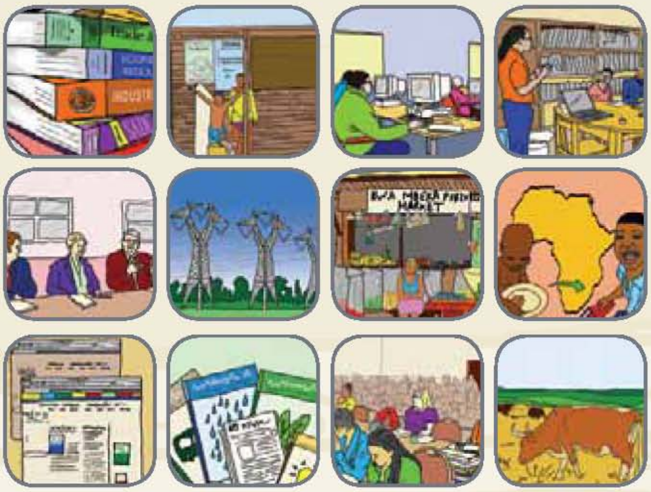
TRADE & INDUSTRIAL POLICY STRATEGIES



INDUSTRIAL POLICY THEMATIC WORKING GROUP

Linkages between Trade and Industrial Policies in Botswana

Farai Zizhou

December 2009

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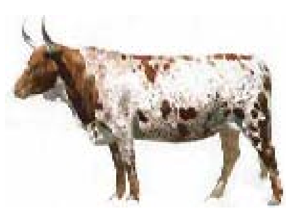

indigenous **growth**

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Map 1. Geographical location of Botswana within SADC Region

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LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific States
AGOA	Africa Growth and Opportunity Act (of the USA)
BDC	Botswana Development Corporation
BEDIA	Botswana Export Development and Investment Agency
BHC	Botswana Housing Corporation
BIDPA	Botswana Institute for Development Policy Analysis
BLNS	Botswana, Lesotho, Namibia and Swaziland
BMC	Botswana Meat Commission
BOB	Bank of Botswana
BOTEC	Botswana Technology Centre
BOTSBOA	Botswana Textile and Small Business Owners Association
CEDA	Citizens Entrepreneurial Development Agency
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CSO	Central Selling Organisation
ECI	Export Concentration Index
EFTA	European Free Trade Area
EPA	Economic Partnership Agreement
EU	European Union
FAP	Financial Assistance Policy
FTA	Free Trade Area
GDP	Gross Domestic Product
HS	Harmonised System
IEPA	Interim Economic Partnership Agreement
ITC	International Trade Centre
LEA	Local Enterprise Agency
MFN	Most Favoured Nation
MIDP	Motor Industry Development Plan
NDP	National Development Plan
RISDP	Regional Indicative Strategic Development Plan
SACU	Southern African Customs Union
SADC	Southern African Development Community
SMMEs	Small Medium and Micro Enterprises
SSA	Sub-Saharan Africa
TDCA	Trade and Development Cooperation Agreement
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
WTO	World Trade Organisation

Executive Summary

This report results from a desk study the aim of which was to establish the link between Botswana's industrial policy and its trade policy. The study concludes that the link between the two has been weak, due partly to the cession of industrial policy to South Africa for most of the pre- and post-independence period.

Botswana is considered the success story of Southern Africa because of its spectacular rise from being one of the 20 poorest countries in the world at independence in 1966 to an upper middle income country with GDP per capita of about US$7,500 in 2008. Botswana's real growth rate in total trade of goods and services has been uneven, from an average of 2.4 percent in 2000–04 to 8.5 percent in 2005–06, and dropping to 3.4 percent in 2007 The growth of output as measured by GDP averaged 6.1% for the 20 years from 1987 to 2007, but has slowed down to an average 3.5% between 2005 and 2008. GDP per capita rose an average 3.2% between 1987 and 1997, then 4.6% between 1997 and 2007. The accumulation of foreign reserves by 2007 amounted to more than two years' import cover (10 billion Pula in 2007 alone). The long-time running of annual budget surpluses has been a central pillar of government policy and the above indicators demonstrate the reason why Botswana has been called a success story.

However, the dominance of the diamonds sector is evident in overall output performance, contribution to GDP, contribution to state revenues, as well as contributing to international reserves which in 2008 amounted to over two years' import cover. Other sectors of the economy, particularly agriculture and manufacturing, have declined in importance over the years and, in 2008, contributed less than ten percent between them. The beef industry, which sustained the economy before and during the early years of independence, declined rapidly in terms of exports with the country failing to meet its preferential quota in the EU market. The mining industry contributes only about 4% to employment due to its capital intensive nature. Agriculture has many people engaged in subsistence farming with special focus on cattle since the country's climate is generally unsuitable for crop agriculture. Almost 40% of formal sector employment is in the central and local government sector. The participation of Batswana in major productive activities, particularly in the export sector, is still very low.

The foregoing sums up the environment in which trade and industrial policies were crafted. Botswana has deliberately targeted industrialisation as a strategy to overcome the high concentration of economic activities and welfare of the country centred on diamonds. The strategy has involved financial support upon the setting up of new industries, as well as special support for citizens to engage in new business ventures. The Policy on Small Medium and Micro Enterprises (SMMEs) in Botswana strives to create an enabling environment for the establishment, growth and development of such firms. A local procurement programme for government departments has been operational since 1976, with reforms in its operational modalities being undertaken over the years. Most of the policy reforms undertaken by government have been assisted by informed research by local research and academic institutions. Multilateral organisations have also played a role in an advisory capacity as well as in research support.

Trade policy has centred on negotiating for preferences for Botswana's products whilst securing import requirements at competitive prices. An outward oriented industrial and trade policy puts emphasis on openness and competitiveness at the global level. Most of Botswana's manufactured exports are sold under preference, whilst diamonds and copper nickel are sold to Europe duty-free. Beef is sold preferentially to the EU under quota. Textiles markets are SACU (duty-free) as well as the United States of America (duty-free under the Africa Growth and Opportunity Act (AGOA) arrangement). South Africa accounts for more than 85% of Botswana's imports and these are duty-free under the SACU agreement. Botswana now has duty-free access to markets of the majority of SADC states following the attainment of the SADC Free Trade Area. Botswana also enjoys bilateral duty free trade agreements with Zambia, Malawi and Zimbabwe. South Africa and Zimbabwe are the most important destinations for manufactured exports.

However, there is evidence that the formulation of trade policy, such as tariff policy, was largely disengaged from Botswana's industrial policy considerations. This is despite the fact that the authorities in Botswana still had some leeway to formulate and implement complementary policy measures within the boundaries set by SACU trade policy which, for a long time, was determined by South Africa. External trade indicators suggest that industrial policy initiatives, such as export diversification policy, have not yielded positive changes in the contribution of manufacturing to overall export performance. SACU MFN tariffs still offer a level of protection that has a price raising effect on inputs into Botswana that would otherwise benefit from a low tariff regime.

The study shows that the Botswana Government's policy of empowering citizens through local preference schemes runs counter to SACU free trade. This situation reflects the difficulty faced by new entrepreneurs to build competitive industries in a marketplace dominated by big and well-established producers based in neighbouring South Africa. SACU rules of origin largely contributed to the demise of one of Botswana's largest non-diamond investments that had been set-up to assemble motor vehicles. The vehicle assembly plant, a foreign investment project that had been established in 1993 was a result of deliberate industrial development policy which provided start-up and operational incentives. The textiles industry, which was also built around government's grant system and other business support, is now exploiting the opportunities offered by preferential markets within SACU and the European Union, as well as in the United States of America. This is an example of positive linkages between industrial and trade policies.

However, considering all factors that impact on manufacturing in Botswana and the trade in manufactured products, this author concludes that trade policy has been weak in its support for industrialisation in the country. The reform of SACU, however, now offers Botswana better prospects to strengthen the link between industrial and trade policies in a mutually supportive way.

1. Introduction

The focus of this paper is the relationship between trade and industrial policies pursued by successive governments of Botswana since independence in 1966. The paper outlines the main features of industrial and trade policies in Botswana before trying to establish a relationship between the two with a specific focus on the textiles sector.

Trade policy is defined in this paper as the set of government policies that govern the exchange of goods and services between customs territories. Trade policy includes: customs tariff policy; treatment of non-tariff barriers; trade agreements; export support programmes; export taxes and export bans; trade defence mechanisms such as import bans; safeguard measures, as well as trade restrictive measures such as single channel marketing.

Industrial Policy in this paper will refer to the set of government policy measures that define and lay down the rules for the establishment and/or growth of manufacturing activities in Botswana. Industrial policy measures include establishment rules; role of the state in industrialisation; incentives such as free or subsidised land, taxation regime, establishment grants etc; reserved sectors policy, as well as import substitution support programmes.

Industrial and trade policies are often used as tools, jointly or separately, to raise productivity and industrial competitiveness to ultimately improve the economic well-being of the people, and Botswana is no exception in that regard.

In discussing Botswana's trade and industrial policies and the relationship between them, this paper's terms of reference were provided by Trade and Industrial Policy Strategies (TIPS) who commissioned this study. The terms of reference are included as "*Box 1. Terms of Reference for the Study*" in the appendix. The following outline of the paper largely captures the essence of the terms of reference.

1.1. Outline of the paper

In line with the above terms of reference, the first section of this paper gives background information on the evolution of Botswana's economy since independence. The section highlights the major features of the economy including the roles of mining, manufacturing and the service sectors. That discussion provides the rationale for the industrial and trade policies adopted by government. The second part then discusses the objectives of the country's industrial policy whilst also highlighting the more salient policy features. The third section discusses the objectives of Botswana's trade policy, outlines the main policy instruments and some outcomes of the implementation of instruments represented by trade data. The fourth section outlines the main features of regional integration arrangements of which Botswana is a part, i.e. SACU and SADC, as well as the main features of other trade agreements entered into by Botswana and that help define the country's trade policy. The section also uses the example of the automotive sector to link trade and industrial policies. This is followed in the fifth section by a discussion of private sector and research institutions' involvement in evidence-based industrial and trade policy reviews. The penultimate section draws conclusions on the relationship between trade and industrial policies presented as a policy matrix highlighting compatibility or otherwise of aspects of the two policies. The paper ends with an overall conclusion drawn from all the foregoing.

The **Appendix** contains other data and information which aided this study whilst also detailing some of the more prominent indicators of the development of the Botswana economy.

1.2. Study objectives

This study seeks to establish the link or relationship between Botswana's industrial policy and trade policy. It should be clear from this point onwards that it is not about the success or otherwise of each policy. The presentation and discussion on outcomes are on the basis that positive outcomes are generally an indication that policies are working well, jointly or separately. The study seeks to outline the environment for both policies, including the role of other national regional or multilateral institutions in shaping the policies. Section 1.3 below presents the approach taken by this paper in trying to determine the existence or otherwise of linkages between the two policies.

1.3. Methodological issues and data limitations

This paper is mostly the result of a desk study, given the very low budget provision. This author reviewed a number of published works on various aspects of the Botswana economy including trade and industrial policy issues as well as the basic economic indicators. These works were critical, especially for the period immediately after independence in 1966 up to 2000. However, some recent works are cited, including works by the World Bank and the Botswana Institute for Development Policy Analysis (BIDPA). This author had the opportunity to discuss the policy environment with officials from BIDPA and the Ministry of Trade and Industry who gave an insight into some current policy initiatives.

In trying to establish a link between trade policy and industrial policy, the author came up against some methodological challenges. One question relates to whether, by definition, 'link' refers to a connection, causal relationship or dependence between the two policies or whether it relates to compatibility. This author decided to establish whether or not Botswana's trade policies since independence have been compatible with industrial policies. In other words, this study will seek to conclude whether or not aspects of trade policy in any way conflicted with various industrial policy initiatives. The results of the case-by-case analysis would then be combined to enable the drawing of overall conclusions on the relationship between trade and industrial policies pursued by Botswana.

Generally disaggregated and up-to-date data on economic performance is conflicting but this paper used official Botswana Central Statistics Office data alongside published International Monetary Fund (IMF) and World Bank, UNCTAD, ITC and other data wherever feasible, to get a fuller picture of developments over the years. Published up-to-date and disaggregated data on employment was difficult to get. Similarly, recent and disaggregated trade data was not available, save for highly summarised export data. Recent performance indicators for the various industrial and trade policy initiatives were not readily available. However, this author believes that the available data is still sufficient to illustrate the policy situation in Botswana, starting with the background information in section 1.4 below.

1.4. **Background:**

1.4.1. Gross Domestic Product

Botswana is considered the success story of Southern Africa (Ian Martin, 1989, page 45). The country has grown spectacularly since independence in 1966 when it was one of the poorest countries in the world. Botswana is now an upper middle income country with GDP per capita of about US$7,500 in 2008 (IMF World Economic Outlook database, October 2009). This per capita GDP is the second highest in SADC, with only the Seychelles having a higher per capita GDP. Gross National Product (GNP) grew by an average 6.4% between 1973 and 1985 (Ian Martin, 1989). GDP growth averaged 7% between 1996 and 2005, but has slowed down to an average 3.5% between 2005 and 2008. The IMF has projected real GDP to decline by about 10.3% in 2009 (*ibid.*), the first sub-zero performance since 1966. Table 1 below gives detailed GDP performance indicators for the period 2000 to 2009.

