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Botswana's Export and Competitiveness Policy and Non-Traditional Exporting Firms

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Background

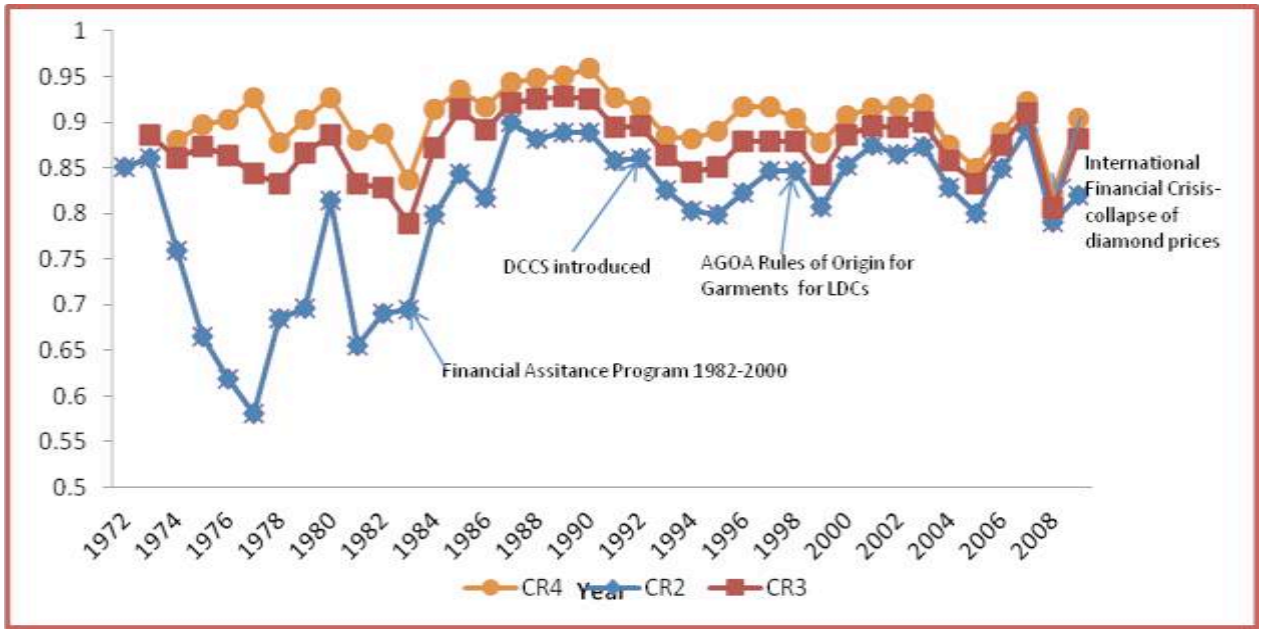
The purpose of this paper is two-fold. First it is to review Botswana's competitiveness policy in the 10th National Development Plan (NDP10 2009-2016), National Export Strategy (2010-2016) and what are its conceptual foundations in the works of Michael Porter (1990). This will help explain the direction of trade and development policy in a small landlocked country like Botswana. The second purpose of the study is to review the actual experience of several non-traditional manufacturing exporters (i.e. outside the textile and motor vehicle industry) and to see what their experience has been and whether the current export strategy will facilitate their competitiveness and survival in Botswana's challenging commercial context. The five firms reviewed in this paper, represent numerically approximately one third of the firms in the non-traditional export sector. The sector is very small and is likely only to become smaller as the existence of this sector is in many ways the product of an earlier period when there was more government intervention in the development of exports. The analysis of the firms is qualitative in nature as firms were understandably unwilling to provide cost and revenue data and there were an insufficient number of firms for any serious quantitative analysis. The research focuses on the main concerns of the firms in sustaining their position in the export sector. In some cases this stems from the costs of transport, smallness and in others from decisions of government in terms of development policy and its application.

The paper will consider whether there is anything in the current competitiveness strategy that will assist firms in meeting the challenges of production in a small landlocked country like Botswana. It will be argued that the strategy and the actual commercial needs of most of the firms surveyed are disconnected as the export strategy is focused on a view of export development which is inappropriate given the actual level of private sector development in Botswana. Moreover, the policy is internally contradictory. Like most resource rich countries Botswana's principle policy direction for diversification is beneficiation which lies at the very heart of national and regional trade policy. It fails to focus on the question of how beneficiation of raw materials is to proceed in light of the current electricity and energy policy which lies at the core as to why firms in Botswana beneficiate minerals abroad. Thus the approach taken in this paper is essentially commercial, considering the actual cost and availability constraints that firms face.

Section I **The NDP 10, Botswana's** National Export Strategy and the Global Competitiveness Report

At independence Botswana was primarily dependent upon beef exports with a few minor mineral exports such as manganese, semi-precious stones and alluvial gold. Since the discovery of the huge mines at Orapa in 1966 and the even larger and richer mine at Jwaneng in 1982 and the development of copper-nickel deposits Botswana's economic policy has focused to a very large degree on economic diversification of its export base away from diamonds and other industrial minerals. The output of these mines has dominated the growth, development and economic policy of Botswana since independence. With the notable exception of the development of the tourism sector the policy of economic diversification has largely been unsuccessful since independence with the 2, 3 and 4 product export concentration ratios essentially static since the early post-independence era.

Export Concentration Ratios for Botswana



Source: Bank of Botswana, CSO and author's calculations

Botswana undertook a policy of develop industry and diversify the economy through a very substantial program of subsidies and support for manufacturing. The two sectors where it played the most important role was in the garment and motor vehicle sectors which were dependent very largely upon exports to the Southern African region and to the US in the case of garments. The development of these manufacturing export sectors meant that by 1997/8 it appeared as though Botswana may succeed in diversification into the manufacturing sector with copper-nickel matte being replaced by motor vehicle and parts sales as the second largest export. At approximately the same time, in 1993 SACU members introduced the Duty Credit Certificate scheme (DCCS) which provided subsidies to Botswana's garment exporters to South Africa. Export subsidies to SACU producers were also provided through the Motor Industries Development Programme. The US introduced AGOA which provided for derogation from the stringent rules of origin for garments for 'less developed countries' like Botswana and the government provided substantial financial support under the Financial Assistance Policy (FAP) for new garment manufacturers locating in Botswana. It was this combination of support programs for industry to locate in Botswana through the FAP and subsidies provided by trading partners such as the US and South Africa that resulted in Botswana's export success in these sectors. However, in 2000 the Hyundai plant was shut because it was argued by RSA that it did not comply with SACU rules of origin, the multi-fiber arrangement at the WTO came to an end in 2005 and the DCCS was brought to an end in 2010. The entire edifice of traditional diversification sectors came to an end by the end of the last decade. What remains of the manufacturing export sector are some of the firms considered in the second section of this study.

