldin et. al. 1993; 1995; FAO 1995; Ingco 1997; 1995).

⁴ Agriculture workers are included in rural workers.

It is, however, difficult to assess general equilibrium effects without a proper general equilibrium model. Let us rather look more closely on one particular market, the agricultural sector by applying a partial analysis similar to the approach taken in the rest of the paper. Unilateral removing of tariffs on agricultural products will lead to a reduction in (absolute) prices. Assuming world market prices are given for Namibia, the reduction in domestic prices depends on the size of the trade barriers.

Table 3 SACU's Current Import Tariffs and WTO- Cereal

Products	Current SACU rates %	WTO (bound rate) 2000. %
Maize	0 (Formula)	50
Maize flour	5	99
Wheat	0 (Formula)	72
Wheat flour	50	99
Millet	25	43
Sorghum	3	33
Agriculture	8	-

Source: MAWRD (1997)

Based on a particular formula, SACU imposes an external tariff on white maize and wheat when the US price of yellow rice is lower than a certain level. Currently the tariff is 0.

Art. 12 of SACU gives individual member countries a right to protect their agricultural products. Namibia has since the mid 1980s imposed quantitative restrictions on imports of maize and maize products and wheat and wheat products from *all* sources. Imports of white maize and wheat are not permitted until the entire marketable domestic harvest has been acquired by millers.

The price of white maize is approximately 20 % higher than if Namibia has no import controls, while the price of wheat is between 10 - 23 % higher (Division of Agricultural Planning 1997).

Namibia has during the current SADC negotiation suggested a tariffication of its quantitative restrictions. The tariff rate proposed for white maize and maize products are 20 % and 30 % respectively. Based on the price effect described above and Namibia's position in the SADC negotiating, we therefore assume that the tariff-equivalent of the current quantitative restrictions are in the range between 10 - 30 %.⁵ Removing these barriers will therefore lead to a similar reduction in producer prices, assuming world market prices are given.⁵

To assess the distributional effects of trade liberalisation on the agricultural sector we analyse the supply responsiveness of farmers in this section. We expect that trade liberalisation results in increases or decreases in prices of agricultural products. These price effects may create windfall gains or losses respectively. Based on

⁵ Low (1994a) refers to pre-Uruguay Round tariff equivalent of 120% and 68% for wheat and maize respectively, indicating that our estimates are biased downwards.

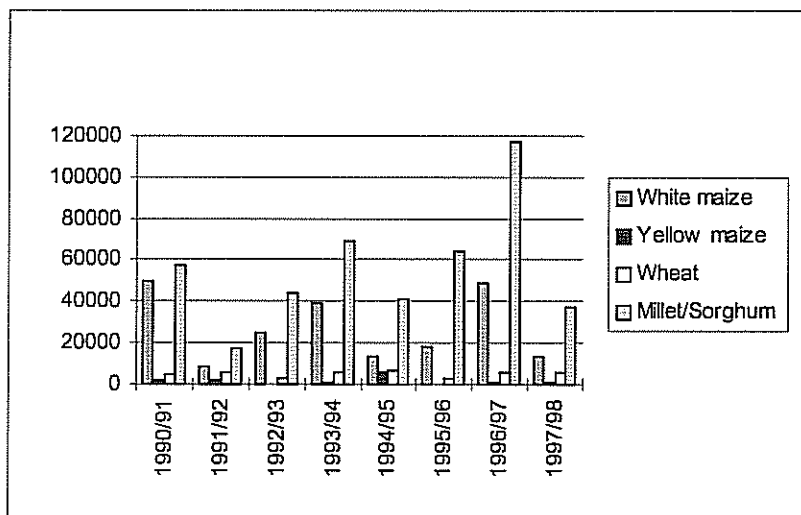
⁶ Low (1994b) assumes that prices of maize will reduce by 30 % if Namibia deregulates its maize sector.

historical data, this section intends to shed some light on how the producers respond to changes in prices (we are unable to control for other variables determining farmers response). If producers were non-responsive in the past, we may assume the same for the future. Unless farmers respond to price changes through a change in their production, the main effect of trade liberalisation on the farmers is a distributive one only: this distributive effect depends on whether the farmer is a net producer or a net consumer. Deficit producers will gain (lose) if prices decrease (increase), while surplus producers will lose (gain).