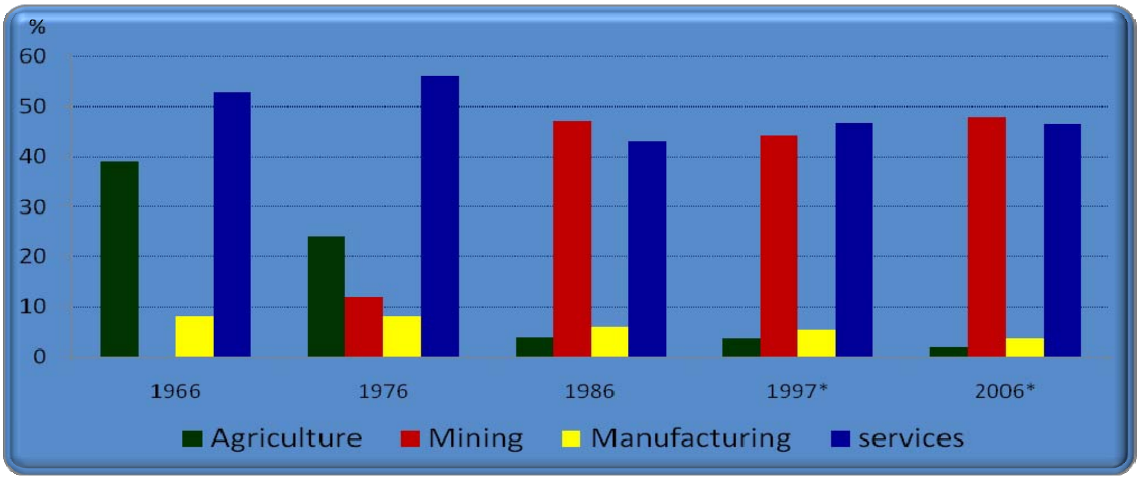
Table 1: GDP and Exports - Average Annual Growth %

Years	1987-97	1997-07	2006	2007
GDP	6.1	6.1	3.4	5.3
GDP per capita	3.2	4.6	2.2	4.0
Exports of goods and services	2.9	4.5	13.2	8.8

Source: World Bank Group, "Botswana at a Glance", September 2008 (see also **Table 16**, p. 40 for additional data).

At independence in 1966, agriculture (value added) contributed 39% to GDP, manufacturing contributed 8% whilst there was no mining (0%). The services sector, dominated by Government services, has contributed almost 50% to GDP since 1966. Figure 1 below provides a graphic illustration of the developments in the composition of GDP, whilst **Table 15** in the Annex gives the detailed data.

Figure 1: Composition of GDP by Sector, 1966-2006



Data Source: SADC Statistics 2005, IMF World Economic Outlook database, October 2009

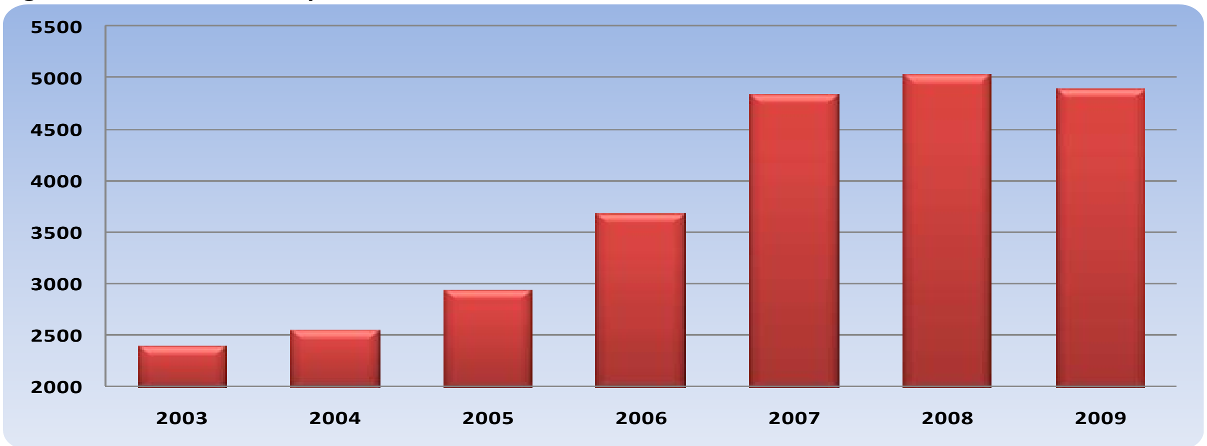
Ten years later, and following the discovery and exploitation of diamond fields, agriculture's share dropped to 25% whilst mining's contribution to GDP rose to 12%. The discovery of diamonds prompted the establishment of joint venture between the state and private investors (De Beers of South Africa) in the Debswana diamond mining company, due to the perceived strategic nature of the mineral. By the year

2000, mining (now including copper-nickel) accounted for 41.4% of GDP whilst agriculture's contribution declined further to 2.4% and manufacturing contributed 4.4% to GDP. By 2007, agriculture's contribution had fallen even further to only 1.8% to GDP, and mining remained strong at 42.5% whilst manufacturing declined yet again to contribute only 3.4% to GDP. The services sector which includes government services contributed the rest.

1.4.2. External Trade

Botswana experienced a mean growth rate in merchandise exports of 13% between 2003 and 2009. Growth slowed down in 2008 and is expected to register a negative value (-2.4%) in 2009. Figure 2 below shows merchandise export values peaked in 2008 at just over $5 billion. The 2009 decline reflects the projected decline in diamond earnings.

Figure 2: Merchandise exports 2003-2009 $M



Source: http://www.indexmundi.com/botswana/exports.html; 2009 figure is a projection.

Mining contributes more than 70% (on average) of export earnings. The sector itself is highly capital intensive, employing on average between 3% and 4% of the workforce whilst contributing more than 40% to GDP (BIDPA, World Bank, 2006). Exports of goods and services as a proportion of GDP declined from 75% in 1987 to 47% in 2007.

Table 2: Exports and Imports of goods and services

	1987	1997	2006	2007
Exports of goods and services	1,712	3,032	5,312	5,877
Imports of goods and services	1,007	2,367	3,464	4,387
GDP (US$ millions)	2,000	5,200	11,000	12,300
Proportion of GDP %				
Exports of goods and services	85.60	58.31	48.29	47.78
Imports of goods and services	50.35	45.52	31.49	35.67

Source: World Bank Group, "Botswana at a Glance, 2008".

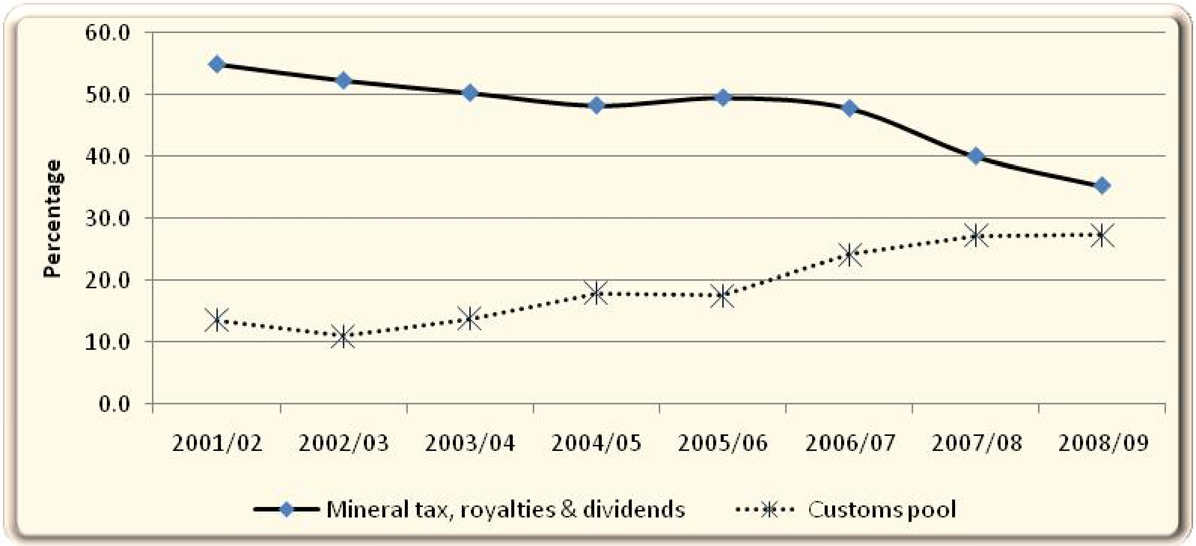
In addition to diamonds, other export products include copper nickel, textiles, and beef. Exports from the automotive sector were significant between 1993 and 2001 when the now defunct Hyundai motor vehicle assembly plant exported cars, buses and trucks to other SACU countries, mostly South Africa.

Almost all of Botswana's manufactured exports are sold under preference, whilst diamonds and copper nickel are sold to Europe duty-free. Textiles markets are SACU (duty-free) as well as the United States of America (duty-free under the Africa Growth and Opportunity Act (AGOA) arrangement). Beef is sold at preferential market access to Europe (duty-free under quota of 19,000 tonnes). This paragraph highlights the importance of preferential trading arrangements in Botswana's trade policy.

1.4.3. Macro-economic Management

The management of the macro-economy following the discovery of diamonds provided a firm macroeconomic foundation for industrial and trade policies. Since then, the mining sector, dominated by diamond mining, has contributed a significant share of government revenues. Figure 3 shows that the contribution of mineral taxes and royalties to total revenues has been declining steadily from 55% in 2001/02 to 35% in 2008/09, even though in Pula terms, the contribution has been increasing. The declining in the minerals sector's contribution is largely reflective of the growing importance of the contribution of Botswana's share of the SACU revenue pool. The latter's share increased by 100% from 13.6% in 2001/02 to 27.4% in 2008/09.

Figure 3: Share of mineral sector and customs pool in revenue - 2001/02-2008/09



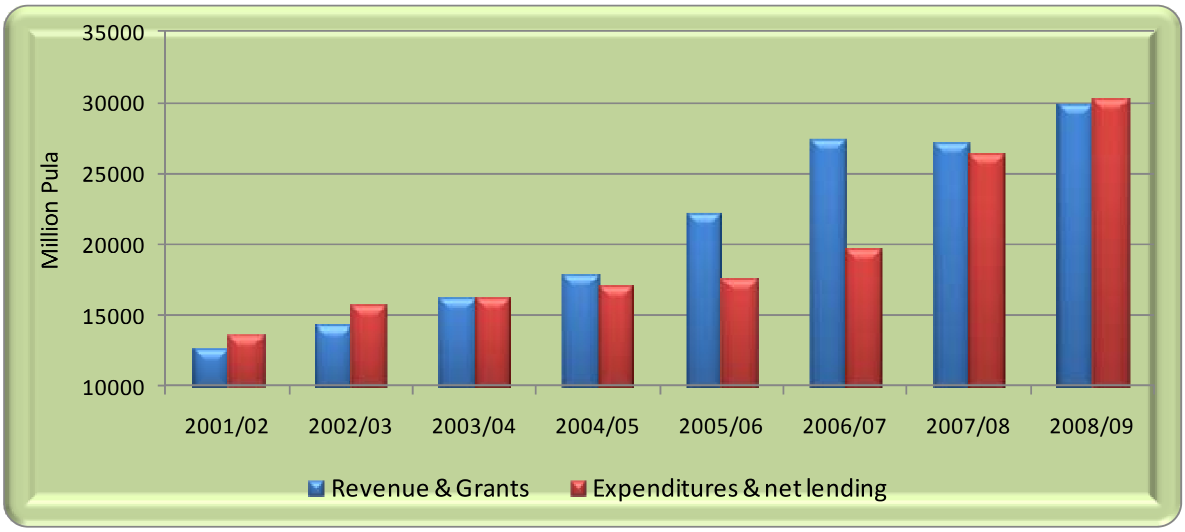
Source: Own calculations based on BIDPA and UNECA (2008), p.65, table 17.

A number of authors on Botswana's economy have highlighted the importance of sound management of the economy as a major driving force in Botswana's economic performance and a distinguishing feature for the country within the region. Dani Rodrik (1997) is a good representative of this group. He used regression analysis to come up with the following conclusion:

"…. Botswana's distinctive performance is grounded in prudent fiscal and macroeconomic policies, relatively well-developed human resources, and an early demographic transition which reduced the dependency ratio. The first of these is particularly important, as it accounts for more than half of Botswana's superior performance relative to the SSA average... The government has managed the diamond boom extremely well: resources have not been wasted, and temporary reversals in export receipts have been met with quick adjustments in the exchange rate and in fiscal policy." (Dani Rodrik, 1997, p. 31).

Other principles that government followed included: making sure that any new development projects included planned provisions to cover the long term recurrent costs; using National Development Plans (NDPs) to determine government spending (meaning that once a plan has been approved by parliament, it is illegal to implement any additional public projects without parliament's approval); basing decisions to invest domestically on the absorptive capacity of the economy. The latter entailed government would not support investment in domestic projects with relatively low rates of return (minimum 6%). Other key macroeconomic principles were: maintaining expenditure at levels compatible with projected long-term revenue inflows and; building up foreign exchange reserves through running annual budget surpluses in good years to moderate the impact of future lean years (see Figure 4).

Figure 4: Government Revenues and Expenditure 2001/02-2008/09



Source: Own calculations using data from BIDPA and UNECA (2008), p. 65, table 17

This policy has up to now allowed government to maintain steady expenditure levels during boom times as well as during periods of commodity price depression, as happened in 1981/82, 1994/95, 2001/02, 2002/03 and 2008/09. The maintenance of relatively high expenditure levels in the face of declining or slowly increasing revenues is an illustration of the cushion provided by years of savings in anticipation of future depressed years.

2. Industrial Policy in Botswana

2.1. Introduction

The introductory section defined industrial policy as used in this study to refer to policies in pursuit of the growth of Botswana's manufacturing sector. As already noted, Government deliberately took measures to promote economic diversification, especially following the discovery of diamonds. This was done, for example, by avoiding real appreciation of the pula to ensure competitiveness of other traded goods. This is in line with key economic principles contained in the Vision 2016 document. The principles include: sustainable economic diversification; increased international competitiveness of Botswana's economy and; export promotion. These principles were not new when the Vision 2016 document was crafted in 1997, but remain a re-affirmation of the policies pursued since independence.