NDP 10

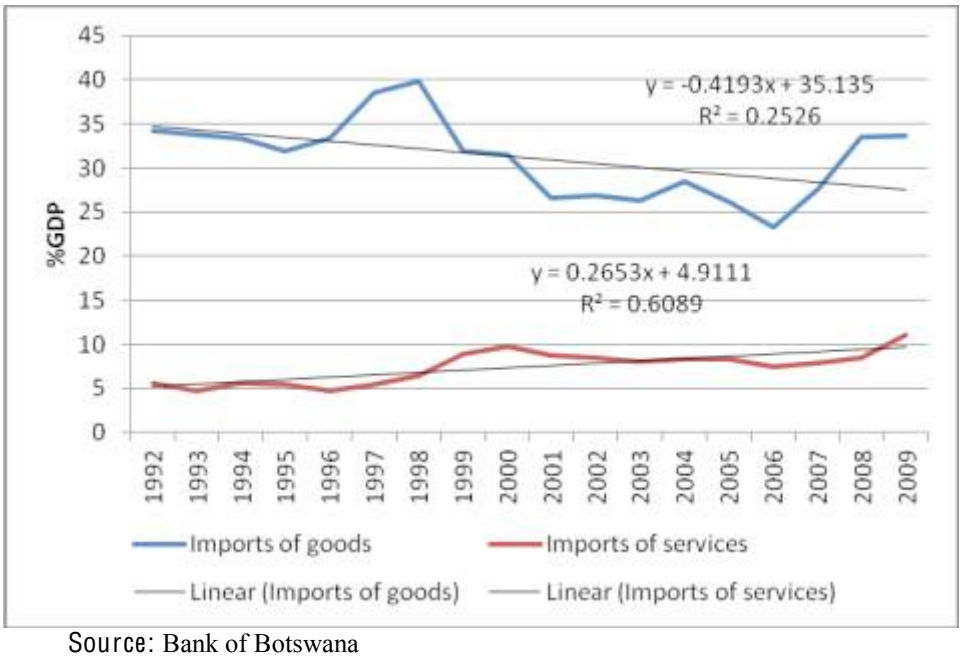
The 10th National development Plan is the most important and authoritative government document on economic policy in Botswana and unlike some other developing countries it is taken with seriousness both domestically and by international partners. National Development Plan 10 (2009-2016) outlines the broad thrust of policy of government. The government puts, as in most earlier policy documents, economic diversification at the very centre of the intended policy (NDP 10 (2009); p.58):

> The basic purpose of NDP 10 is similar to that of previous plans. For many years the main thrust of economic policy in Botswana has been to diversify the economy, in order to reduce dependence on the mining in general and on diamonds in particular, and to provide poverty reducing employment and self-employment opportunities. The domestic economy, although it has grown rapidly, remains small by international standards. This means that economic diversification has required import substitution on the one hand, and the development of increased non-diamond exports, of both goods and services, on the other.

The policy of import substitution does not immediately require international competitiveness but export development certainly does. The policy of import substitution, which is increasingly pursued in practice in Botswana is not discussed as the authors appear to recognize the well understood implications of this policy for the competitiveness of small landlocked countries like Botswana. The authors of NDP 10 argue that in order to diversify Botswana needs to pursue a two pronged export-oriented approach. On the one hand Botswana needs to export goods to neighboring countries thereby decreasing the adverse impact that high transport costs have on landlocked countries. On the other it needs to export services electronically. It is argued in NDP 10 that Botswana is in fact becoming more internationally competitive, at least vis-a-vis its other SACU trading partners over time[1]. Two principle observations were made to support this argument. The first is that Botswana has been decreasing its imports as a percentage of GDP and has been increasing its exports to the SACU market at a rate of 23% per annum. The authors did recognize that there was little evidence of global competitiveness outside the SACU customs union as exports were dependent upon preference arrangements.

Imports of Goods and Service as a Percentage of GDP

[1] NDP 10, page 67 'Botswana has demonstrated its ability to compete within this protected(SACU) market, through the large decrease in imports as a percentage of GDP and its ability to export to the South African market....Botswana producers have had mixed success exporting outside the (SACU) region.....it is doubtful that textile exports from Botswana would be able to compete without privileged access to those two (US and EU) markets'



Source: Bank of Botswana

As can be seen from the figure above imports of goods as a percentage of GDP have not decreased substantially over an 18 year period. The use of this ratio to suggest that Botswana has become more competitive without further supporting evidence has no foundations as it could be the result simply of a changing composition of GDP over time. Moreover, from its trough in 2006 of 23.4% of GDP imports rose back to 33.6% of GDP in 2009. The decline in the ratio of GDP imports could well be attributed to a decrease in the relative importance in GDP of gross fixed capital formation or other highly import intensive components, as it could be explained by an increased competitiveness of the Botswana domestic economy. This decline could not, by itself, be used as convincing evidence to support the suggestion that the economy is becoming increasingly competitive.