3.3.1.1. Crops

Namibia is a net importer of cereal, which constitutes almost 50 % of the total calorie intake in Namibia. On average each person consumes 132 kg cereal per year. For the 1998/99 season FAO (1999) estimates the import requirement to 155 tonnes (mainly maize) or 65 % of domestic consumption (estimated to 240 million tonnes). Removing trade barriers in this sector will reduce the prices of imports of cereal and thus leading to a reduction in domestic prices. Consumers will gain. At the same time it may influence production. The following figure gives an overview of total cereal production (in tonnes).

Figure 7 Cereal production in tonnes (1990/91-1997/98)



Source: MAWRD (1998)

Millet (Mahangu)/Sorghum is the most important cereal produced. During the last years its share of total domestic production of cereal has varied between 60 -75 %. In terms of area planted its importance is even higher (80% - 90%). In the communal areas in the north, millet covers 77 % of total grain production (CSO 1998). Millet is approximately 4-5 times more important than Sorghum. It is only produced in Northern communal areas, and mainly consumed in rural areas, especially in the north. Millet is preferred by the majority of the rural households to maize meal (Keyler 1994). Imports of millet is mostly from Angola. Since there are few farms with surplus production of millet, and millet is the common staple food, millet production is generally not traded. According to Keyler (1994), less than 10 % of millet production is commercially traded.

The large increase in price index for sorghum and millet, without any corresponding changes in production and trade of millet (MAWRD 1998: Table 3.2), indicates that the supply is inelastic to prices of millet. But is the supply influenced by the prices of other crops?

Liberalisation will lead to a lower price of millet, but an even higher reduction in the price of maize since the external tariff of maize is higher than for millet. Since the price of millet reflects the price of maize, an additional indirect price reduction of millet will occur. However, commercial trading of millet has not increased even though prices of maize has increased. One may therefore also assume that the crossprice elasticities of supply is Zero while the demand crosselasticities are positive. A potential reduction in prices of maize due to trade liberalisation will therefore probably lead to a lower price of millet, but since only a small part of millet is traded and the supply is inelastic to price, we expect that the effects on producers are minor.

Let us now look at the maize sector. White maize is the second most important cereal. According to MAWRD (1998: Table 4.7.1), in 1997 72 % of white maize production was grown by the commercial sector. The rest was grown by the communal sector in Caprivi and Kavango. Imports of white maize have during the last years varied between 40,000 and 90,000 tonnes.

From Figure 7 and

Figure 8 it can also be seen that production, consumption and imports have fluctuated for all the individual categories of cereal, but mainly for millet and white maize. Total consumption or supply (imports and production) of grain also fluctuates.

Table 4 below illustrates the grain production sector in Namibia. It comprises around 103,000 units. Most grain farmers are very small and those shaded in the table generally correspond to surplus producers.