Government's overall policy orientation with respect to industrialisation has been that of minimum intervention, at least insofar as direct participation in economic activities is concerned. Government's role is limited to that of a service and infrastructure provider or facilitator of industrial development. However, as an exception to this rule, government is a direct participant in industrial development through the Botswana Development Corporation (BDC) whose thrust has been in green field investments which private investment did not initially consider profitable or in joint venture investments where the investment outlay required was greater than what local private investment could provide (Owusu and Samatar, 1997). Such investments by the BDC would be offloaded to Batswana over time, in keeping with the state's desire to leave production to the private sector. In the words of President Iain Khama, "Government's primary economic responsibility is to nurture an enabling environment for private sector growth that allows for increased domestic, as well as foreign investment" Seretse Khama Iain Khama (2008)[1].

Botswana had, and still has, little option but to pursue outward oriented industrial and trade policies whilst at the same time nurturing citizen involvement in economic activities beyond subsistence farming. An outward oriented industrial and trade policy puts emphasis on openness and competitiveness at the global level. In his inaugural State of the Nation Address in November 2008, President Seretse Khama Iain Khama touched on these issues when he said his government remained ".... committed to promoting an open society, with an open economy, in which all who can make a positive contribution to further growth and development are encouraged to do so. (President Iain Khama, November 2008)[2] This statement serves two purposes. The first one is to re-emphasise government's commitment to remain an enabler, creating the conditions that will enable the private sector to take the lead in investing in and growing the economy. The second purpose is to reiterate the strong belief in the virtues of private capital as the engine of economic growth.

Owusu and Samatar (1997) concluded in their analysis that the country has been fairly successful in its industrialisation programme, contrary to the popular belief that state involvement leads to de-industrialisation.

> "Botswana defied the thrust of the prevailing development orthodoxy, which claims that African states cannot enhance industrial development through interventionist strategy. Botswana's state-governed industrial strategy supports recent research on the East Asian miracle, which underscores the fundamental importance of state intervention in industrial transformation." (Owusu and Samatar, 1997, p. 289)

[1] This statement formed part of President Khama's inaugural "State of the Nation" address in December 2008, but is not new, having been said previously in official documents such as budget speeches as well as being laid out in the country's Vision 2016 document.

[2] President Seretse Khama Iain Khama delivering his "State of the Nation Address" on 3 November 2008 and captured in the Tautona Times, a publication of the Office of the President

The authors derived their conclusion from their evaluation of the Financial Assistance Policy (FAP) which they found to have largely achieved its intended objectives. The FAP was a cash grant scheme awarded to new industries depending on location, employment of unskilled Batswana, as well as share of ownership by citizens. However, it is important to distinguish between state ownership of productive resources and state support and guidance for private investment. The “interventionist strategy” referred to by Owusu and Samatar refers to the latter. As will be outlined further down in this paper, the state got directly involved in business ventures through the Botswana Development Corporation, but care was taken to ensure there was no conflict with private sector interests in the process. The corporation’s investments were for later offloading to capable Batswana. The Botswana Meat Commission is one exception to the rule.

Other disciples of the same school of thought are Dani Rodrik, (1997) and Maria Sarraf and Moortaza Jiwanji (2001), even though the latter two’s discussion approached the matter from a completely different angle, their focus being on the issue of ‘beating the resource curse’. In their opinion:

> “Botswana has managed to avoid most of the economic problems associated with export booms by adopting appropriate macroeconomic policies. Two main objectives guided Botswana’s economic policies: avoid external debt and stabilize growth on one hand, and encourage economic diversification on the other. ..” (Sarraf & Jiwanji, 2001, p. 10)

In summary, therefore, it seems there is significant consensus among several authors on the key role that governance issues have played in ensuring the perceived success of Botswana’s development strategy. The next section discusses the objectives which the country’s industrial policy sought to achieve.

2.2. Industrial Policy Objectives

The major factors that, since 1966, have limited the growth of the manufacturing sector in Botswana as observed by Siwawa-Ndai (1997) and which remain to this day are listed below together with some details on observed limitations on each of them.

a) Limited availability of domestic financial capital

The Batswana did not have savings that could be translated into large-scale industries, even if they were provided with the opportunities. This is mostly because the greater part of the population was rural based and subsisted on agriculture. Income from migrant workers in South Africa was insufficient to kick-start industrial activity. Beef exports were the main activity sustaining the low level of imports.

b) Absence of critical mass of citizen entrepreneurs with business acumen;

As noted above, the level of education of most Batswana combined with a lack of resources and the lack of skills to run businesses worked against a critical mass of entrepreneurs being reached. Most people were either formally employed in government or in the small commerce sector dominated by South Africans, or were peasant farmers. To this day, business skills training remains a major requirement.

c) Limited input base

Foreign business people who could overcome the constraints outlined in (a) and (b) above were still faced with the absence of inputs to kick-start manufacturing. This meant having to import literally all raw materials. For the export market, this issue remains a major impediment, given the country's landlocked position and the resultant transport costs. This made (and still makes) the development of competitive industries difficult.

d) Inadequate skilled personnel, infrastructure and supporting services

The low level of education as a result of inadequate educational facilities and lack of access to the same by Batswana, as well as absence of any industries to provide some industrial experience and training, meant that numbers of skilled personnel to support productive activities were highly inadequate. Both social and economic infrastructures were also highly inadequate to support any meaningful industrial activity. The country inherited just a few paved roads at independence.

e) Small domestic market

As already noted, Botswana has a small population of about 1.8 million people (2008 estimate). At independence, the country had just over half a million people, most of whom eked out a living on subsistence agriculture, mostly based on cattle farming, but also some limited crop farming. A small number were employed in commerce and administration as noted above. This made the domestic market very small for sustaining any large industries and for the development of industries that could compete with those already established in South Africa.

The above factors have made manufacturing a risky and costly exercise from the early 1970s to this day. Government responded to this situation by developing an industrial policy that has paid attention to the above constraints.

Industrial policy in Botswana therefore had the following objectives:

a) job creation to cater for the increasing number of young Batswana

b) raising skill levels of Batswana to cater for the requirements of industry (in the broader sense)

c) increasing the level of value addition in the economy

d) economic empowerment of citizens

e) promoting distribution of industrial activities to rural areas

f) achieving diversification of the economy additional to diamond mining

Economic diversification into other non-diamond mining activities, manufacturing, and services such as tourism, was necessary to generate employment opportunities for citizens. This took into account the fact that mining, the leading productive sector, is highly capital intensive and its contribution to employment is minimal. The desire to encourage manufacturing was strengthened by government's belief that the manufacturing sector could contribute significantly to the creation of jobs whilst encouraging entrepreneurship among Batswana for the long-term sustainable development of the country. Government therefore adopted a number of policy instruments designed to achieve the policy objectives as outlined below.

2.3. Industrial Policy Instruments

In order to provide the necessary environment for the growth of industry in Botswana, government over the years adopted a number of policy measures in the form of grant schemes; tax measures; training, mentoring and advisory services through development support institutions; and others, as outlined below.

a) A lower company tax regime (15%) for manufacturing enterprises as a way of diversifying productive activities away from the dominant diamond industry;
b) Incentives to industry in the form of grant support upon meeting certain specified criteria under the now discontinued Financial Assistance Policy (FAP);
c) Deliberate schemes to promote industrial development outside the main centres through enhanced grants under FAP;
d) Provision of incentives to deliberately grow local entrepreneurs through schemes such as Citizens Entrepreneurial Development Authority (CEDA) (providing subsidised funding), local procurement scheme (preferences to local producers for supplies to public institutions), Local Enterprise Agency (LEA) (business training, advice and other enterprise development support) and; reserved sectors policy (to reduce competition from external investors in what are considered easy investment areas);
e) Identification of business opportunities, carrying out the necessary feasibility studies and promoting same to potential investors through the Botswana Development Corporation;
f) Development of export capacity through the Botswana Export Development and Investment Agency (BEDIA);
g) Provision of factory shells for local and foreign investors through the BDC and BEDIA;
h) Protection of infant industry utilising the infant industry clause within the SACU agreement; and
i) Adoption of duty exemption and draw-back schemes for industrial inputs for the export sector.

Section **2.4** below elaborates further on the major industrial incentive schemes adopted since independence.

2.4. Industrial Incentive Schemes

In view of the overwhelming need to diversify Botswana's economy away from diamond mining, successive administrations adopted a number of policies aimed at promoting the growth of other sectors, particularly manufacturing, but also tourism and other service sectors. **Table 3:** Summary of Major Incentive presents the major incentive programmes as outlined by BIDPA and the World Bank (2006).

Table 3: Summary of Major Incentive Schemes

	Incentive scheme	Objective	Status
a)	Local Preference Scheme (1976)	To give local producers preference in the supply of goods for government contracts	Revised and superseded by the Local Procurement Programme in 1997 (See below for qualification criteria)
b)	Reserved sectors policy (1982)	To promote the participation of Batswana and Batswana-owned firms in economic activity by limiting certain activities to them only (see 2.4.2)	Policy continues with some flexibility having been introduced, especially that joint -ventures are now allowed
c)	Financial Assistance Policy (1982)	Provided capital and labour grants based on labour employed as well as location (see below for details)	Terminated in 2000 following a review report by BIDPA in 1999, which found a high failure rate as well as large-scale abuse, wastage and high costs per job created
d)	Selebi-Phikwe Regional Development Project (1988)	To stimulate economic development in the area around the copper mining town	Phased out in 1996
e)	Citizen Entrepreneurial Development Agency (2001)	To support the development of citizen-owned business through funding, training and mentoring (further details are listed below)	Replaced the Financial Assistance Policy in 2001
f)	Local Enterprise Agency (2006)	To be an implementing Agency for the SMME Policy intended to improve service delivery programmes	This is an on-going reform process that involves the separation of policy formulation and implementation functions of SMME Ministry

Source: BIDPA and World Bank, "Prospects for Export Diversification in Botswana", 2006, pp. 22-23.

The following sections give relevant details pertaining to the operation of some of the support schemes outlined in **Table 3** above

2.4.1. Local Procurement Programme

This programme replaced the Local Preference Scheme in 1997. The policy reserves 35% of government purchases to local producers when tendering for the supply of goods and services to government. In order to qualify for consideration under this programme, a business enterprise must meet the following conditions: (BIDPA, World Bank, 2006, page 23)

a) The firm must achieve a minimum local content of 25%; and
b) The business should be licensed and employ not more than 200 people;
c) Annual turnover should be between P200,000 and P5 million
d) Investment in machinery should be between P5,000 and P5 million.

To promote the success of the scheme, government has also come up with a quality improvement project to raise the quality of local manufacturers, especially small and medium-sized enterprises, so that they can participate more successfully in public procurement. Garments and concrete products were chosen as pilot sectors with a view to extending the programme once satisfactory results were obtained. This project involves the Botswana Bureau of Standards. On the other hand, there is a possibility that the local procurement policy could be working against exports as firms lose the urge to be internationally competitive. This could be the subject of a full research paper.

2.4.2. Reserved Sectors Policy

The reserved sectors policy is another policy intervention measure by Government designed to economically empower citizens. The policy was established to reduce competition for citizen entrepreneurs in areas of the economy that the Botswana government considered to be easy investment areas. These include small scale mining, brick making, bread baking, and manufacture of school furniture, uniforms and protective clothing, burglar bars, as well as sorghum milling. This policy has been relaxed to allow for joint ventures between citizens and foreign investors in the manufacture of products previously reserved for citizens and wholly citizen-owned medium-sized companies.

2.4.3. Financial Assistance Policy

This is the largest incentive system ever run by the Botswana government. It was designed to grow local production capacity. This policy provided short-term grant assistance, lasting not more than five years. The grant support provided was on a reducing scale over the period. It did not discriminate against foreign investment *per se*, but conditions on the size of foreign investment, location, and level of skills to be employed often reduced the eligibility of investments favoured by foreign investors. Of particular importance for the government was the employment of unskilled citizens.[3] The policy contributed to the establishment of industrial enterprises including textiles and garment firms, vehicle assembly, brick making firms, small knitting enterprises, and other light manufacturing activities.

2.4.4. Subsidised finance

Loan finance is provided by a government agency at subsidised interest rates of between 5% and 7% depending on the size of the borrowing firm (see discussion on 5.1.2 CEDA below). No performance targets were set for this policy. It has been suggested by the World Bank (June 2007) that this kind of nurturing of firms could be harmful for the development of efficient firms.

2.4.5. Business skills training and management support services

The policy on Small Medium and Micro enterprises (SMMEs) in Botswana strives to create an enabling environment for the establishment, growth and development of such firms. Business skills training, management and technical support services were provided by government through Integrated Field Services (IFS) Division of the Department of Industrial Affairs and Enterprise Botswana (EB). The Local Enterprise Agency (LEA) was established in 2007 to provide such support services in a consolidated manner under one organisation (see discussion under The **Local Enterprise Agency (LEA)** below).

In summary therefore, government deliberately took measures to grow productive activities that hitherto did not exist using a wide range of policy instruments. Most critically, the growth of the diamond industry and associated foreign exchange reserves enabled the government to introduce financial incentives, as well as to set up a number of business support agencies. This was additional to the setting up of an enabling environment through appropriate taxation policy, education and skills training, and in cases, venture capital facilities (through the Botswana Development Corporation). The other side of the production equation required the development of source markets for industrial raw materials as well as external markets for existing and new enterprises, especially given the small size of the domestic market referred to in the introduction to industrial policy. The development of markets is the subject of trade policy captured in the following section. Trade policy and industrial policy may be described as the twin blades of a pair of scissors and will produce best results when working in unison.

[3] See Ian Martin (1989) for an extensive discussion of this policy in his contribution to “Industrialization and Investment Incentives in Southern Africa.”

3. Trade Policy

3.1. Introduction

Botswana's internal market is limited by the small size of its population which was only 1.8 million persons by December 2008 (IMF, 2008). Such a small population can act as a hindrance to economies of scale in manufacturing. At independence in 1966, the only sizable manufacturing unit in Botswana was the Botswana Meat Commission. The population was largely rural, eking a living from subsistence agriculture. Added to these factors, Botswana borders on South Africa, which is Africa's biggest and most advanced industrial economy. These factors have, over the years, made the development of industry a very difficult process. The factors also made it natural to have South Africa as Botswana's largest non-diamond trading partner. By 2008, 80% of Botswana's non-diamond exports were destined for South Africa, whilst about 90% of total imports emanated from that country. The wisdom of governing parties in Botswana has been to establish a close trading relationship with South Africa in the form of membership of the Southern African Customs Union (SACU). This resulted in the country not having an independent trade policy. Instead, the trade policy is defined at the SACU level in which Botswana now plays an active role, unlike prior years, especially before 2004, when South Africa called all the shots. A discussion of the new SACU trade agreement is included under sub-section 4.3 on SACU (under Regional Integration). The objectives of Botswana's trade policy, which take into account the above realities, are listed in sub-section 3.2 below.