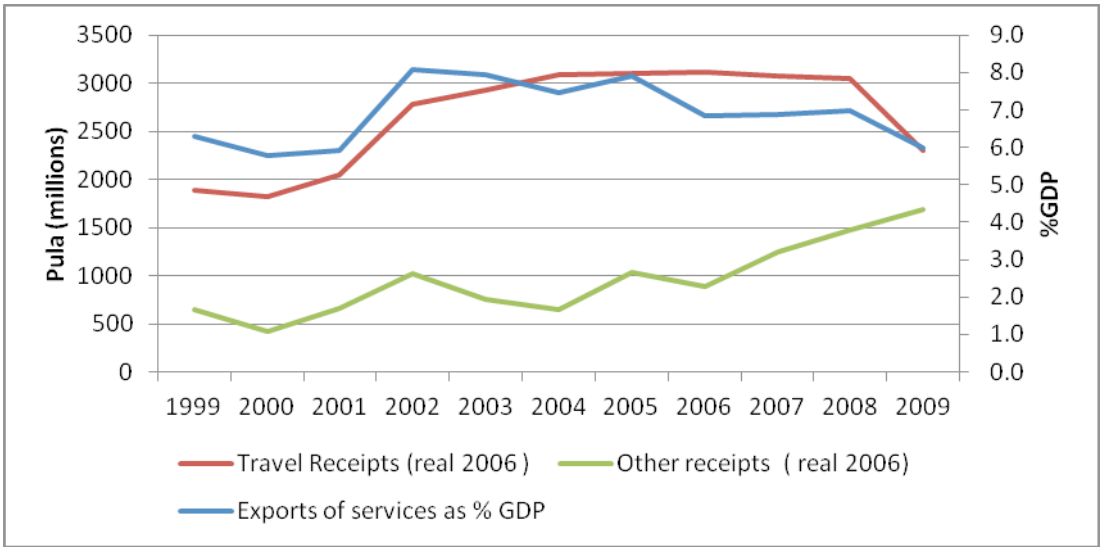
The second observation offered by the authors of NDP 10 in support of the suggestion that Botswana is competitive in the SACU market is the rising volume of Botswana's exports to RSA. Some 50% of total exports are made up of basic commodities including soda ash, nickel matte, and beef which are traded at world market prices. Again the increase in exports of these products has little to do with the competitiveness of the Botswana export sector vis-a-vis its SACU trading partners and much to do with demand in South Africa (e.g. beef) and in the case of smelted but not refined metals, the relative price of electricity which is the reason why nickel/copper matte is exported to RSA as well as Zimbabwe for refining. There has certainly been a significant increase in the variety of non-traditional exports and these will be discussed below. These include a range of consumer and light intermediate goods motor vehicle parts, pasta, chewing gum, foam, boats some of which are considered in case studies in the second section of the paper. The exports that have been increasing most rapidly to RSA has been the export in garments which has been supported in large part by the cross subsidies which are available under the DCCS which was replaced by the Textile and Clothing Industry Development Programme (TCIDP). These subsidies to garment exports from SACU members has been brought to an end in March 2010 and exports from Botswana to South Africa of garments are in rapid decline.

NDP 10, while arguing, whether correctly or otherwise, that Botswana has been relatively competitive in the protected SACU market have recognized that this is not the case in the global market and that all of its other non-mineral exports to the global market are dependent on preference arrangements such as AGOA or the EU Economic Partnership

Agreements. The statistical evidence would suggest that Botswana's long term exports remain in very large measure confined to a narrow range of unprocessed or semi-processed mineral and primary products, since the post-independence era, that even within the protected SACU market there has been no sustainable diversification of exports and indeed the range of export products has narrowed over time.

The second leg of Botswana's export strategy lies in the development of the service sector using electronic and other means for delivery that are not related to Botswana's small landlocked country status. The export of services is dependent, at present on two sectors. The first is the tourism sector which expanded fairly rapidly at the beginning of the last decade but real travel receipts stagnated throughout the decade and, as was the case is in so many tourism destinations, went into sharp decline with the onset of the international financial crisis. The tourism sector has grown by virtue of the country's world class natural tourism and wildlife resource in the north of the country. However, given the extremely fragile ecosystems of the Okavango and the Chobe River systems very substantial increases in tourism numbers in this sector may not prove sustainable. The category of 'other service sectors' is of some importance to the economy as financial services are subsumed under this category. This has shown considerable growth over the period but financial services have been limited by the needs of large numbers of skilled and experienced staff. Throughout the last decade from 2000-2009, the export of services has grown but has not kept up the growth of GDP. The only export sectors showing rapid real growth has been the growth of 'other services' receipts which includes financial services.

Services Exports as a percentage of GDP and Travel **and 'Other' receipts in real** 2006 values



Source: Bank of Botswana

In its analysis of the investment climate there is no discussion in NDP 10 of the fundamental economic constraints facing Botswana as a small landlocked country inside a long standing customs union with an economic power like South Africa which aggressively seeks foreign investment within its national boundaries and provides considerable financial incentives to firms that locate there. To the extent that NDP 10 sees there is anything at all wrong with the investment climate then it appears to stem from the 'cost of doing business' as broadly defined. The authors of the plan outlined the view of what needs to be done to

create a competitive business environment and it has little to do with direct operating costs of business per se:

> The right enabling policy and regulatory environment is vital for the long term viability of business in any economy. The private sector, when properly regulated and operating under competitive market conditions, will thrive, grow and diversify. The business environment will be improved by removing or minimizing the negative effect of all the existing administrative, bureaucratic and regulatory impediments to investment, business development, exports and private sector development, in order to make Botswana a destination of choice for doing business. (Author's emphasis)

Thus the fundamental argument in NDP 10 as it relates to creating a competitive business environment in Botswana is that the actions of government and bureaucracy are the binding barriers to the successful development of the private sector. Once these state created barriers are removed then presumably the private sector will 'thrive, grow and diversify'. There can be no doubt that these bureaucratic and policy constraints on the development of business are significant for many developing countries but no evidence is brought by the authors of NDP 10 that it is these costs rather than the basic input costs that are at the heart of the failure of Botswana to attract inward investment. An evidence based approach to competitiveness should consider the costs actually confronting business. The actual monetary and economic costs of doing a particular business in Botswana are barely considered in NDP 10. The plan merely makes mention of the fact that taxes are low and so are wages in Botswana and further consideration of actual costs is not undertaken. The fundamental economic question of whether there exists any above-zero set of prices that will provide business with an adequate rate of return, in comparison to investing in the same activity in neighboring SACU and SADC countries, is simply not posed.