Table 4 Structure of Grain Production in Namibia - Net Producers

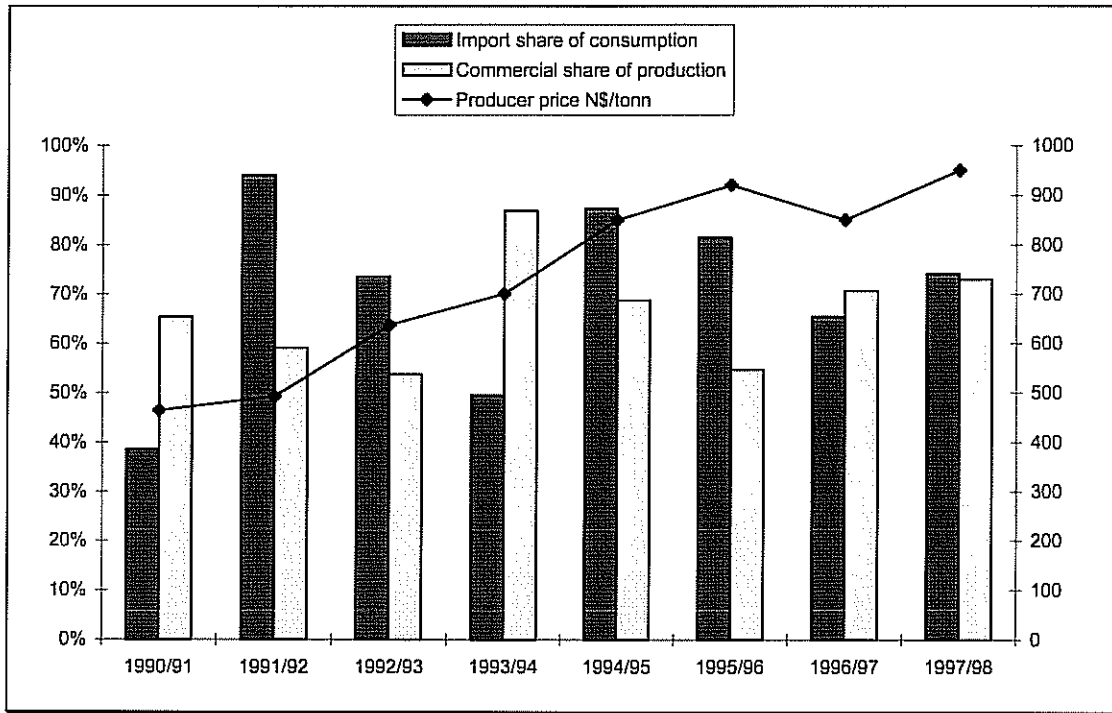
Production Units (hectares)	Number	Grain Area
Communal 0-5	89,867	206,944
Communal 6-10	11,490	73,365
Communal 11 +	847	11,704
Emerging commercial	139	11,120
NDC farms (irrigated)	4	1,064
Private dryland	86	12,900
Private irrigated	35	2,800
Sum	102,468	319,897

Source: Division of Agricultural Planning (1997)

Surplus producers only constitute 1 % of the farmers and their grain area constitutes around 10 % of the total grain area in Namibia. Except for a small group of large communal farmers (Communal +11 in table above), deficit producers correspond to communal farmers (or subsistence farmers) while surplus producers correspond to commercial farmers.

By disaggregation between commercial and communal farmers, an indication of the relative responsiveness of the commercial sector to price changes is given in Figure 8.

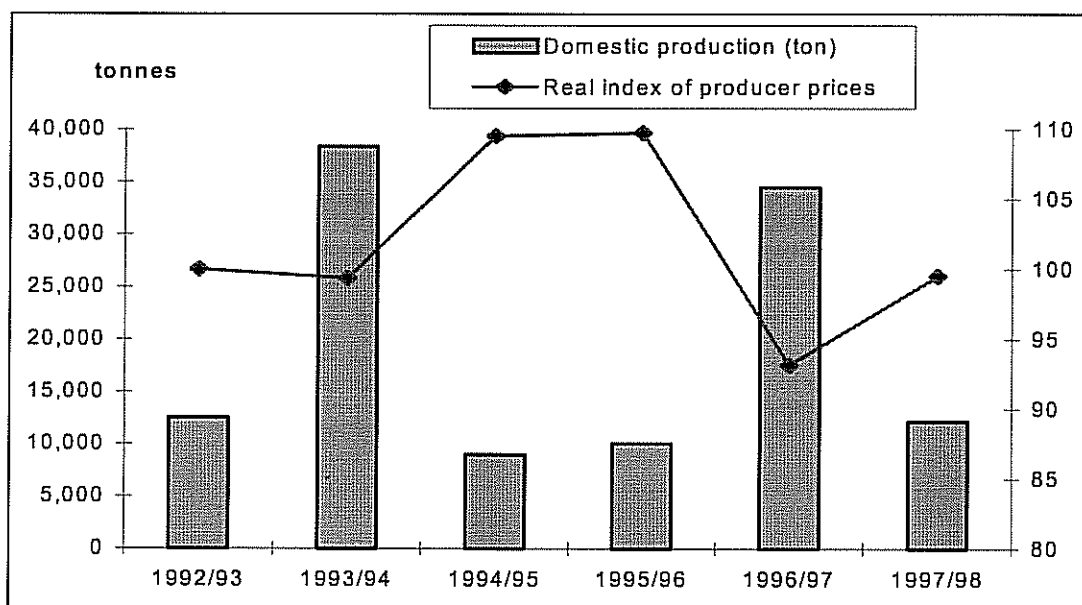
Figure 8 Sectoral composition and price changes for white maize