3.2. Objectives of Botswana's Trade Policy

Botswana's trade policy has been aimed at achieving a number of policy objectives. These include:

a) **Securing market access at the most preferential customs duty rates** (i.e. including free of duty) – This objective has been a central feature of Botswana's trade policy. The strategy has involved: negotiating for free trade agreements singly (as in the cases of Zambia, Zimbabwe and Malawi); negotiating as a member of SACU as in the case of SADC FTA, SACU-India (on-going), SACU-MERCUSOR; initialing and eventually signing the Interim EPA alone; maintaining membership of SACU; joint agreement with De Beers on diamond marketing[4]; and lastly, taking advantage of the AGOA arrangement to access the USA textiles market. All these involve duty-free market access.
b) **Ensuring stable and high prices for diamonds**. As diamonds are the country's most important resource, their marketing should be done at best advantage. It is unclear whether alternative trading arrangements to the CSO could bring better results.
c) **Securing productive inputs at competitive prices** – low duty for all producers, but duty rebates for exporters. Whilst, until the recent reform of SACU, Botswana had little say on duty levels, the now defunct 1969 SACU Agreement had leeway for duty drawback for exporters accessing inputs from outside SACU (save for cases where anti-dumping duty is involved). SACU itself implies the availability of inputs duty-free from any supplier within the Customs Union.
d) **Diversification of exports beyond diamonds and beef**. The strategy involves the setting up of enterprise support organisations to assist existing and new companies by Batswana as well as joint-ventures with foreigners, to attain competitive production, as well as develop

[4] Through De-Beers' Central Selling Organisation (CSO), a cartel arrangement to regulate diamond trading for the benefit of producers

markets for exportable products (BEDIA). This objective therefore brings closer together trade policy and industrial policy.

e) **Protection of domestic infant industries.** This objective is dependent on a tariff-based strategy, but has not been popular in Botswana. It appears the idea is to limit such kinds of market access barriers as any of the other members of SACU could also utilise the same, thereby distorting what is supposed to be a duty-free market.

From the foregoing, it appears that there are elements of trade policy that are strongly tied to industrial policy. Whether the results on the ground in terms of establishment of new industries or expansion of existing ones, and then exporting the resultant products through taking advantage of this link are significant remains a question for investigation. **Section 3.3** below discusses the trade policy instruments in more detail.

3.3. Trade Policy Instruments

3.3.1. Tariff Policy

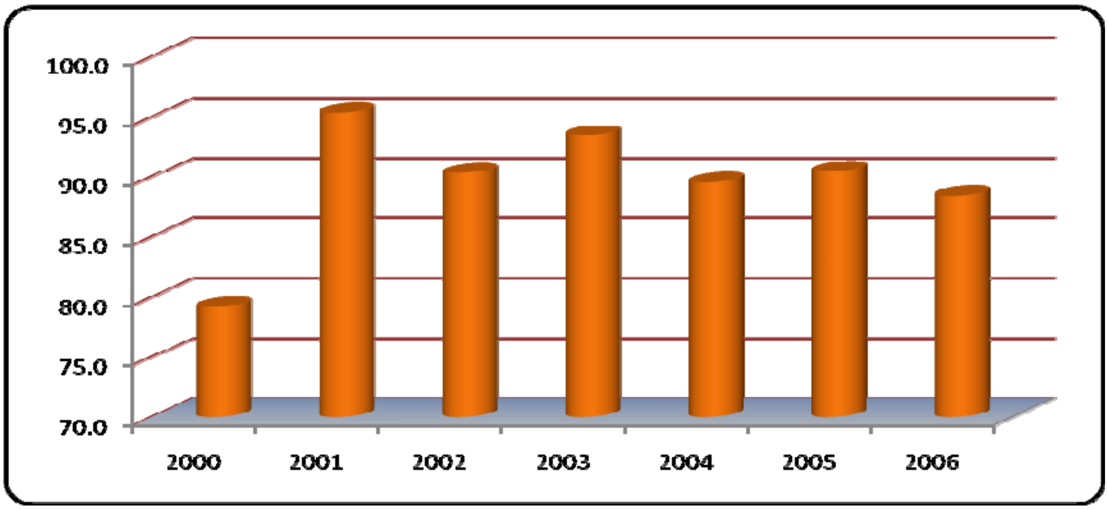
Botswana has a low average customs tariff regime, averaging 7.9% in 2006; governed by the Southern African Customs Union (SACU), which regulates customs and excise duties on goods imported from non-SACU countries and establishes transit rights for products transported over Southern African territory; over 90 percent of all imports enter under a zero duty regime (2006). Botswana may raise infant industry protection duties against imports from other SACU members if the same industry can be shown capable of supplying at least 75% of national requirements. Such duty, once imposed, can remain in place for a maximum of eight years. This has been used in only two cases this far – apparently because of government's desire to maintain an open economy. The measure has the potential to stifle competition and its end-results may not be as intended, both in terms of the development of the SACU market as well as in terms of the very real possibility of protecting an inefficient industry. The latter would have negative welfare impacts on Batswana. Save for a few 'sensitive' products (HS 87), imports from SADC countries are duty free under the SADC Free Trade Area launched in 2008. Botswana also maintains a duty-free trade agreement with Zimbabwe and Malawi outside the SACU arrangement and aside from the SADC FTA. These duty-free arrangements are discussed under Regional Integration below.

The 2002 SACU Agreement provides for the creation of proper structures to oversee the SACU trade policy. The SACU Tariff Board is one such structure and it is expected that complementary national tariff boards will also be set up. This new structure enables Botswana to have greater involvement in the setting of future tariff policy for the region. This will enable the country to consider its industrial policy requirements directly in the design of trade policy, thereby establishing a stronger linkage between the two.

3.3.2. Market Access

Botswana's manufacturing exports enjoy very favourable access to their destination markets in the world. As a member of SACU and SADC, Botswana has duty-free access to its most important non-diamond markets. SACU provides duty-free access to the markets of its members, including Lesotho, Namibia, South Africa, and Swaziland.

Figure 5: Share of top 3 export markets %



SADC currently provides duty-free access for 85% of tariff lines, i.e. products not listed on member countries' sensitive lists. Figure 5 above shows that the share of top three markets for Botswana's merchandise exports has been close to 90% from 2001 to 2006. The United Kingdom, South Africa and Zimbabwe are the top three export destinations in that order. Section 3.4.3 elaborates more on the degree of concentration of export destinations. There is the potential for Botswana's manufactured goods to access, duty-free, the Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC) market at a future date as a result of the implementation of the agreement to form the COMESA-EAC-SADC (tri-lateral) free trade area. Currently, these countries are very insignificant export markets.

Textiles industries were developed largely taking advantage of FAP; uncertainty in Zimbabwe as well as continued access to the Zimbabwe market through the continuation of the 1956 Trade Agreement between Bechuanaland and the Federation of Rhodesia and Nyasaland. This agreement was updated in 1988 to the Zimbabwe-Botswana Trade Agreement applicable to all qualifying products. The adoption of the Economic Structural Adjustment Programme (ESAP) in Zimbabwe in the 1990s raised the cost of inputs and effectively killed off textile exports to that country. Rules of origin adopted also seriously limited the potential growth of trade between the two countries. The demise of the Zimbabwe textiles market resulted in some firms switching successfully to the South African market. However, Zimbabwe remains Botswana's most important destination for manufactured exports outside SACU. Following the re-classification of Botswana as a least developed country for purposes of accessing the USA market under AGOA, textiles and apparel exports to the US enjoy duty-free and quota-free status under the initiative for as long as it lasts. This has spurred the growth of the apparel sector in Botswana.

Botswana's manufactured exports to the European Union (EU) take place under the Cotonou Agreement of 2000, now represented by the Interim Economic Partnership Agreement (IEPA) which Botswana, Lesotho and Swaziland signed. This was much to the chagrin of Namibia and South Africa which did not sign, citing serious unresolved concerns. Botswana exports beef to the lucrative EU market under a quota (19,000 tonnes) which the Botswana Meat Commission has never managed to fulfill. Ostrich meat also accesses the EU market duty-free. Marketing of (gem-quality) diamonds through De Beers' Central Selling Organisation is a central feature of Botswana's trade policy. Government receives no less than 75% of the profits of the diamond mining business. The diamonds are sold duty-free through London, though the final destination is the United States of America.

3.3.3. Non-tariff barriers

Botswana maintains a number of nontariff barriers, including import permit requirements for a range of food products, seasonal trade bans on selected agricultural goods, and single channel marketing (BMC, a state monopoly) on beef exports, as well as single channel marketing for diamonds through De Beers' Central Selling Organisation.

3.3.4. Duty draw-back scheme for exporters

This scheme has been widely used by Botswana exporters. However as already noted, the facility does not apply if the imported input is subject to a SACU anti-dumping duty.

3.3.5. Trade defence mechanisms

Botswana has no laws and regulations governing anti-dumping practices[5]. However, should a case of dumping into Botswana be detected, anti-dumping duties will be applied by SACU. BIDPA and World Bank (2006) reported that Botswana is disturbed by the number of anti-dumping cases brought up by its main counterpart within SACU, i.e. South Africa. The anti-dumping duties raised as a result have brought more harm than good to some of Botswana's manufacturing industries. The SACU anti-dumping duties are applied to any industrial input or finished product that fits the technical definition of dumping into the SACU customs area.

As reported by BIDPA and World Bank (2006), intermediate inputs generally face a low MFN tariff level. However, anti-dumping actions raise the level of protection of South African producers of the same, with the resultant duties ranging between 15% and 202% (but average 52%). Chemicals, which constitute 9% in 2006 of Botswana's imports account for 37% of initiated anti-dumping cases. Machinery, mechanical and electrical appliances which constitute about 16.8% of Botswana's imports in 2006 account for another 9% of initiated cases.

Botswana exporters who import from outside SACU those industrial inputs that are the subject of anti-dumping duties have to pay the higher anti-dumping tariff. But then, such inputs do not qualify for value added tax exemption; neither do they qualify for the SACU duty-drawback scheme. The alternative would be sourcing the inputs from other less competitive sources, including South Africa itself, thereby compromising on price competitiveness of Botswana exporters. For Botswana therefore, this SACU trade defence mechanism sometimes negatively impacts on the

[5] On 22 September 1995, the Department of Commerce and Consumer Affairs in Botswana sent communication to the WTO notifying the world body's Committee on Anti-Dumping Practices of this position (see document G/ADP/N/1/BWA/1) (www.wto.org).

Government's industrial policy objective of growing competitive manufacturing export capacity.

3.3.6. Exchange Rate Policy:

Maintaining the value of the Pula at a level that allows accumulation and maintenance of foreign currency reserves has been pursued since 1976. The Bank of Botswana (BOB) buys and sells foreign currency at posted rates with no rationing, even during times of depressed demand (and therefore earnings) for diamonds. However, the South African Rand has a heavy weight in the basket, a result of South Africa's importance as source of imports. Gaolathe N. (1997) also notes that

> "... the monetary policy was initially tailored to render imports affordable, especially for the less well-off, by keeping the Pula exchange rate strong. By the mid 1980s ... policy makers talked much about the need for a competitive non-traditional (export) sector; this led to discussions about the use of the exchange rate to foster a competitive non-traditional sector although this sentiment seems not to have been pursued vigorously. However, during the early 1990s authorities devalued the Pula several times." (Gaolathe N., 1997, p. 43)

This latter position was picked up by Sarraf & Jiwanji (2001) who noted that a central feature of government policy has been "... to manage the nominal exchange rate to avoid real appreciation of the local currency." This was achieved largely through the accumulation of international reserves as shown in Table 4 below for recent years.

Table 4: Balance of Payments (Pula millions)

	2005	**2006**	**2007**
Balance on visible trade	8982	11115	9955
Balance on services	-154	-372	-810
Balance on income	-4293	-4509	-4017
Net current transfers	3437	5086	6986
Balance on Current Account	7972	11319	12114
Balance on Capital Account	344	142	493
Overall balance	7036	10256	10694

Source: Botswana CSO Stats Update, December 2008.

Preventing the local currency from appreciating allowed other tradable goods to maintain competitiveness on world markets, and hence encouraged economic diversification (see Sarraf & Jiwanji, 2001, pp. 10-.11). From the foregoing, managing the nominal exchange rate to avoid real appreciation acted as one strong link between industrial policy and trade policy. It regulated the level of imports, whilst ensuring that production inputs could be obtained at competitive prices (barring the intervention of SACU anti-dumping duties and NTBs). Competitive input prices provided competitive space for local production for both exports and local consumption. The building up of international reserves ensured that the country could moderate its imports level during the peaks and troughs that characterise the diamond market.

3.4. Trade Outcomes

Botswana's manufactured export drive took off in the late 1980s, mainly on the back of textiles exports to Zimbabwe, South Africa and, since 2001, to the USA under the Africa Growth and Opportunity Act (AGOA) initiative, as well as beef to the European Union. Botswana's real growth rate in total trade of goods and services has been uneven, from an average of 2.4

percent in 2000–04 to 8.5 percent in 2005–06, and dropping to 3.4 percent in 2007. Botswana's trade share in GDP neared 88 percent in 2007. Sections **3.4.1** to **3.4.4** give details on the performance of export and import indicators, with the discussion focusing on diversity or lack of it shown by the trade indicators.