National Export Strategy 2010-2016

There are numerous statements of policy in Botswana that bear directly and indirectly on the issue of national competitiveness and the nation's ability to export. These policy statements include the Private sector Development Strategy (2010), the National Trade Policy (2009), the National Competition Policy (2009) and The National Export Strategy (2010). It is this latter document that is the most relevant and needs to be considered when understanding Botswana's competitiveness strategy. The National Export Strategy (NES) is based, both factually and conceptually in very large measure on the Global Competitiveness Report. The objectives of the NES are in line with the Vision 2016 objectives of the country which are that 'By 2016 Botswana shall be classified as a developed economy built upon a sustainable diversified, competitive export base'. The specific objectives of the NES are to make the non-mineral export sector a major engine for growth and to specifically develop several key sectors including Arts and Crafts; Garment and Textile; Meat and leather products, jewelry glass and diamond and other mineral products.

It is significant that essentially the only reference in the NES objectives to dealing with the direct cost of doing business in Botswana refers to government related costs and producing an enabling environment, a theme common to all policy documents on competitiveness and exports from Botswana. In particular the objectives of the NES state the policy will aim, *inter alia*:

> (iv) To improve the business environment and lower direct costs of doing business by removing bottlenecks to trade, developing an appropriate infrastructure and making available to exporters professional services in clearing forwarding, packaging and labeling...

(vi) To provide exporters with a competitive trade finance facility; equip them with up to date specific market information to support their business decision and ensure that they produce goods that meet international standards

In the NES the authors of that report make the clearest statement of the approach Botswana appears to have taken with regard to the development of the competitiveness of its export sector and its relationship to the work of Michael Porter (NES page 21, see Porter 1990, chapter 10):

> The Global Competitiveness Report (2008-09) defines *competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country*. This definition of competitiveness is based on factors that do not require a country to sacrifice resources and the standards of living in order to be globally competitive. Notwithstanding this, at lower levels of development competitiveness is often defined in terms of cost-reduction measures such as maintenance of low wages, low interest rates, provision of subsidies, currency devaluation etc. This strategy uses the first definition as this allows the NES to use stronger factors of global competitiveness.

This then outlines the understanding of the stage of development of Botswana by its economic policy makers and some of the factors that may be motivating those policy makers to move in the general direction of addressing only those factors that pertain to restrictions on business by bureaucratic action or inaction rather than more basic input costs. The status of Botswana in the classification created by the GCR is that of a country in transition between the first stage of development i.e. where progress is driven by factors of production and the second stage of development where competitiveness is driven by efficiency. In the first category are most of the SADC membereship and the SADC countries in the second category are Namibia, South Africa and Maurtius with Botswana in transition.

By what criteria is membership of a country in either of the two categories determined? In the GCR the two criteria established are the level of GDP/capita and second the extent of primary resource production. The cut-off used by the authors for GDP/capita (GCR 2008 p.20) and the extent of resource production is whether its exports of total goods and services is more than 70% of the total. However, the GCR excludes agriculture specifically from this criteria and focuses only on minerals and fuel. (GCR (2008) p. 50 fn 20). The authors of the GCR when classifying countries place Botswana in transition because of its very high GDP/capita Namibia, Botswna and South Africa, while having high GDP/capita also export far more than 70% threshhold. The reason why GDP/capita is particularly high is the very large natural resource/minerals base in all three countries. If one were to modify slightly the criteria established by the authors of GCR to be 70% of all resource, including agricultural exports, none of the SADC countries are at a stage of development where they are anything other principaly resource exporters, even South Africa.

From this however a major leap in thinking is made in the NES to argue that if Botswana is to acheive its objective of being a developed country by 2016 then it is necessary that it move from transition stage between stage I and stage II to being a stage III developed country where in the GCR logic are found countries that are driven by innovation and technology. This is a constant theme in Botswana's policy making and yet there is little consideration whether the country has the appropriate resource base to acheive this objective of being innovation driven.

> Regionally, except Mauritius, Namibia and RSA, all SADC countries are in a factor driven stage of development, indicating that, generally, the region does not yet have the required firms and technology to compete with the best in the world. Given this, competing with countries at the cutting edge of technnological innovation will only be possible for *Botswana if the country can identify niche products and markets to exploit and attract foreign direct investment which will bring technology transfer and the required technical and managerial skills into the country*. (emphasis in original)

This does not answer the fundamental commercial and economic question as to why companies, especially those possesing the requisite technology, would choose to locate in Botswana to develop these niche markets. There is neither a policy nor a strategy that explains what the authors of the NES believe will attract this sort of high technology, niche product investment to the country when they can locate anywhere in SACU or SADC to exploit a regional niche or a global niche which can be done from any particular location. Simply there is no attempt to quantitatively analyse the sources of economic advantage and disadvantage of the nation, the numerous resource constraints it faces and the limits to a high tech innovation driven approach.

National Competitiveness and Porter's Diamond

The classification system developed by Porter and Schwab for the GCR are ultimately arbitray, as is the case with all such taxonomies. In large measure the thresholds and defintions employed are offered without justification- a simple delphic approach is implicit with no significant elaboration or justification of the various cut-off points in the stages of development. However, the theory behind Porter's work and the use of these classifications is elaborate and has important implications for the policy that Botswana has adopted. It is for this reason that the GCR can consider the issue of whether one country is a more competitive location than another without even once considering the direct financial costs confronting a particular investor. In all cases competitiveness is not an economic or accounting concept but rather is qualitative in nature focusing almost entirely on the conduct of public policy towrds the attainment of national competitiveness rather than input costs which form in basic international economics, the standard basis of determination of a country's advantage.