Source: MAWRD (1998)

- The figure indicates absolute price increases, but it appears that obviously no correlation between price and domestic commercial share of production exists. Thus, the commercial sector is neither more or less price elastic as the communal sector as far as white maize is concerned. In fact, both sectors' supply is price inelastic (see Figure 9).
- The import share is not determined by price, since it is a residual variable depending on the domestic production.

Figure 9 Correlation between production and real output price indices for white maize: commercial farmers



Source: Namibia Agricultural Union (1998: table 18 & 20)

Although nominal producer prices have increased significantly from 1990 to 1997, the real prices do not differ much from the 1992/93 level. Since farmers have no practicable option other than to sell all their grain into the domestic market while millers must buy the full domestic marketed harvest before getting a permit to import, supply is perfectly inelastic. This indicates that commercial farmers do not respond to price changes. Since we found that communal and commercial farmers responded similarly to price changes (see

Figure 8) and face similar rules concerning the marketing of the product, this indicates that neither communal farmers nor commercial farmers seem to respond to price changes.

Because subsistence farmers are net consumers and do not respond to price changes, the overall conclusion with respect to cereal is that they will gain from trade liberalisation⁷. The opposite is the case for commercial farmers.

3.3.1.2. Livestock

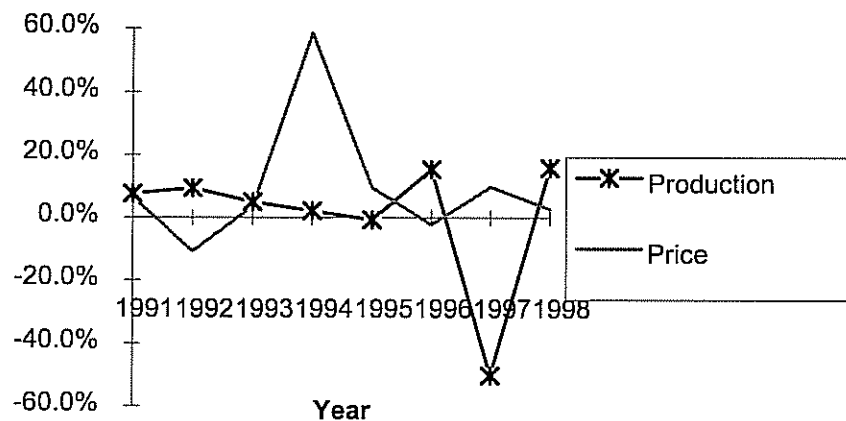
Cattle is the most important livestock in Namibia and constitutes around 40 % of agricultural output. In 1997 the cattle herd was about 2.1 million of which 61 % was communal. Each year around 20 % of the herd is marketed. 80 % of the marketed production is exported, mainly to RSA. The importance of RSA as an export market can be illustrated by the fact that 150,000 live animals are yearly exported to RSA of which 60 % stems from Eastern and Northern Communal areas. In addition 27,000 tonnes of beef is exported to RSA, both from commercial and communal areas. Namibia has a quota of 13,000 tonnes of beef to EU, only produced by commercial farmers.