3.4.1. Export Concentration

In 2008, UNCTAD reported that most countries in Africa have remained primary product exporters following their liberalisation of trade. In most cases, the export sector is dominated by one or two commodities. The report states that "African economies display very low levels of export diversification, with no discernible trend away from the situation" (UNCTAD, 2008, p. 19). According to UNCTAD, Africa's export concentration index (ECI)[6] at 0.38 in 2006 was higher than other regions in the world. Botswana is one of the countries with a very high ECI at 0.73 (second highest in SADC below Angola) in 2006 (see **Table 5**).

Table 5: Export Concentration Index in Selected SADC Countries

Country	ECI in 1995	ECI in 2006
Angola	0.90	0.95
Botswana	0.74	0.73
Zambia	0.83	0.68
Malawi	0.66	0.60
Zimbabwe	0.25	0.22
South Africa	0.27	0.16

Source: UNCTAD (2008) Economic Development in Africa, p. 23

The ECI index is almost twice the average for Africa, reflecting a very high reliance on diamonds for export revenue. Successive governments in Botswana have realised that, in the long run, this is not a sustainable situation. This is one of the major reasons behind a number of policies adopted over the years aimed at achieving export diversification of Botswana's economy. Table 6 below details the high level of concentration of Botswana's exports by major export categories for 2006.

[6] Export Concentration Index (ECI) or specifically the Hirschmann index, calculates the shares of all SITC 3 digit exports to a country's total exports. The lower the index, the less concentrated are a country's exports. The index is calculated as follows; Hj = sqrt[sum (xi / Xy)$^{2]}$ Where for each country j, xi is exports of product i and Xy is total exports of country j in period y.

Table 6: Trade Performance - Botswana's top exports (2006)

	Exports (US$'000)	Share of total exports (%)	Share of top 3 markets (%)
00 All industries	4,506,182	100.00	88.1
71 Pearls, precious stones, metals, coins, etc	3,350,899	74.36	98.1
74 Copper and articles thereof	619,782	13.75	99.4
61 Articles of apparel, accessories, knit or crochet	93,557	2.08	83.1
02 Meat and edible meat offal	81,365	1.81	85
26 Ores, slag and ash	57,776	1.28	100
62 Articles of apparel, accessories, not knit or crochet	46,857	1.04	94
87 Vehicles other than railway, tramway	30,772	0.68	85
84 Boilers, machinery; nuclear reactors, etc	22,333	0.50	88.5
28 Inorganic chemicals, precious metal compounds	20,454	0.45	98.7
85 Electrical, electronic equipment	18,407	0.41	74.6
39 Plastics and articles thereof	15,692	0.35	96.1
17 Sugars and sugar confectionery	14,484	0.32	99
72 Iron and steel	14,257	0.32	98
25 Salt, sulphur, earth, stone, plaster, lime and cement	11,538	0.26	95.9
19 Cereal, flour, starch, milk preparations and products	10,659	0.24	100
99 Commodities not elsewhere specified	10,161	0.23	74
63 Other made textile articles, sets, worn clothing etc	8,527	0.19	92.2

Source: International Trade Centre, Botswana Country Data, www.intracen.org

The table shows that about 74% of exports were, in 2006, attributable to diamonds, whilst the top six products (in order of importance) account for 94.3% of export earnings. This is a very high degree of export concentration indeed.

3.4.2. Exports Destination

As already shown in **Figure 5,** Botswana's exports are highly concentrated in a few countries. **Table 7** below shows the top five destinations for Botswana's exports accounting for about 90% share between 2001 and 2006 (96.6% in 2006). The United Kingdom is by far the largest export destination by value, accounting for over 70% of the total (consisting of the entire diamond exports). Norway, on the other hand, accounted for 9.5% of exports in 2006, showing the growing importance by value of copper-nickel exports to that country. Zimbabwe and South Africa are the two most important non-commodity export markets and the only two regional export destinations in the SADC region. Botswana's exports to her other SACU partners (Lesotho, Namibia and Swaziland) are negligible, largely reflecting the dominance of South Africa but also partly reflecting the narrow range of Botswana's exports.

Table 7: Share of Top 5 Export Destinations 2000-2006

	2000	2001	2002	2003	2004	2005	2006
UK	69.9	87.5	80.7	77.8	74.6	75.5	73.0
Norway	2.8	2.6	2.8	7.2	5.6	5.9	9.5
RSA	6.5	5.3	6.8	8.4	9.3	9.0	5.9
Zimbabwe	3.9	2.7	2.4	2.9	3.7	4.2	5.4
United States	0.6	0.3	0.6	0.4	1.6	2.2	1.8

Source: TIPS Trade Database, 2008

The above figures suggest that Botswana has not yet significantly diversified her exports destinations in the same way that she has not diversified export products. Section **3.4.3** takes up the discussion on export product diversification.

3.4.3. Export Products Diversification

The concept of economic diversification referred to by Sarraf and Jiwanji (2001) is referred to by BIDPA as export diversification. Whereas the usual reference to economic diversification refers to the deliberate effort to grow other sectors of the economy and increase the sources of production of goods and services and employment, export diversification specifically refers to production of tradable goods for export markets, thereby widening the sources of foreign exchange earnings. This paper uses economic diversification to refer to production beyond mining and beef, to include the manufacturing, tourism, crop agriculture, and services sectors. The paper uses export diversification to refer to increasing the number of products in the export basket beyond diamonds. What this implies is that in assessing the success or otherwise of export diversification, one must analyse the contribution of the non-diamond sector to export earnings.

The 2009 edition of the UNCTAD annual report on Africa (*Strengthening Regional Economic Integration for Africa´s Development*) reports that there are different patterns of trade within Africa and between Africa and the rest of the world.

"Whereas manufactured products dominate intra-African exports, the rest of the world imports mainly primary commodities from Africa. Also, intra-African trade is much more diversified than Africa´s exports to the rest of the world. In the light of these facts, the report suggests that increasing intra-African trade can be a major method of promoting diversification and developing Africa´s manufacturing base." (UNCTAD, 2009)

The above picture fits in well with the trade pattern of Botswana. This is the reason why Botswana's trade policy leans heavily on promoting trade linkages with other African countries. As noted in the country's Vision 2016 document, "Partnership must be extended to include all stakeholders in the economy as well as the relationship of Botswana with other nations in the Southern African region, SADC and the wider global community" (Presidential Task Group, 1997, p. 32). This also ties in well with the country's industrial policy which seeks to promote the development of competitive industries.

Table 8 and below shows that, overall, the four leading export groups have maintained the dominance of the export sector contributing more than 90% to export earnings between 1997 and 2007 inclusive. Over the same period, the share of manufactures declined from 13% in 1997 to 7.5% in 2007 (Table 9).

Table 8: Summary - External Trade by Major Product Category - 1997, 2006, 2007 ($M)

	1997	**2006**	**2007**
Total exports (FOB)	**2,822**	**4,538**	**5,028**
Diamonds	2,099	3,413	3,359
Copper and nickel	95	650	905
Manufactures	368	188	378
Total imports (CIF)	**2,261**	**3,067**	**3,916**
Food	297	426	544
Fuel and energy	127	528	674
Capital goods	850	811	1,036

Table 9: Summary - External Trade - Share of Total %

Total exports (FOB)	**100.0**	**100.0**	**100.0**
Diamonds	74.4	75.2	66.8
Copper and nickel	3.4	14.3	18.0
Manufactures	13.0	4.1	7.5
Total imports (CIF)	**100.0**	**100.0**	**100.0**
Food	13.1	13.9	13.9
Fuel and energy	5.6	17.2	17.2
Capital goods	37.6	26.4	26.5

Source: World Bank Group, *Botswana at a Glance, September 2008*, own calculations on share of total

Detailed figures show that meat products, textiles and apparel dominate manufactured exports. Overall, the diamond sector is dominant, but is subject to price fluctuations depending on overall economic performance in the chief market of the USA (even though the diamonds are sold through London, UK). Copper-nickel is also subject to world demand and therefore price fluctuations. Meat exports enjoy preferential access and price on the EU market and the declining trend reflects failure to supply on the part of the Botswana Meat Commission. Textiles are almost exclusively sold on duty-free markets, namely South Africa and the USA (under the AGOA initiative). The export diversification strategy has been marginally successful at best as these four export products now contribute less to total exports. **Paragraph 3.4.4** below, demonstrates and discusses the diversity of Botswana's imports as of 2006.

3.4.4. Imports Diversity

The composition of Botswana's export and import trade is described as one where the country exports everything it produces and imports everything it consumes! Table 8 and Table 9 above have shown the export picture to be dominated by diamonds (75% in 2006), all of which were exported. The picture for imports is much more diverse as shown in Table 10 below and

Table 14 in the Appendix.

Table 10: Share of Imports by Major Product Category: 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Mineral products	8.1	8.8	5.6	8.9	13.1	16.8	20.6
Machinery	19.3	19.6	18.1	18.2	16.7	16.3	16.8
Vehicles aircraft & vessels	13.1	12.0	16.2	12.2	13.7	12.5	9.6
Chemical products	5.9	6.2	6.9	7.4	7.5	8.0	9.0
Metal products	7.7	7.9	11.4	7.6	8.0	7.6	8.2
Foodstuffs, beverages & tobacco	7.0	6.7	6.0	7.3	6.3	6.5	6.7
Vegetable products	5.2	4.6	5.7	6.4	4.8	4.2	4.3
Plastics & rubber	4.4	4.3	4.3	4.4	3.8	3.9	4.2
Textile products	4.9	3.6	3.8	3.6	3.6	3.6	3.9
Paper products	6.4	7.3	5.4	7.2	7.9	6.6	2.8
Furniture, toys & other products	2.8	2.6	2.7	2.6	2.2	2.3	2.4
Pearls & precious stones	3.8	1.8	0.5	0.4	0.1	0.1	2.2
Animals (live) & animal products	1.8	2.3	2.0	2.2	2.1	2.1	2.0
Wood products	1.7	1.6	1.5	1.5	1.4	1.5	1.4
Stone, cement & glass products	2.1	2.0	2.3	2.1	1.8	1.6	1.4
Photographic & musical inst. & clocks	1.6	1.8	1.8	1.6	1.3	1.2	1.3
Footwear headgear & umbrellas	1.3	1.1	1.1	1.2	1.1	1.0	1.2
Fats & oils (animal or vegetable)	0.9	0.7	0.8	0.9	0.8	0.8	0.8
Arms & ammunition	0.3	1.0	0.5	0.4	0.3	0.4	0.5
Commodities not elsewhere specified	1.5	3.9	3.1	3.9	3.5	2.8	0.4
Leather products	0.2	0.1	0.3	0.2	0.1	0.2	0.2

Source: TIPS Trade Database, 2008.

Table 10 and

Table 14 suggest that imports cover a wide range of sectors, in sharp contrast to exports which are much more concentrated on four sectors. The largest import group is mineral products, accounting for 20.6% in 2006; followed by machinery (16.8%); motor vehicles (9.6%) and chemical products (9.0%) of total merchandise imports in the same year.

The major source of imports is South Africa, accounting for over 86% of the total in 2006.

Table 11: Top sources of Imports 2000-2006

	2000	2001	2002	2003	2004	2005	2006
RSA	77.7	78.2	81.0	86.2	83.0	84.7	85.9
Zimbabwe	3.7	3.1	1.4	1.5	1.5	1.5	1.5
China	0.5	0.4	0.6	0.5	0.6	1.1	1.2
UK	4.4	4.4	3.1	2.5	3.1	1.3	1.1
United States	2.0	1.7	1.2	0.7	1.3	1.2	0.9
ROW	11.7	12.2	12.7	8.6	10.5	10.2	9.4

Source: Own calculations based on electronic trade data from TIPS, 2007

This is principally because of the SACU duty free arrangement, but also because the South African economy is the most industrially developed in the region. Transport costs from South Africa to Botswana are also relatively lower than those associated with importing from outside the region. Although the implementation of the SADC free trade area took off at the end of the tariff phase-down period in August 2008, the likely change from the current scenario of dominance by South Africa is unlikely to happen, except perhaps on some selected products. Zimbabwe came in a distant second as a source of imports into Botswana, accounting for just 1.5% of imports into Botswana in 2006, having maintained just about the same share since 2001. Imports from other SADC member states are each less than one percent of the total (insignificant).

Most of the non-SACU members of SADC are viewed more as export destinations than sources of imports. Section 4, below, discusses the role of Regional Integration and outlines other trade agreements where Botswana is involved.

4. Role of Regional Integration

4.1. Introduction

Botswana’s small population of 1.8 million people (2008) means a small domestic market for goods and services. A sustained expansion of the economy requires access to the markets of other countries through exports. In his 2009 Budget Speech, Botswana’s Minister of Finance reiterated the importance of regional integration to Botswana’s future development. He noted that the launch of the SADC Free Trade Area (FTA) in August 2008 under the theme ‘SADC FTA for Growth, Development and Wealth’ is expected to generate benefits, such as wider choice of products for consumers, expanded market and open opportunities for investment. The Minister also noted the expected further consolidation the FTA to address outstanding tariff phase down obligations, rules of origin, tariff lines, and non-tariff barriers. In addition, he stressed that

> “Together with other Southern African Customs Union (SACU) members, Botswana has now concluded trade arrangements with the European Free Trade Agreement states, and the Common Market of the Southern Cone comprising Argentina, Brazil, Uruguay and Paraguay. Negotiations for a Preferential Trade Agreement with India have just commenced and will continue in 2009. An Interim Economic Partnership Agreement with the European Commission was also concluded in November 2007.”[7] (2009/2010 Gaolathe B, 2009, Budget Speech, p. 4)

[7] These EFTA states include Iceland, Liechtenstein, Norway and Switzerland.

4.2. Trade Agreements:

(i) Bilateral Trade agreements with Zimbabwe (1956/88); and Malawi (1956). These are duty-free arrangements as already discussed above. The applicable rule of origin is 25% value addition with provision for accumulation.

(ii) **SACU** - 1910- Revised in 1969, 2002 – effective July 2004. The SACU Agreement covers mainly free trade in goods. It has provisions for Freedom of Transit; Import and Export Prohibitions and Restrictions; Protection of Infant Industries; TBT and SPS; Common Revenue Pool and Revenue Sharing Formula; Dispute Settlement. In addition, one of its main objectives is to facilitate the development of common polices and strategies, which include, trade policy, industrial development policy, agricultural policy and competition policy. A fuller discussion of SACU is presented in paragraph 4.3 below.