The focus on innovation is becoming increasingly important in Botswana's competitiveness and export policy. Indeed the government has established an Innovation Hub as part of its diversification strategy. It is seen throughout the NES that the intention of government is to move to the development of an innovation driven economy when there is simply no evidence that Botswana is anywhere near a stage of development of its economy and human capital that would indicate that it is ready to proceed with such an approach. Similarly the government is proposing an Education and Health hub that would facilitate inward investment of private capital to develop the health and education sectors both for the purpose of supplying the domestic market as well as export. The government's policy to establish hubs in diamonds, agriculture and transport are understandable given the concerns of the economy at present. However, the introduction of the innovation, health and education hubs are more accurately defined as aspirational in nature, a statement of where the government believes the economy should ultimately go in terms of production and export capacity in the future. However, to devote resources on the development of an innovation hub when the economy does not have the level of development and sophistication may prove to be a misallocation of energy and resources that should be addressed.

The theoretical foundations for this policy currently being pursued in Botswana are found in the works of Porter (1990) in the 'Competitive Advantage of Nations' where he

attempts to develop, what was at the time, a new theory of competitivness and introduce the concept of 'national competitive advantage' as opposed to the traditional Ricardian concept of comparative advantage based on relative costs. The theory is based on empirical assertions that stem from Porter's detailed studies of 10 countries eg Germany UK, US, Japan etc which are all now highly developed economies. The only countries that Porter studied which can be said to have gone through transformation in the last 40 years were Singapore and South Korea. What Porter developed was the now famous diamond which is reproduced in many textbooks on international business and suggests that competitiveness ultimately rests on the now-familiar 'national diamond' which is determined by four attributes or conditions which include the factor conditions, demand conditions, related and supporting industries and firm startegy, structure and rivalry. While Porter's work has had little long term impact on economic theory it has become very much part of the mainstream in international business policy and hence its obvious influence on Botswana's export strategy through Porter's impact on the theory of competitiveness and the GCR.

The most important assertion in Porter's work as it pertains to Botswana's competitiveness and export policy is that a nation must reach the 'innovation-driven' stage if high real incomes are to be achieved. It is this assertion that has become the foundation of Botswana's high tech approach to acheiving the 2016 objectives. A second assertion of significance to Botswnana's strategy is that a country must develop clusters of related industries which have stong 'diamonds' in the home nation. Lastly and most importantly as it bears on Botswana's policy is that in Porter's theory 'international succes cannot be based on upon comparative advantage brought about by basic factor conditions but must be built on the up-grading of a nation's industries through innovation, product differentiation, branding and superior marketing' (Davies and Ellis, 2000). These elements of Porter's work are to be found directly in Botswana's competitiveness and export policy.

There are numerous case studies of the factual accuracy of Porter's proposition that countries need to reach an innovation and high technology stage of development before they can assure there own comepititveness and prosperity. Irrespective of the veracity of this proposition it is the policy implication for those countries wishing to acheive developed country status like Botswana that is of concern. Porter's analysis has lead to premature policy by encouraging developing countries to pursue a policy that is inappropriate to the level of development and the evolution of its human capital stock. Again Davies and Ellis (2000, page 1201) argue:

> 'Comparative advantage is about which industries a country should have while competitive advantage is about how firms within industries (especially those in advanced countries) compete with each other. The elision of the two, and the resulting emphasis placed on the need for firms to compete on a basis other than cost, even in developing nations, leads to dangerous policy recommendations whereby poor countries are exhorted to change their product mix towards more differentiated and 'high-tech' products for which their current resource endowments are inappropriate.' (emphasis added)

Porter's thinking about competitiveness found in the 'Competitive Advantage of Nations' is reflected in the taxonomy used in the GCR which recognizes the importance, albeit declining of cost related factors as one moves to a developed innovative and high tech society. Botswana, it is correctly observed, was classified in the GCR as being transition to being effeciency driven and so it would be unfair to blame Porter for the poor policy choice made in Botswana to try to prematurely move to a export and competitiveness policy based on the assumption that the country is in the 3rd stage of development where its policy is innovation driven. However, Porter made it quite clear that this high technology innovative

stage was a precondition for sustainable high income growth and thus he is in part intellectually responsible for providing a context for Botswana's policy choices. Significantly it is the emphasis in Porter on government policy, and not on factor and product prices that determine national sucess, even in the first stages of development.

Section II Non –Traditional Export Oriented Enterprises in Botswana

The above analysis considered the policy direction of the country when it comes to competitiveness and export policy. This section considers the experience of five relatively large as well as one small export oriented manufacturing enterprises in Botswana. While the sample may appear small there but are probably no more than 15 such export oriented enterprises currently operating in the country. The five companies included Aliboats, which manufactures for export aluminum boats for the African market, Cadbury, which manufactures chewing gum for the entire Southern African region from its factory in Botswana; Can Manufacturers which exports cans for the food processing industry to the South African market, and Foamex which exports foam packaging products to South Africa[2]. The last firm is Mogomotsi enterprises which exports a top-end of the market niche designer furniture product to the US, EU and Asian market. It is the only firm in the sample which fits broadly into the vision of the NES with Botswana as a nation which exports products based on innovation, product differentiation and design i.e. part of Porter's latter stages of development. The others are all very much in the mould of traditional 'cost and efficiency' driven corporate development. Together these five firms have a total employment of approximately 500 workers and export sales in the vicinity of Pula 280 million in 2009. The companies and the economics of how they deal with location issues and the resulting costs are described in some detail in the annex.

Strategic Lessons on Managing the Cost of Transport

The cost of transport of both inputs and final product from port and to market constitute a major source of cost disadvantage for a small landlocked country such as Botswana. This is evidenced by the cost survey undertaken by the Commonwealth Secretariat in Annex 2. These are the dollar and cents costs that face every businessmen on a daily basis. What is clear is that while Botswana does have significantly lower unskilled labour costs than RSA in many other areas firms operating in the country are disadvantaged. Businessmen, when faced with the long run decisions of where to locate plant will consider precisely these costs first and foremost as well as the sorts of 'costs of doing business' found in the GCR.