⁷ Currently it is mainly a political motivation for the protection of domestic white maize production: the potential riots among producers in Caprivi. The Government is not so concerned about what can happen in the commercial sector. It may for instance be the case that farmworkers may be sacked.

Beef constitutes around 80% of meat production and is therefore of severe importance for farmers' income. SACU has currently a CET tax on beef of 40 %. If Namibia liberalises and thereby withdraws from SACU, it may risk that South Africa retaliates and imposes a tariff of 40 %. If this is the case, it will definitely harm all livestock farmers (except the poorest of the poor with few livestock) unless they are able to sell in other markets, increase their production or switch to other activities. However, this does not appear to be a realistic scenario, because it would undermine SACU's legitimacy towards WTO. We therefore assume that the external conditions facing livestock producers are the same as under the current trade regime. They may even improve since the relative price of cereal to beef decreases and farmers are net consumers of cereal but net producers of beef. In the following we assume that beef prices *do not decrease*^a.

The following two figures give an indication to what extent beef and mutton producers respond to price changes. If producers are responding to changing prices, we would expect to find a positive relationship between prices and production, indicating an upward sloping supply curve. The figure below illustrates the growth rates in beef production and the corresponding growth rates in the average producer price.

Figure 10 Growth rates of beef production and producer prices (carcass) in the commercial sector (%)



Source: Namibia Agricultural Union (1998: table 4)

The following conclusions can be drawn from the figure above:

- No relationship seems to exist between prices of beef and production even when we are adjusting for a time-lag between the two variables. This result was also confirmed by undertaking a regression analysis and corresponds to the analysis in Von Bach et al (1992).
- There are other explanations rather than strictly economic reasons for the variation in production (drought, inflexible agricultural system).

An increase in prices of beef and live animals will therefore most likely lead to an increase in income both for subsistence farmers and commercial farmers, but hardly have any effect on production. As opposed to the cereal case, both groups of

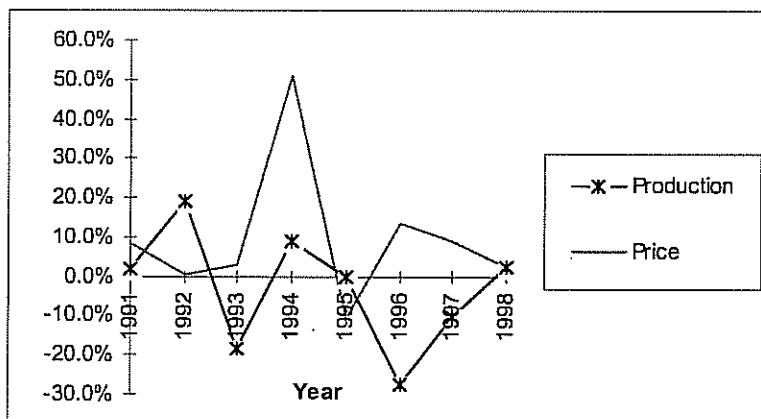
^a We analyse the case in which they increase, because this is the most interesting case.

farmers may gain due to trade liberalisation since one can assume that subsistence farmers generally are surplus producers of livestock.

An extension of cattle farming cannot be expected because land is often already overgrazed and cannot cope with a further increase in the number of cattle. The extent of exports of cattle on-the-hoof to RSA, weaners in particular underscores the poor soil quality and the difficulties in feeding it in Namibia. Trade liberalisation will hardly have any effect on these feeding possibilities. Scarcity of water adds to the limitation. Thus, the supply responsiveness of commercial farmers, although market oriented and well informed about prices for different kinds of agricultural products, is restricted by natural conditions. Apart from prices and natural conditions the accessibility of slaughtering facilities influences the supply responsiveness as a study conducted by von Bach *et al* (1992) revealed.