(iii) **SADC FTA:** As already noted, 85% of products can be traded duty-free with other participating SADC countries as of August 2008. DRC and Angola have not ratified the SADC Protocol on Trade and are therefore not party to the free trade arrangement. The SADC agreement, as detailed in the Regional Indicative Development Plan, calls for the development of regional industrial development and trade policies. However, this is still an outstanding issue. Details of the SADC agreement are contained in Box 2. The Southern African Customs Union (SACU), in the appendix (page 35).

(iv) **Interim Economic Partnership Agreements** - Botswana signed the IEPA with the EU to maintain its beef exports under preference to the EU (already discussed above).

(v) **SACU-EFTA Free Trade Agreement**[8] – This agreement involves: Iceland, Liechtenstein, Norway and Switzerland (Members of the European Free Trade Association (EFTA)) on the one part; and Botswana, Lesotho, Namibia, South Africa and Swaziland (Southern African Customs Union), on the other part. This agreement was signed on 26 June 2006 and entered into force on 1 May 2008.

The Agreement covers trade in industrial products, including fish and other marine products, and processed agricultural products. In addition, the individual EFTA States and SACU concluded bilateral agreements on basic agricultural products, which form part of the instruments creating the free trade area. The main objective of the Agreement is to achieve liberalisation of trade in goods in conformity with the relevant WTO provisions. The agreement provides for the duty-free treatment of SACU industrial goods exports from 1 May 2008, whereas the SACU States will dismantle their tariffs progressively.

The Agreement also includes trade-related disciplines as well as an article which stipulates special treatment for Botswana, Lesotho, Namibia and Swaziland. Moreover, the Agreement contains provisions on the protection of intellectual property rights, as well as cooperation regarding investment, services and government procurement. It also includes a chapter on economic cooperation and technical assistance, and one on institutional and procedural provisions. The Agreement establishes a Joint Committee, which supervises the application thereof.

4.3. Southern African Customs Union (SACU)

Botswana is a member of the oldest customs union in the world, the Southern African Customs Union (SACU), established by the Customs Union Agreement of 1910 between the Union of

[8] Notified to the WTO on 29 October 2008, notice document WT/REG256/N/1

South Africa and three then High Commission Territories of Bechuanaland, Basutoland, and Swaziland. The 1969 Customs Union Agreement between South Africa, and independent Botswana, Lesotho and Swaziland replaced the 1910 Agreement. Namibia became a contracting party to the 1969 Agreement in 1990 when it gained independence from South Africa.

SACU was established to promote regional integration and the facilitation of trade between the members of the Agreement with the ultimate objective of raising the standard of living of all SACU residents, particularly the population living in the less developed member countries. However, under the 1969 Agreement, South Africa had the sole authority to determine customs, excise and sales duties as well as trade policies for the whole customs area (Jakobeit, C.; Hartzenberg, T.; Charalambides, N., 2005). This sole authority on trade policy had implications for Botswana's industrial development. Customs and excise duties collected in the common customs area were paid into South Africa's National Revenue Fund. The revenue was shared by member states according to a revenue-sharing formula provided for in the Agreement. The formula was re-negotiated in 2002. However, as observed by Erasmus (2006), the issue of the Common Customs Revenue Pool and its subsequent distribution among the BLNS countries, became the *raison d'être* for SACU. In other words, the organisation did not achieve much other than the mere trade in goods and sharing of revenue. Erasmus (2006) attributes this phenomenon to the political climate in the period before the new dispensation in South Africa. The period had been marked by destabilisation by South Africa as well as the accompanying international political isolation of the then Apartheid regime.

Member states signed a new SACU Agreement in 2002. This agreement, which entered into force in 2007[9], was meant to take care of BLNS concerns on the revenue-sharing formula[10], spreading development benefits to the less developed member states, as well as the need for a more democratic decision making process among others. A Tariff Board makes recommendations on the common external tariffs (CET) and other duties to the Council of Ministers, the new SACU's primary decision-making institution. A Customs Union Commission serves an advisory role to the Council and oversees the implementation of the Agreement. The Agreement furthermore provides for a number of Technical Liaison Committees, National Tariff Boards and a Tribunal.

The 2002 SACU Agreement contains an important provision prohibiting any member state from entering into trade negotiations with third parties without the consent of the other Member States. Largely as a result of what had been perceived by Botswana, Lesotho, Namibia and Swaziland (the BLNS) as the unilateral South African signing of the TDCA with the EU in 1999, they demanded the inclusion of Article 31.3 which states:

> "No Member State shall negotiate and enter into new preferential trade agreements with third parties or amend existing agreements without the consent of other Member States".

Member States agreed to negotiate all future trade agreements jointly and to establish a common negotiating mechanism. SACU is currently involved in a number of trade negotiations with third parties. It concluded a Preferential Trade Agreement (PTA) with MERCOSUR (Southern Cone countries comprising Argentina, Brazil, Uruguay, and Paraguay) in December 2004; and entered into a free trade agreement with EFTA countries in 2008 (detailed above). SACU is negotiating similar agreements with India and China. Negotiations

[9] The Customs Union was officially notified to the WTO by Swaziland (on behalf of other SACU members) on 25 June 2007, in terms of the enabling clause

[10] BLNS countries believed the revenue they were receiving was insufficient to compensate them for the inadequate industrial development caused by having a free trade agreement with a much more industrialised neighbour.

with the USA have not been successful due to a number of mutual concerns. The new SACU agreement requires member states to develop common policies on trade, industrial development, agriculture, competition and unfair trade practices. From the information available, these common policies remain outstanding. Of particular interest for Botswana is the common trade and industrial development policies. Up till then, South Africa's interests as a giant economic power within SACU have dominated.

4.4. Impact of the SACU Tariff

Goods traded within the customs union are duty free. Even though World Trade Organisation (WTO) commitments are increasingly resulting in Botswana becoming a more open economy, remaining SACU MFN tariffs still offer a level of protection that is theoretically harmful to Botswana which would otherwise benefit from a relatively low tariff regime. The SACU tariff has a price raising effect on imports into Botswana where MFN tariffs are applicable (from non-SACU and non-SADC sources). Whilst the SACU tariff raises the price of inputs imported by Botswana's producers from outside the region, South African producers of competing inputs are not necessarily the most competitive. The South African market becomes even harder to penetrate for Botswana manufacturers utilising South African originating inputs. South Africa may continue paying compensation to BLNS (about 27% of government revenue for Botswana in 2008/09) for polarization of investment into South Africa. However, this has no direct benefit to a competing industry in Botswana. Non-SACU members of SADC can potentially out-compete Botswana due to their ability to lower their external tariffs on imported inputs to an extent that the SACU external tariff currently does not allow.

4.5. Linking Trade Policy and Industrial Policy

The rise and decline of the automotive sector in Botswana highlights both the positive and negative effects of regional integration, as well as the restrictions on the exercise of policy autonomy. The motor vehicle and associated industries created jobs for thousands of Batswana, utilising foreign (imported) technology. The Botswana Motor Company (Hyundai) vehicle assembly plant, a foreign investment project established in 1993 and closed in 2000, was a result of deliberate industrial development policy which provided incentives such as grant for employment of unskilled Batswana, a low corporate tax regime, as well as trade policy instruments such as duty-free importation of vehicle kits. A key part of the equation, however, was access to the SACU (especially South African) vehicle market, given the small size of Botswana's internal market. In this case, foreign direct investment to establish Botswana's largest motor vehicle assembly plant took advantage of both local industrial policies and the existence of a large and competitive duty-free market in regional partner countries. It also benefited from the high tariff protection under the SACU common external tariff.

However, conditions in the South African market acted as a constraint to the continued operation of the Botswana Motor Company vehicle assembly industry in Botswana. The South African vehicle industry is built around the Motor Industry Development Plan (MIDP) which protects both vehicle assembly plants and the motor vehicle components industry. The South African motor vehicle industry challenged the duty-free sale of Botswana's Hyundai vehicles in the SACU market on the basis that the vehicles did not meet SACU's MIDP rules of origin. The vehicle assembly process generated little value addition since the plant utilized imported semi-knocked down kits. According to BIDPA, World Bank (2006), "South Africa used SACU Article 11(5) to oblige Botswana to cooperate in the fulfillment of economic objectives of its (SACU's) import control legislation for the auto sector." (p. xii) The alternative would have been for SACU to levy customs duty on the Hyundai vehicles in line with the origin status and this would have sparked a trade war with the possibility of the break-up of SACU. The MIDP is operational within

SACU countries, but more effectively so in South Africa. The scheme provides exporting vehicle and components manufacturers with credits for units exported. The credits so earned can be used for the importation of completely built up units. This enables the local manufacturer to concentrate on producing a few models whilst being able to supply the SACU market with a broader range of vehicles. The incentive scheme has been identified as not being WTO compatible and is to be replaced by a WTO compliant tax based incentive in 2012.

The Botswana Hyundai vehicle assembly plant closed down in 2000 partly as a result of the rules of origin ruling, but also allegedly as a result of mismanagement by its foreign investor management. It seems that both the investors and the Botswana government had not done sufficient homework when they decided to implement the project. Regional integration in this case provided both the incentive for establishing the plant as well as the conditions which eventually led to its closure. This example demonstrates that trade policy and industrial policy are inextricably linked. It should be noted, however, that a small automotive sector remains operational, producing small numbers of tractors, motor vehicles for the transport of ten or more people, parts and accessories for motor vehicles. The sector's future remains uncertain, especially with the planned end of the MIDP which is currently benefiting some of the remaining companies.

5. Research and other Institutional Support for Enterprise Development

5.1.1. The Botswana Institute for Development Policy Analysis (BIDPA)

Since its establishment in 1995, BIDPA has performed a crucial role in policy research, covering a wide range of policy issues. This has resulted in the alteration of some policies, the stoppage of others, and the crafting of new policies and institutions. The Financial Assistance Policy was the biggest incentive programme run by the Government of Botswana. However, the "evaluation of the policy by BIDPA (1999) found a high failure rate and large-scale abuses, wastage and high costs per job created. On the basis of the BIDPA review, the Policy was terminated." (BIDPA and the World Bank (2006) p 22) This development shows the seriousness with which the Government of Botswana takes evidence-based policy making. The formation of CEDA, and subsequently LEA, are the direct results of the work undertaken by BIDPA.

BIDPA contributed to the ongoing work towards the formation of a trade policy for Botswana. Up to now, trade policy has been a series of measures derived from the overall SACU trade policy. BIDPA has come up with the Botswana Trade Policy - Zero Draft. It is highly likely that the Department of International Trade and the project's reference group will take seriously the suggestions in the draft and will coin the country's trade policy based on that.

5.1.2. The Citizen Entrepreneurial Development Agency (CEDA)

The Botswana government set up CEDA in 2001 to encourage job creation and self-employment. CEDA's objective is to create sustainable employment opportunities through development of viable citizens' businesses. This is done through the provision of financial assistance in the form of loans at subsidised interest rates, and back-up business training and mentoring services to enhance the sustainability of these enterprises.

For the small-scale enterprises category, CEDA loans range from P500 to P150 000 at 5% interest per annum. Repayment period is up to five years. For medium-scale enterprises, CEDA can provide loan funds ranging from P150 001 to P2 million at 7.5% interest per annum (compared to 16% to 20% per annum on the open market). The repayment period is extended to 7 years. In addition, a venture capital fund was recently established to facilitate funding of joint venture projects between citizens and foreigners.

5.1.3. The Local Enterprise Agency (LEA)

Identified constraints to the growth of SMMEs in Botswana include: absence of a favourable regulatory environment; limited access to finance; inadequate entrepreneurial skills, need for business start-up training and marketing skills. These are being alleviated through the provision of targeted support measures. The Small Business Act established LEA in 2006 by amalgamating and consolidating the business skills training, management and technical support services which government provides through SBPA with the Integrated Field Services (IFS) Division of the Department of Industrial Affairs and Enterprise Botswana (EB) in order to provide such support services in a consolidated manner under one organisation. This process is currently ongoing.

LEA was established to implement the SMME Policy to improve the SMME Ministry's service delivery programmes. This development promotes the separation of the Ministry's policy formulation and implementation functions, an important reform for the sector. LEA promotes and facilitates entrepreneurship and enterprise development through mentoring, training in business skills, and technology support for product development. The Agency provides business training programmes and mentoring and counselling services through the engagement of qualified consultants in the areas of basic business management, marketing and record keeping countrywide.

5.1.4. Botswana Export Development and Investment Authority (BEDIA)

BEDIA was established in 1997 by an act of parliament as an autonomous private sector led organisation "mandated to encourage, promote and facilitate the establishment of export-oriented enterprises and selected services which will result in economic diversification, rapid economic growth and creation of sustained employment opportunities." (BEDIA, 2009)[11]

BEDIA works closely with the Government of Botswana in establishing and maintaining a supportive investment climate. The organisation operates a one-stop shop for investors. The identification of new market outlets for locally manufactured products, including export development missions outside the country, and construction of factory buildings for setting up of manufacturing enterprises is also part of its mandate. In addition, it markets Botswana and the country's products at international trade fairs.

5.1.5. Botswana Development Corporation (BDC)

The BDC was established in 1971 to provide business services such as identifying business opportunities, undertaking feasibility studies, building factory shells, providing venture capital, starting greenfield investments and interesting potential investors in specific projects. The BDC also promotes joint ventures with foreign companies. Participation by the BDC in any venture can take the form of share capital, loan finance, loan guarantees or provision of factory space. The BDC's investments are not meant to be permanent, but are offloaded to capable Batswana over time.