Perhaps the most important lesson from successful non-traditional exporters is the way in which each of the firms deals with what is Botswana's most pressing trade handicap which is the cost of being landlocked and the resulting cost of transporting raw materials from the port and the final product to the market. Each of the four firms that are thus far succeeding as exporters have found quite different and at times innovative ways of addressing transport costs issues. The problem of inland transport costs is a classic case of a 'vicious circle'. As Botswana is landlocked its costs are high and therefore cannot export competitively. This in turn means that it has a structural trade deficit. From the point of view of rail and road transport this means trucks arrive full of imports but leave empty with no exports. This in turn means that the imports into the country have to incur a transport charge which is essentially double that which would be the case if the lorries or rail cars could back load out of Botswana full of cargo. This in turn makes the country more expensive as a place to do business which reinforces the country's structural trade deficit.

[2] There are several other exporters which export a range of similarly low-value to weight items such as pasta, man-hole covers, fruit juice (from extract), car batteries that were not covered in this study. There is also a small remaining segment of the garment export industry which is very rapid decline.

When it comes to dealing with exports of low value to weight/volume products transport costs become an almost binding constraint and export oriented firms that concentrate on this sort of activity. The transport costs render these firms of doubtful long term viability unless they have a natural back trade to their market or are able to develop an alternative strategy to address its transport costs issues. The Botswana Development Corporation has established at least two such operations – Can Manufacturers and the other Foamex, the latter having been successfully privatized and is now a thriving export business. At least one of the firms studied Foamex, despite enormous challenges in developing its exports to RSA has developed a strategy to take advantage of Botswana's structural surplus of out-bound lorry capacity to negotiate extremely competitive rates that overcome the costs of being located in Botswana. Lorry drivers returning to Gauteng are usually pleased to take a consignment back that covers their fuel costs of the return journey as they have normally included in their costs of the return journey in their in-bound freight rate. But because this is an unreliable source of consistent transport the company has to resort to substantial fleet ownership. In the case of Foamex the company is able to ship at lower costs as a result. This is especially important for a company that has a significant market share in South Africa and transport costs are vital to its profitability.

Cadbury also manages the transport cost issue through back loading but through an entirely different mechanism to that of Foamex. Purchases of Cadbury confectionary products are centralized in South Africa and hence all the chewing gum produced in Botswana goes to South Africa and then is distributed throughout the SADC region. Thus lorries will come from Cadbury in South Africa to Botswana with imports of the full range of products and return with chewing gum. While this overcomes the freight logistics issue for Cadbury it does not deal with the broader trading community which cannot make use of this transport. Transport costs while significant are not binding in the case of a relatively high value to weight item like chewing gum and as a result it does not determine location decisions.

Aliboats also manages its transport costs by bulk buying of its raw aluminum from South Africa. However, while this then only necessitates one shipment of aluminum every 2-3 years the carrying costs are very high in terms of interest foregone. The total interest charge is approximately pula 800,000 per annum as a result of this policy. The location of facility in Maun, on the edge of the Kalahari would at first appear to be a massive cost disadvantage but the market for industrial and commercial boats is in fact further to the north and what initially appears to be a cost disadvantage is a cost advantage as the shipping costs of the final product to the main markets in countries like Mozambique and Zambia are lower than would be the case if the firm were located in South Africa. The fact that there is only one other producer in South Africa allows Aliboats to sell them 'ex-factory' leaving the shipping and freight logistics to the purchaser. In a highly competitive market this may not be possible.

In the case of Aliboats the location of production is vital to viability of the firm. Proximity to markets and waterways is vital for custom-made boat building. Botswana, due to its location is close to the waterways of the Zambezi and its own market in the Okavango Delta. As a result of this it has, quite unexpectedly, developed over time a commercial advantage in boat building for commercial usage. However, because of the physical limits of roads and boats greater than 18 metres cannot be transported to the Zambezi from Maun. Production in Kasane, which is on a tributary of the Zambezi is important to the long term viability of the business. The company was unable to procure land in Kasane and as a result has established branches in Zambia. While the company is not planning to move immediately this would be a logical commercial decision given the location of its market.

Mogomotsi Enterprises started operating in the 1990's as a firm largely producing furniture for the local market and found that this was unprofitable as it could not compete with much larger local and South African firms. Its costs were too high given its throughput and location and therefore it made the conscious decision to reposition itself in a much less price sensitive segment of the furniture market. It moved from producing high end products for the local market to designer furniture for the export market in USA, Asia and Europe. This is precisely the sort of high end niche product that is envisaged in Botswana's export strategy. The shift in corporate strategy to high end designer furniture permits the firm to be able to pay high shipping costs for certified sustainable timber from Mozambique where the shipping costs are 50% of the CIF price of the timber. In a niche at the very top end of the designer furniture market it is possible to pass on such high transport costs without impairing the commercial viability of the product and hence repositioning acts as a means of dealing with the high costs of operating in Botswana. However it is by no means a costless effort and the company has spent five years attempting to brand its product in order to be able to remain viable. The cost in terms of time and working capital for this type of repositioning should not be underestimated.

Other Lessons for Policy

While the study is both brief and qualitative and by definition does not address the issues of concern to the many firms that have already exited the Botswana market because they were uncompetitive it does provide several important lessons for government policy as it pertains to the non-traditional export sector.

The Role of the Sate – Of the enterprises studied all, with the exception of Cadbury[3], were dependent for their creation or their continued operation for direct state intervention. In the case of two of the firms they were a direct result of investments by the Botswana Development Corporation. Two firms received financial assistance from the FAP in the 1990's.

Role of Preferences - All firms that were studied indicated that they would not be able to continue to export without the margins of preference available under the preferential trading arrangements under SACU, SADC, AGOA or EPA.

Niche Markets - On going support from government for marketing and branding activities through BEDIA etc is vital to the development of niche market products. Small producers, which are the only ones likely to effectively 'brand' Botswana products would not be capable of investing the working capital needed to develop these sorts of markets. In one case the market and export support programs under AGOA were vital to the development of niche products.