Mutton constitutes around 19% of meat production. Figure 11 below illustrates the growth rates in mutton production and the corresponding growth rates in average producer price.

Figure 11 Growth rates for mutton production and producer prices



Source: Namibia Agricultural Union, 1998: table 4

We can hardly find any particular pattern between prices and production. This indicates an inelastic supply curve and the conclusions for farmers are similar to those derived for beef producers.

In sum, we find little support for the conclusion that trade liberalisation has a substantial impact on agricultural supply. The responsiveness of farmers is limited by aridity, poor soil quality, access to marketing facilities and risk aversion. This is also in line with results obtained from other countries (Wold 1997).

The reasons for these rigidities are many. Farmers are only able to increase production of agricultural goods or switch from one agricultural activity to another one, if the soil and rainfall allows to do so. Namibia is characterised by arid or semi-arid geographical conditions, rainfall is low and unreliable and the carrying capacities of the soil is poor. Cattle farming is possible in the Northern and Central regions, while sheep farming is dominating in the South. Since water subsidies will gradually be phased out, the viability of irrigation schemes as an alternative is limited (Auty 1996: 26; NPC 1997).

Communal ownership of land implies that the possibility to extend plots for crop production or to increase the number of cattle is limited. Further, the access to markets, credit and inputs is also restricted (see also Presland and Pomuti 1998: 17). Thus, it can be assumed that price changes and the change of relative prices do not have a major influence on their decision of what kind and what quantity of crop to plant.

Von Bach *et al* (1992:429) further found that 'none of the trend, climatological or economic variables has a significant effect on cattle numbers and stocking rates in the traditional communal areas'.

Since structural rigidities are limiting the potential change in production and the switching to new activities, the effects of trade liberalisation on farmers can therefore be analysed through its price effects, irrespective of quantity changes. The effect of decreasing prices of cereal and increasing or stable prices on livestock depends on whether farmers are net producers or not, and their expenditure pattern on different commodities. From the discussion above, most farmers are net producers of livestock and therefore the net effect is positive. Subsistence farmers are, however, net consumers of cereal. Also in this case trade liberalisation will have a positive effect on the poor.

3.3.2. Business people and urban employees

The two functional groups 'business people' and 'urban employees' are discussed together, since distributional impacts are supposed to be similar. However, a distinction has to be made between business and employees in the urban formal sector on the one side and business in the small scale/informal sector and its employees on the other side. While the former operates sheltered by the CET, the latter operates closer to market conditions.

In the formal sector, the public sector is large and growing, despite an official freeze in recruiting. Present public employment is estimated at over 78,000 (NEPRU 1999), while the employed labour force amounts to 357,000 (Ministry of Labour 1998: Table 4.2). The parastatal sector, taken over from the pre-independence administration, is growing as well. The parastatals have a dominant position in many of the markets they operate in (Abdel Rahim 1996).

In the private formal sector, manufacturing remains small. Due to the small and dispersed population, the market is dominated by South African firms. The number of companies in most sectors is small and competition is limited. The state of low competition and wide-spread inefficiency can be explained by the shelter provided by the CET. The market structure can be classified as rather oligopolistic or even monopolistic ensuring rents for companies cushioned in a sheltered environment. For example, an analysis of the Namibian banking sector shows that the profitability is very high compared to the ratios achieved in South Africa (returns on assets and equity being twice as high), and also relatively high in comparison with Botswana. This can be explained by risk-averse attitudes in a protected environment, higher charges, and lower expenditures. Indicators point to a lack of competition in the banking sector (NEPRU and Trendline 1998).

As shown above in Figure 6, urban employees are the second most important functional group with a quarter of households - business people only amount to 4%. It is significant that more than half of the urban employees are in the highest quarter of incomes. These two indicators show both the large size of the formal sector and its high average income level. Both are untypical for SSA countries.