5.1.6. Botswana Textile and Small Business Owners Association (BOTSBOA)

[11] www.bedia.co.bw

BOTSBOA was established to create a voice for the small and micro citizen enterprises from various sectors of the economy. Its function is also:

- To develop business linkages between small, medium and large scale entrepreneurs to further entrepreneurial development and growth.
- To create opportunities for members of the association to interact with government and other organisations and to facilitate the benefit from government programmes and incentives.
- To facilitate bulk buying of raw materials for BOTSBOA members to reduce production costs.

5.1.7. Other business support organisations

- The Botswana Bureau of Standards (BBS) was set up to enhance the quality and standards of domestic industries.
- The Botswana Technology Centre (BOTEC) focuses on developing prototype products and production processes that could be commercialised by the local private sector.
- The Small Business Council (SBC) assists in reviewing all policies, programmes and legislation in support of SMMEs. (BIDPA, 2007).
- The Botswana Confederation of Commerce Industry and Manpower (BOCCIM) is the recognised representative of commerce and industry. It represents the private sector during sessions of the High Level Consultative Council (HLCC), where the private sector discusses matters of mutual interest with government. In 2005, following BOCCIM's drafting of an employment strategy for Botswana, Government set up the Botswana Economic Advisory Council to advise government on sustainable long-term development strategy especially in areas such as employment creation, economic diversification, poverty reduction and attraction of foreign direct investment. The Council's contribution this far remains unclear.
- The Exporters' Association of Botswana is a representative organisation for exporters of goods and services. It provides specialised export services to its members, as well as to potential new exporters by identifying foreign markets for local products. The Association also provides exporters with representation to government on issues of concern to its members.

5.1.8. International Organisations

- Other policy changes emanate from the work of external organisations that publish surveys indicating the competitiveness of Botswana's business climate. The World Bank Group publishes one such annual survey of over 170 countries which ranks the countries according to a given set of indicators associated with starting, running and closing a business. In announcing Botswana's ranking in 2008, the report said "Government instituted a number of reforms to improve the business environment in 2007, resulting in the country improving its score[12] from 52 to 38 in the *Doing Business 2009* report. The country was cited as one of the positive reformers in three of the 10 categories under review including: starting a business; protecting investors, and ease of trading across borders" (World Bank, International Finance Corporation, 2008, pp 4-6). Such annual surveys looking at the business climate in Botswana among other countries are also likely to have impacts on further policy changes to improve the business climate for local investors as well as for foreign direct investment.

- The World Trade Organisation carried out a Trade Policy Review for Botswana in 1997. This review helped the country to clearly understand policy strengths and weaknesses

[12] The Ease of doing business ranking is based on an index that is calculated on the performance of an economy on 10 indicators that measure changes in the regulatory environment affecting the starting, conduct and closure of a business. The index is based on information provided by practitioners in the respective economies and is standardised across all the participating countries. In the 2009 report, 181 countries participated.

as well as what could be done to address shortcomings. Some of the findings of the review have been captured in this document.

In summary, this section has shown that the Government of Botswana encourages the participation of both public and private institutions in the policy reform process, albeit at different levels. Some organisations such as BIDPA are contracted to do pure research on performance of current policies, or the likely impact of proposed changes. Other organisations, such as BEDIA, SBC and BDC, are involved in more practical research or policy reviews involving their areas of operation with a view to improving the performance of Botswana enterprises domestically as well as in foreign trade. All policy reviews are carried out upon the request of responsible government departments such as Finance and Development Planning, Trade and Industry, and Small, Micro and Medium Enterprises.

6. Conclusions

The terms of reference required this paper to establish whether there has been any link between industrial policy and trade policy in Botswana, with specific reference to at least one sector. This author sought to establish a more generalised conclusion, however. In the introduction to this paper, the link was defined as the positive or negative relationship between trade and industrial policies. The methodological problem is how to determine that the formulation of one policy is a result of the adoption (or non-adoption) of another policy. Such a determination is beyond the scope of this paper, except to say that key trade policy issues were, until the most recent review of the SACU agreement, determined by South Africa. In other words, the formulation of trade policy, such as tariff policy, was not in any way linked to Botswana’s industrial policy considerations. However, the authorities in Botswana still had the leeway to formulate and implement policy measures (within the boundaries set by SACU trade policy) that impacted on external trade and influenced some elements of industrial policy. Therefore, as pointed out in the methodology section in the introduction, this paper sought to establish whether elements of trade policy contradict, or are compatible with, elements of industrial policy. This is the basis upon which the following conclusions have been arrived at.

External trade indicators suggest that industrial policy, such as diversification policy, did not yield substantive changes in the contribution of manufacturing to overall export performance, with only textiles, beef, and some automotive components being the main manufactured exports. Extractive industries provided the other more significant exports including the dominant diamonds, copper nickel, coal, and soda ash exports. At the same time, manufacturing value added – which was 8% of GDP in 1966 – steadily declined to 3.4% in 2007 (**Figure 1:** Composition of GDP by Sector, 1966-2006). This is despite the resources poured into incentive schemes as well as the open (to a limited extent) trade regime promoted by successive governments.

As noted above, despite the conditions created by membership of SACU, the Botswana government took advantage of some of the provisions under SACU to negotiate for free trade agreements with Malawi and Zimbabwe. The free trade agreement with Zimbabwe complemented industrial policy initiatives such as the FAP and other support for textile industries (such as duty draw back). The trade agreement opened the way for the import of raw materials into the textiles industries whilst creating an export market for the same industries, in addition to the SACU market itself. Table 12 presents a matrix showing the author’s assessment of how each aspect of trade policy impacted upon specific industrial policy initiatives. It should be noted however, that most of the incentive schemes that are included under the industrial policy were applicable to other non-mining activities as well as agricultural activities apart from the beef sector. Also to note is that the assessments were still made for policies which have already been discontinued.

Table 12: Industrial and Trade Policies Compatibility Matrix

	Industrial Policy Initiatives					
Aspects of Trade policy	**Reserved Sectors**	**Financial Assistance Policy**	**Citizen empowerment**	**Local procurement scheme**	**Export orientation**	**Economic diversification**
WTO provisions & tariff liberalisation	conflicting	conflicting	compatible	conflicting	compatible	compatible
SACU free trade	conflicting	compatible	conflicting	conflicting	compatible	compatible
SACU CET	compatible	compatible	compatible[13]	compatible	conflicting	conflicting
SADC FTA	conflicting	compatible	compatible	conflicting	compatible	compatible
SADC-EAC-COMESA FTA	conflicting	neutral	compatible	conflicting	compatible	compatible
Duty exemption schemes - exporters	conflicting	compatible	compatible	neutral	compatible	compatible
Bi-lateral trade agreements	conflicting	compatible	compatible	conflicting	compatible	compatible
Interim EPA	conflicting	neutral	compatible	compatible[14]	compatible	compatible[15]
Single channel marketing	neutral	neutral	conflicting[16]	neutral	compatible	neutral
Export support (BEDIA)	compatible	compatible	compatible	conflicting	compatible	compatible
Trade-weighted currency basket	compatible	compatible	compatible	compatible	compatible	compatible
Export taxes	compatible	conflicting	conflicting	compatible	conflicting	compatible

The matrix is one way of avoiding drawing what may be regarded as generalised conclusions regarding the complementarities or otherwise of industrial and trade policies. One needs to be cautious with this approach though. A detailed examination of some of the verdicts (i.e. compatible or incompatible) shows these are qualified verdicts. As an example, the matrix shows that trading duty-free within SACU is incompatible with the Citizen Economic Empowerment Policy of the Botswana government. The 'incompatible' verdict reflects the difficulty faced by new entrepreneurs to build competitive industries in a marketplace dominated by big and well-established producers based in neighbouring South Africa that also have duty-free access to the SACU market. The assumption here is that most new entrepreneurs start by establishing small enterprises.

However, the same can be looked at from a different angle. Citizens benefiting from government empowerment initiatives were able to import inputs free of duty from anywhere within SACU. These inputs could be used to produce products for a much bigger market than that of Botswana alone. This bigger market potentially made it possible for Botswana's industries to take advantage of economies of scale, thereby improving on competitiveness. In this case, the verdict would favour "consistency" of the two initiatives.

[13] This applies to protection of infant industries. However, input prices are generally raised for local producers.

[14] The verdict may change to "conflicting" if and when the "New Issues" (raised at the still-to-be-concluded WTO negotiations) that include Government procurement become part of the concluded EPA. There is a high probability that government procurement could be subjected to open bidding with special preference schemes being removed or restricted at the conclusion of the EPA negotiations (if the EU Commission has its way).

[15] Infant industry protection could be threatened by full EPA if Europe's demands on this issue are fully met.

[16] Single channel marketing denies Batswana the chance to market diamonds. However, this method brings more earnings to the country, enabling Government to afford funding the empowerment programmes.

The reality on the ground can be very different as there are other factors that come into play, such as getting a marketing foothold in the first place.

For purposes of the conclusion, therefore, the author considered that the probability of a small entrepreneur facing stiff competition (in fact barriers to entry) from well-established South African producers is greater than the probability of the same entrepreneur establishing a manufacturing enterprise that matches the competition. This led this author to conclude that SACU's duty-free internal trading regime is tilted in favour of 'conflicting' with the Citizen Economic Empowerment initiative.

Industrial Policy in Botswana has sought to grow a manufacturing sector that did not exist at independence. The SACU tariff provided some level of protection for some industries, and this tied in well with government's wish to see fledgling industries grow to become competitive. The Hyundai vehicle assembly plant was established behind the protective wall of the SACU tariff for HS Chapter 87, with a mostly SACU market in mind. However, the conflict with SACU rules of origin was its undoing. In addition, the disqualification of the Hyundai motor vehicle assembly plant from accessing the SACU market duty free did not conflict with Botswana's industrial policy interests since the idea had always been that there should be local value addition, which in this case was very minimal.

Considering all factors that impact on manufacturing in Botswana and the trade in manufactured products in the global market, this author concludes that trade policy has been weak in its support for industrialisation in the country. The evidence comes from the demonstrated failure of the manufacturing sector value added to grow beyond 5% of GDP. There is need to reform both trade and industrial policies to ensure that Botswana's success translates into higher standards of living for the greater part of the population in a sustainable way. What this calls for is greater involvement by Botswana in setting the trade policy for SACU, a necessary ingredient in the development of competitive enterprises in the country. Finally, Botswana must strive to remove discriminatory industrial policies as a way of encouraging greater foreign direct investment given the limited internal capacity. The World Bank (June 2007) reported that non-citizen owned firms are more likely to export than citizen owned ones (page 12).

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8. Appendix

Box 1. Terms of Reference for the Study

Background

- Provide a history/background/evolution of industrial and trade policies.
- Provide the economic rationale for the foundation of these policies paying particular attention to the more recent economic period.

Goals, Objectives and Strategies

- Explain the objectives and aims of both trade and industrial policies.
- What targets, goals and observable or measurable indicators were set at initial period of policy development? (Comment specifically on the recent period development.)
- Provide further explanations on the linkages between the two polices for a particular sector or commodity.
- Explain the role/cooperation/partnership and/or other stakeholders with private sector in policy making.
- Are there any research/evidence-based adjustments in the process of policy making (cooperation with research institutions)?
- Which policy instruments and/or incentives are being used in your country?

Regional integration

- What role has regional integration played in the performance of policies, during the process of policy monitoring or policy reviews?
- To what extent is either of the policies dependent on regional integration initiatives? i.e., is a policy based on inputs, infrastructure or market in another country within or outside the SADC region?

Performance Indicators and Analysis

- Are there any performance indicators or targets which were set to assess the industrial policy?
- Provide industrial policy data across a range of dimensions from financial to production units, where readily available.
- Discuss both observable and perceived impacts and outcomes of both policies, individually and jointly.

Box 2. The Southern African Customs Union (SACU)

The Southern African Customs Union (SACU) was created in 1910 between the newly established Union of South Africa and the separate protectorates of Bechuanaland (Botswana), Basutoland (Lesotho), and Swaziland. The agreement was renegotiated in 1969 and Namibia joined this regional group upon independence from South Africa in 1990. SACU currently comprises five member States: SA and the so-called 'BLNS' countries, namely Botswana, Lesotho, Namibia, and Swaziland.

A. Main Objectives

The SACU had three main goals:

- Encourage economic development and diversification of member countries;
- Focus on the economic and social development of less-advanced member states;
- Ensure that the benefits arising from intra-regional and international trade are equally shared among the member countries.

B. Rules

The 1969 SACU agreement stated that member countries should apply the customs, excise, sales, antidumping and safeguard duties to goods imported from third countries non-S ACU members. The treaty left some room of freedom: a SACU-member could join other trade agreements, provided the terms of such agreements did not conflict with the provisions of the SACU agreement (SACUA). Each SACU-member kept its own legislation on quantitative restrictions on goods imported from outside the group. Goods grown, produced or manufactured in the SACU area could be freed from any duty or quantitative restriction. Member countries could also not impose any duties on imports from any other member on goods which were imported from outside SACU. In order to protect infant industries of less-developed countries, SACU-members, other than SA were allowed to apply additional duties or increase duties. For a common regional development purpose, all customs, excise, sales, and additional duties collected by SACU members were pooled and distributed to members. The BLNS Countries benefited from the highest shares of collected revenues to compensate for losses they might have incurred resulting from their participation in SACU. A revenue distribution formula was designed to compensate the smaller economies for the drawbacks of being in a customs union with a much larger and more developed country whose own trade and industrial policy determines tariff levels. A formula was used to calculate revenue shares for the BLNS countries, with SA's share of the revenue being the residual after payments to the smaller member states had been determined. To compensate the BLNS countries for polarisation, loss of fiscal and industrial policy sovereignty and trade diversion, the formula had an in-built multiplier that enhanced BLNS revenue receipts by a nominal 42%.However, it was soon found that what the BLNS countries received in this way tended to widely fluctuate from year to year. This problem was addressed by the introduction of a stabilised revenue rate, i.e. the rate of revenue earned on imports and excisable consumption.