Section III Conclusions and Recommendations

What becomes quite clear is that there is a very substantial disconnect between the discussion of export and competitiveness policy in section I and the results from non-traditional exporters in section II of this paper. The policies described in the relevant documents such as NDP 10 and the NES have little bearing on the firms currently operating and exporting from Botswana. This is in large measure because the policy is based on a conception of Botswana's status being more advanced than is actually the case. The theories of Porter regarding competitiveness place Botswana at an unrealistically high level of

[3] The original chewing gum factory established in Gaborone was established by Zimbabwean commercial interests which may or may not have received any government support for the project. It was not possible to establish the provenance of the initial investment.

development which may reflect GDP/capita but not the development of the private sector. Having implicitly accepted Porter's theory this classification allows policy makers in Botswana to avoid the issues of cost efficiency which remain central to private sector decisions regarding investment in southern Africa. This classification of Botswana in a relatively advanced supports the country's policy of attempting to develop innovation, health and education hubs etc but does not conform to its current resource endowment. If Botswana were more carefully classified, it would almost certainly be in the same category as other resource exporting countries in SADC.

In this brief survey of exporting firms the only possible exception to the observations above is the case of Mogomotsi Enterprises which fits more comfortably into the vision of where Botswana should be going in terms of exports ie innovative, top-end niche products. However, to successfully develop such export sectors is beyond the financial means of most existing firms in the country. While the NES and NDP 10 address the aspirations of the country they does not confront the real issues facing firms operating is a small landlocked country and policy measures need to focus on the actual needs of firms. Instead they focus on unrealistic belief in a sectoral shift of the export sector to high technology and innovative outputs.

Recommendations:

1. Policy makers need to consider measures that will lower unit operating costs in Botswana and not just measures surrounding the overall policy environment in the country.

2. Namibia offers a rebate of 25% of transport costs for industrial firms locating in the country. No similar rebate system exists in Botswana and the government may wish to give consideration to similar incentives to help address the most fundamental constraint which is the high cost of being landlocked.

3. There needs to be further study of how the structural imbalances in trade between Namibia, Botswana and South Africa can best be taken advantage of to minimize the disadvantage of being landlocked as in the case of Botswana and physically isolated as in the case of Namibia.

4. Without government assistance and financial incentives there is unlikely to be any further investment by the private sector in relatively low value to weight exports. Assistance to or investment by government agencies such as the Botswana Development Corporation in export products must give due to consideration to how the transport cost issue is to be addressed before further investments are undertaken in the export sector.

5. The government should give consideration to assuring adequate funding to assist small local firms to develop export niche markets. There needs to be greater understanding amongst policy makers that if the government wishes the private sector to pursue the development of such markets, there must be considerable investment from the government because the private sector is unlikely to possess the resources for a prolonged marketing effort necessary to establish such markets.

Annex I – Company Profiles

Aliboats

Background to the Company

The company was first established in Maun in Ngamiland, Botswana in 1986 and has grown into one of largest non-traditional exporting firms in the country. The company is owned by six shareholders, half of whom are Motswana. The company began as a result of the desire to establish a small aluminum boat building capacity for the rapidly expanding tourism sector on the nearby Okavango Delta in Botswana. Given the needs of transport of both goods and tourists on the Okavango river and delta a South African made fiberglass boat was seen as inappropriate to the needs of the country. Unlike Aluminum, fiberglass is difficult to repair in the field when the hull is punctured by a hippo or by a sharp rock. South African producers specialize in recreational boats and vessels and not in 'workhorse' boats with low draft, flat bottom and relatively large carrying capacity that are needed in Botswana as well as in coastal and riverine environments throughout the SADC region. Therefore the existence of Aliboats in large measure stems from the absence of competition from neighboring South Africa which produces virtually all manufactured products for the SACU market.

The Economics of the Business

The company went into boat build building because Yamaha, with which it was associated wanted to move into the area and the boat building sector. The company is also the owner of the Yamaha franchise in Botswana. Aliboats builds custom made boats to specific designs of the individual customer. In 2010 the company sold approximately 120 boats at a value of Pula 20 million. It employs 70 people and exports its products throughout Africa. The company entered the export market for the very reason that it entered aluminum boat building. Within ten years of commencement of production and sales in Botswana the market in the country was saturated. Virtually every tourist facility on the Okavango region as well as the relevant government agencies i.e. Botswana Defense Force, Police, Water Affairs had also purchased these boats. As these boats do not deteriorate because they are made of aluminum or 'go out of fashion' then the only source of growth had to be the export sector.

The need to export and the saturation of the local market stem from the nature of the product. This is because aluminum does not deteriorate in the natural environment and because the product was not a fashion item like the fiberglass equivalent in South Africa there could be little obsolescence built into the product. Exports therefore were inherent in the business model of a firm in a small and limited market like that of Botswana.

In 2010 approximately 90% of the company's revenue came from exports, which is exceedingly uncommon for a manufacturing firm in Botswana. The question arises as why Aliboats is able to export from such a high cost location as Maun which for many years was, because of the receding river was in effect in the middle of the Kalahari for most of the last 10 years. The nearest aluminum producer is in Port Elizabeth or in Richards Bay, some 2,000 Km. from Maun. Again the nature of the product and the market explains why production was commercially viable in Maun. No competitors for the product existed in South Africa and hence Aliboats was in a sense a regional monopoly for aluminum boats. For many of the smaller boats that were required throughout southern Africa larger firms that produce such boats in Asia or Europe would be unwilling to tender because of the prohibitive costs. It is only in the supply of very large high cost vessels that these large Asian and European boat builders would be willing to consider a tender.

Aliboats has successfully exported its products throughout East and Southern Africa even as far away as Nigeria and the Maldives. Neighboring countries such as Zambia, Mozambique, Namibia., Sudan and Tanzania have also made purchases. As many of these purchases are by public tender the trade is very often undertaken through intermediaries in the importing country who deal with tendering issues where the boats are for public use. This has become a common technique in Africa for companies avoiding many of the direct governance pitfalls of public procurement in some countries. The trade with SADC countries is also facilitated by the fact that these SADC originating boats can trade duty free while boats in the SADC schedule normally face an import duty of 20-30%

The Economics of Location

As ironic as it may first appear, the location of Maun/Northern Botswana actually gives Aliboats some commercial advantage over potential competitors in that it is transporting raw aluminum closer to the customer than any potential South African competitor could possibly do. It is processing that aluminum closer to the riverine systems and its main source of demand than any potential competitor. In this way, even if there were a competitor in South Africa that produced a similar product it would have a cost disadvantage in that the final product would have to be transported to the point of end use. Moreover, Aliboats unlike any potential South African competitor pays a Botswana minimum wage of pula 3.80 per hour as compared to approximately Pula 12 in South Africa. With a labour force of 70 this constitutes an important commercial, advantage from locating in Botswana.