Also in distinction to other countries, Namibia's economy is highly formalised and highly integrated into the South African economy - the informal, small enterprise sector remains small and trade oriented - 70-90% provide services. While in other SSA countries small enterprises (with less than 10 workers) provide consistently more than half of industrial employment, in Namibia this share is 12% (Hansohm 1996: 9). Informal sector workers often combine this work with other activities. Those who do so are often not classified as 'urban employees' (but under their major activity).

Table 5 Wages in Southern African Countries

	Semi-skilled	Skilled	Managers
Botswana	100	600	1,000
Lesotho	97	-	-
Kenya	40	90	160
Malawi	33	-	-
South Africa	350	-	-
Zimbabwe	65	500	1,000
Namibia	277	1,111	1,944

Source: Ministry of Trade and Industry (1994)

Trade liberalisation will threaten these rents by more international competition owing to lower tariffs resulting in pressure on wages and salaries or even in retrenchments. Further, the limited flexibility of the formal labour market and skills shortages will limit the responsiveness of employees to trade liberalisation.

On the other hand, companies already confronted with world wide competition will be better off when it comes to their adaptiveness to changing environments. They could even benefit from new markets opening up due to trade liberalisation. However, international competition will force companies steadily to increase productivity and effectiveness with impacts on the number of employees and their remuneration.

On the positive side, imported inputs for industries (either directed at the domestic or at the world market) will become cheaper. Because of the import intensity of industries this is an important impact. Food and other consumption goods will become cheaper (the poor do not under the present system benefit from subsidised food), which is also an important impact with respect to poverty alleviation. Again, because of the import intensity of the consumption basket of even the poor, this impact is large.

4. Conclusion

The analysis shows that trade liberalisation can be expected to lead to higher growth. Namibia conforms to the typical SSA picture of low growth and high trade barriers, which are claimed to be causally linked (Sachs and Warner 1997, Ng and Yeats 1997, 1999). The key channel is cheaper imports which stimulate exports and boost incomes of consumers.

As in many other African countries, trade liberalisation would contribute to a more equal income distribution, as the main losers on the income side are those in the formal urban sector (business and employees in these firms and in the public sector), who generally do not belong to the poor.

On the downside, the evidence shows that the distributional impact is large as compared to the efficiency and growth gains. This goes some way to explain the seeming paradox of the resistance to trade liberalisation in the presence of both low growth and high barriers (a point emphasised by Rodrik [1998]).

A major impact of trade liberalisation would be fiscal. 30% of Namibia's taxes are on foreign trade. The loss of these taxes put pressure on the high social expenditure and are thus anti-poor. However, the negative impact is qualified by the too high level of present taxation (which implies that one should not aim at replacing current taxes fully), and the exceptionally high social expenditure with limited efficiency. Examples indicate possibilities of both streamlining the budget and increasing the impact of social expenditure on poverty (Husain 1996).

The gains from trade liberalisation are not as clear cut positive as in other countries. On the positive side, many of the rural poor (the subsistence farmers) will gain from lower grain prices, as they are net consumers of grain. At the same time, the commercial grain farmers will lose (this will have some anti-poor impact, as far as the agricultural workers are concerned). Concerning beef, the most important agricultural product, both subsistence and commercial farmers will gain as net producers from prices increasing relative to cereals.

However, on the production side, the analysis has shown that the agricultural sector, which has the largest number of poor, faces severe obstacles to gain from trade liberalisation. First, strong supporting measures are necessary in order to enable the poor to benefit (e.g. marketing, extension services). Second, even in the presence of such measures, the limits to growth in agricultural output and productivity are narrow because of inherent constraints (rainfall, soil). For this reason, a key measure to alleviate poverty in Namibia would be a bundle of measures to assist the rural poor to switch their activities to non-agricultural areas.

Last not least, one conclusion is obvious from this analysis: the need for a system of comprehensive and timely economic statistics as a basis for appropriate economic policy.

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