C. Negotiation of a New Agreement

The operations of the 1969 SACUA have been criticised by all the SACU members, each from their own perspectives. In 1994, when the new South African Government came to power, the re-negotiation of the SACUA were initiated. The terms of reference of the renegotiation included the following, which encapsulated the criticism of the respective members:

- The lack of consultation and the democratisation of SACU's decision-making procedures;
- The establishment of a permanent SACU authority (a secretariat) to regulate and manage the affairs of the institution as well as the provision of dispute settlement and customs tariff consultation mechanisms;
- Specific complaints of the BLNS economies, notably the price -raising effect of the South African tariff, delays in the disbursement of revenue and the perceived influence of SACU provisions and practices on the industrial development of the BLNS;
- An appropriate industrial strategy and closer cooperation regarding industrial development policies, including infant industry protection and the development of industries that are of major importance to the members of the Customs Union;
- The development of agriculture and agro- industries and the marketing of agricultural products in the CCA; and
- The retention or exclusion **of** excise duties as part of the revenue pool.

The renegotiation of the SACU Agreement was largely concluded in 2001, and became operational in July 2004 (but officially notified to WTO on 25 July 2007). The new agreement has two major changes:

Institutional: The SACU Council of Ministers will decide external tariff changes and recommendations on such tariff changes will be made by a new Tariff Board (composed of independent experts) or the SACU Commission (senior officials reporting to the Council). A new secretariat, responsible for SACU's administration, was established in Namibia.

Revenue Sharing: Revenue sharing is bound to the actual amount of customs and excise revenue collected. The new agreement simplifies the formula, eliminates the revenue floor and shortens the time lag between actual trade and distribution of tax receipts: According to this new formula, the total revenue accruing to each member state will be calculated as follows:

- Customs revenue will be distributed in proportion to the value of imports from other SACU countries;
- Excise revenue – 85% will b e distributed on the basis of relative GDP of the five countries, and the remaining 15% will be distributed on the basis of per capita income, in the form of development assistance.

Source: Lolette Kritzinger-van Niekerk, Emmanuel Pinto Moreira, Regional Integration in Southern Africa, Overview of Recent Developments, Box A1.1, Attachment 1A, Page 22 (modified /updated by this author)

Box 3. SADC Trade, Economic Liberalisation and Development (Extract from RISDP, 2003)

4.10.1: Introduction

Global trends and developments indicate that those nations or groups of countries that are successfully implementing trade and economic liberalisation policies are experiencing high economic growth and an improvement in the quality of life of their peoples. Given the changing global environment, the creation of large markets has become synonymous with increased foreign investment and economic growth as investors search for economies of scale and efficiency gains in the production process. Markets have to be competitive at local and international levels. Small and protected markets have been rendered non-viable by globalisation. (SADC RISDP, pages 64-65)
(Page 66) RISDP
4.10.2: Overall Goal
The overall goal of this intervention is to facilitate trade and financial liberalisation, competitive and diversified industrial development and increased investment for deeper regional integration and poverty eradication through the establishment of a SADC Common Market.
4.10.3: Areas of Focus
• Market integration through the establishment of the SADC free trade area, the SADC Customs Union and the SADC Common Market;
• Attainment of macroeconomic convergence;
• Development and strengthening of financial and capital markets;
• Attainment of deeper monetary cooperation;
• Increasing levels of investment in SADC including
FDI; and
• Enhancing SADC competitiveness in industrial and mining and other productive activities for effective participation in the global economy.
4.10.4: Strategies
• Fast tracking the implementation of the Protocol on Trade to achieve the FTA, which should be informed by, and take into account the recommendations of the mid-term review of the SADC Protocol on Trade. However, fast tracking in those areas that have already started doing so should continue;
• Negotiations on the establishment of a SADC Customs Union should commence in 2005 having fulfilled some prerequisites such as ensuring that the FTA is established, carrying out studies on impact of a Customs Union and then commence negotiation for a common external tariff. The problem of multiple memberships to many regional organisations should have been resolved by then;
• Preparations for the establishment of a monetary union;
• Negotiations on establishment of SADC Common Market should commence soon after establishing a customs union;
• Harmonisation of policies, legal and regulatory frameworks that address the business environment and the free movement of all factors of production;
• Formulation and implementation of stability-oriented macroeconomic policies to achieve macroeconomic convergence and engineer credibility;
• Promotion of SADC as an attractive investment destination based on the observance and implementation of the Investment MoU and subsequently the Protocol on Finance and Investment;
• Consolidation of implementation of the industrial and mining development strategies;
• Enhancing competitiveness through industrial and mining development and promotion of increased productivity in productive sectors; taking advantage of the rich natural resource base in relation to commodity market, as well as sustainable development, expansion and diversification of industry;
• Entrepreneurship development with particular emphasis on small and medium scale enterprises.
4.10.5
TARGETS
Target 1: Free Trade Area - 2008 (to be informed by the outcome of the mid-term review to be completed by June 2004);
Target 2: Completion of negotiations of the SADC Customs Union - 2010;
Target 3: Completion of negotiations of the SADC Common Market - 2015;
Target 4: Diversification of industrial structure and exports with more emphasis on value addition across all economic sectors - 2015 taking into account the following indicators:
• Diversify (increase of non-traditional exports) and sustain exports growth rate of at least 5% annually;
• Increase in intra-regional trade to at least 35% by 2008;
• Increase in manufacturing as a percentage of GDP to 25% by 2015.

Table 13. Botswana's Basic Economic and Demographic Indicators 2000-2005

Description / Years	2000	2001	2002	2003	2004	2005
1. Gross Domestic Product						
GDP at current prices (Pula million)	**28,245**	**34,787**	**35,693**	**38,688**	**42,580**	**48,753**
Structure of GDP (%)						
Agriculture	2.4	2.2	2.2	2.3	2.2	2.1
Mining	41.4	46.7	42.1	38.0	35.4	38.0
Manufacturing	4.4	3.9	3.9	4.0	3.9	3.6
Energy	2.0	2.0	2.1	2.4	2.5	2.4
Trade/Commerce	9.7	9.2	10.2	10.8	11.5	10.4
Transport and Communications	3.3	3.0	3.2	3.3	3.3	3.3
Others (including government)	36.9	33.1	36.2	39.2	41.2	40.2
GDP at constant 1993/94 prices (P million)	**16,719**	**18,242**	**18,530**	**20,298**	**20,985**	**22,742**
Annual Growth Rates (%)	**7.3**	**9.1**	**1.6**	**9.5**	**3.4**	**8.4**
Agriculture	(8.7)	9.9	(2.6)	1.8	2.8	3.3
Mining	12.7	17.1	(3.4)	10.6	0.3	18.2
Manufacturing	3.5	(0.4)	0.2	3.1	0.8	(2.6)
Energy	11.3	5.5	3.7	9.5	6.4	3.3
Trade/Commerce	6.2	6.5	8.2	8.2	11.3	(6.6)
Transport and Communications	2.9	1.7	3.3	0.9	(3.4)	5.6
Others (including government)	3.5	3.4	5.8	10.6	5.3	4.2
2. Exports and Imports:						
Exports (P million)	**14,260**	**14,658**	**16,108**	**13,909**	**16,491**	**22,520**
Diamonds	11,773	12,435	13,223	10,681	12,435	16,864
Copper nickel matte	830	598	710	1,337	1,578	2,316
Meat and meat products	264	366	276	286	241	376
Soda Ash	98	128	79	84	107	112
Textiles	244	193	286	247	561	1,117
Other	1,051	938	1,534	1,274	1,569	1,734
Imports (P million, c.i.f.)	**10,230**	**10,564**	**15,309**	**12,120**	**15,788**	**16,631**
Trade Balance (P million)	**4,030**	**4,094**	**799**	**1,789**	**703**	**5,889**
3. Other Economic Indicators:						
Foreign Debt (P million)	2,419	2,420	2,915	2,195	1,989	2,439
International Reserves (Dec, P million)	33,880	41,182	29,926	23,717	24,200	36,610
Current Account Balance (P million)	2,782	3,491	1,245	2,288	1,352	4,032
Official Exchange Rate BP/US Dollar	5.1	5.8	6.3	4.7	4.7	5.1
4. Total Employment	**265,282**	**270,643**	**278,899**	**285,383**	**297,404**	**309,425**
Demographic Indicators						
Population (MID YEAR) ('000)	1,651	1,681	1,667	1,691	1,711	1,727
Life Expectancy (yrs), MALE [b]	42.7	39.7	36.6	36.1	35.5	35.0
Life Expectancy (yrs), FEMALE [b]	41.2	38.6	36.0	35.8	35.6	35.4
Infant Mortality PER '000 [b]	44.3	40.7	37.1	36.2	35.3	34.5

Source: SADC Statistics, Facts and Figures, SADC Secretariat, Gaborone, 2005

Table 14. Summary of Botswana's Major Imports 2001-2003 (US$'000)#

Product group				As percentage of the total		
	2001	2002	2003	2001	2002	2003
Motor vehicles & parts	201,474	453,319	467,337	11.13	13.44	11.79
Chemical products	93,396	188,803	278,008	5.16	5.60	7.01
Printed matter	95,676	134,378	245,991	5.28	3.98	6.21
Plant & machinery	108,478	172,364	236,496	5.99	5.11	5.97
Manufactures of base metals	95,359	172,271	209,394	5.27	5.11	5.28
Electric machinery	82,275	142,272	160,468	4.54	4.22	4.05
Audio visual equipment	59,653	120,231	160,139	3.29	3.56	4.04
Pumps & other machinery	72,700	124,196	152,958	4.01	3.68	3.86
Other articles	83,259	126,461	148,839	4.60	3.75	3.75
Fuels , coal	113,278	195,571	136,383	6.26	5.80	3.44
Wood & paper	52,943	88,574	114,052	2.92	2.63	2.88
Fruits & vegetables	44,723	77,784	110,805	2.47	2.31	2.80
Non-metallic mineral products	71,762	118,824	109,360	3.96	3.52	2.76
Cereals	50,676	153,386	105,154	2.80	4.55	2.65
Apparel & parts	34,957	65,845	103,533	1.93	1.95	2.61
Miscellaneous articles	40,766	80,110	96,977	2.25	2.37	2.45
Office machines & parts	30,792	68,288	93,139	1.70	2.02	2.35
Iron & steel	39,844	71,911	89,264	2.20	2.13	2.25
Polymers, Plastics & chemical products	36,387	62,788	77,067	2.01	1.86	1.94
Articles of rubber	31,165	55,677	76,234	1.72	1.65	1.92
Furniture & parts	28,818	54,861	71,408	1.59	1.63	1.80
Beverages & tobacco	25,599	82,532	67,277	1.41	2.45	1.70
Margarine & edible preps	23,029	36,823	65,929	1.27	1.09	1.66
Textiles	32,238	56,488	63,494	1.78	1.67	1.60
Milk & eggs	34,477	56,987	57,075	1.90	1.69	1.44
Footwear	18,239	30,201	45,508	1.01	0.9	1.15
Arms & ammunition	17,067	41,286	42,810	0.94	1.22	1.08
Electric current	7,984	6,007	40,195	0.44	0.18	1.01
Measuring instruments	20,692	35,883	38,605	1.14	1.06	0.97
Sugars	25,213	41,249	34,102	1.39	1.22	0.86
Animal & vegetable fats & oils	11,582	27,032	32,966	0.64	0.8	0.83
Rail cars, aircraft & ships	16,814	49,565	27,643	0.93	1.47	0.70
Animal feed	12,648	23,304	27,612	0.7	0.69	0.70
Base metal ores	12,773	19,501	25,573	0.71	0.58	0.65
Coffee, tea, mate, spices	12,603	19,897	24,633	0.7	0.59	0.62
Wood in the rough	11,472	18,669	22,897	0.63	0.55	0.58
Building fixtures & fittings	7,755	15,502	20,702	0.43	0.46	0.52
Optical goods, watches	5,707	11,888	20,452	0.32	0.35	0.52
Fish	4,238	6,634	10,091	0.23	0.2	0.25
Crude materials	19,767	10,658	9,025	1.09	0.32	0.23
Other base metals	3,187	19,427	8,751	0.18	0.58	0.22
Machine tools	6,761	7,312	7,848	0.37	0.22	0.20
Meat	3,149	7,694	7,767	0.17	0.23	0.20
Crude animal & vegetable materials	1,631	3,622	4,883	0.09	0.11	0.12
Trunks & cases	1,413	3,130	4,062	0.08	0.09	0.10
Live animals	3,460	6,497	3,927	0.19	0.19	0.10
Natural & man-made fibres	1,182	3,467	3,448	0.07	0.1	0.09
Oils seeds	617	1,014	2,294	0.03	0.03	0.06
Leather & fur skin products	414	2,142	796	0.02	0.06	0.02
Natural & synthetic rubber	584	1,014	499	0.03	0.03	0.01
Total Imports	**1,810,758**	**3,373,768**	**3,964,052**	**100**	**100**	**100**

Source: International Trade Centre, Botswana Country data, www.intracen.org, and own calculations

- Ranked by value of imports in 2003

Table 15. Share of GDP 1966 to 2007

	1966	1976	1986	1997*	2000	2001	2002	2003	2004	2005	2006*	2007*
Agriculture	39	24	4	3.7	2.4	2.2	2.2	2.3	2.2	2.1	1.9	1.8
Mining	0	12	47	44.1	41.4	46.7	42.1	38	35.4	38	47.8	42.5
Manufacturing	8	8	6	5.4	4.4	3.9	3.9	4	3.9	3.6	3.7	3.4
Services	53	56	43	46.8	51.8	47.2	51.8	55.7	58.5	56.3	46.6	52.3

Sources: SADC Statistics 2005, IMF World Economic Outlook database, October 2009

Table 16. Some Basic Data - 2000 to 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP (Billion Pula)*	28.7	29.7	32.4	34.4	36.5	37.1	39.0	40.7	41.9	37.6
GDP growth %	5.9	3.5	9.0	6.3	6.0	1.6	5.1	4.4	2.9	-10.3
GDP/capita (US$)#	3,441	3,653	3,640	4,780	5,861	5,985	6,473	7,005	7,554	5,995

Source: International Monetary Fund, World Economic Outlook Database, October 2009

*: Constant prices

#: current prices