There are however considerable cost disadvantages of Maun as a location which stem from the cost of shipping large quantities of aluminum from Port Elizabeth over 2,000 km to Maun. This stems in large part from the fact that the distances, economies of bulk purchase, the uncertainty of supply and economies of transport mean that Aliboats needs to keep a very substantial stock of aluminum roll in Maun in order to be able to respond to any new unforeseen orders. The cost of transporting aluminum and other materials from RSA to Maun was approximately 4.5% of total sales in 2010. When visiting the company in 2010 it had purchased fives rolls of aluminum which enough to meet some three years demand. The interest carrying cost of this was Pula 800,000 per annum. This cost stems directly from the smallness of the enterprise and its location in Maun. A large firm located in Gauteng would not have to maintain such high stock levels.

Aluminum boats are a relatively high value to weight item but because they are bulky there is a real constraint that the company faces from location in Maun. Aliboats has the technical capacity to build very large Aluminum boats which was not the case with any other regional producers. One of the main issues in the transportation of a boat to the buyer is the relatively high cost of such a bulky item. For example a USD 2,000 boat built for use in Tanzania costs the same amount to transport from Maun to Tanzania. While Maun is served by an excellent system of tar sealed road system yet there are clear limits to the size of vessel that can be transported which is18 meters and as a result vessel assembly of larger vessels has to be done on the spot as was the case with the Kazangula Ferry which was built in Kasane so as to avoid the transportation issue.

The issue of the cost of transporting the finished vessel to the buyer is not part of the contractual arrangements that Aliboats normally makes and remains the responsibility of the purchaser. While it will be responsible on occasion for shipping a boat as far as the Botswana border normally all transport costs and logistical arrangements for transportation to the final destination remain the responsibility of the purchaser. Hence the cost of transportation from the location of production is borne by the buyer. This type of sale arrangement can normally only be acceptable if there are no alternative suppliers that may be closer to the purchaser.

Threats to the Firm and Botswana

Competition from Chinese imports remains the single largest threat that Aliboats faces at the fishing boat end of the market. Chinese producers are able to mass produce aluminum boats fitting 7 boat kits in a container which are then assembled in Namibia. These boats are then shipped to Namibia where a distributor is able to pay SACU import duties of 10 percent and still sell these boats into Botswana and Zambia at prices that are comparable to the prices charged by Aliboats. The management felt that in the longer term it would not be able to compete with Chinese production in this area. One of the options under consideration by the company was whether it would be wise to exit this segment of the market, become a distributor of Chinese boats, and concentrate on the production of larger and purpose built boats.

Aliboats has now also expanded into Zambia. The expansion into Zambia at a cost of USD500,000 resulted in the creation of two subsidiaries in Livingstone and Lusaka. This process of internationalization is not uncommon in Botswana and successful firms have tended to follow this direction once they have a profitable base in the country. This poses no immediate threat but what it permits the company to do is to hedge against any change in the context in Botswana. The shift is motivated by the need to have subsidiaries and production in the countries that are amongst its largest markets and allow it a greater entire into the east African market with its very substantial potential demand for such boats on the Great lakes and in the coastal areas of East Africa. While this is not an immediate threat as Botswana it provides a very hospitable commercial environment for these types of firms as the company grows it would seem inevitable that more of the production of specialized boats will occur in other countries that are closer to what will be the emerging market to the north of Botswana.

Cadbury Botswana Pty Ltd

Background to the Company

The company was first established by a South African Company, Dan Products which owned the rights to produce Stimorol Chewing Gum and was sold to Cadbury in 2006. The entire Cadbury group of companies has now been sold in February 2010 to the US food giant Kraft. Kraft has not yet had an opportunity to review the operations of the group of companies in southern Africa. The company was purchased by Cadbury as a largely profitable concern and has been operating as such since the transfer of ownership of the company from its original Zimbabwean owners. The company only produces chewing gum and is eventually targeted to produce for the entire SADC market. Given current production levels the company is not able to satisfy all of Southern African demand for the product. This is part of a regionally integrated program whereby the various subsidiaries of Cadbury in South Africa, Namibia, Botswana and Swaziland have various specialties.

The current management says that the company has a healthy turnover of approximately ZAR 120 million in 2010, all of which is exported. The company has an employment level of 187 staff which will be decreased to 160 once the company completes the upgrading of the Gaborone facility in 2011. Cadbury is planning a highly automated facility that will allow the company to produce three times the current level of output of chewing gum. The expected investment in Botswana is pula 150 million. The company indicates that the advantages of operating in Botswana include relatively low taxes and low wages compared to neighboring South Africa. It also indicates that once the factory expansion is complete it intends to raise wages significantly to approximately Pula 19 per hour, which is considerably higher than had previously been the case.

Tariffs are vital to the on-going business. Without a relatively high SACU and SADC external tariff it would be cheaper to import the final product along with an entire range of Cadbury products. The 2010 Common SACU External Tariff for chewing products is quite high and is presented below.

SACU Tariffs for Sugar and Sugar Related Products

17.01	**Sugar**	**Free (6c/kg until mid-2009)**
1704.10	Sugar confectionary(chewing gum)	25%
17.04.90	Sugar Confectionary (other)	37%
1806.20.10	Chocolate and Sugar Confectionary containing cocoa	21%

Source: SACU Tariff Schedule, July 2009

The Economics of Location and Transport

Chewing gum is not a low value/weight item and hence with sufficient margins it is possible to survive the costs of transport from Botswana to South Africa. Production and sourcing of all production and logistics for distribution are centralized in Cadbury in South Africa and therefore each of the subsidiaries in the Southern African region will export its total product to the central facility and then a full range of Cadbury products will be sent back to Botswana and other countries in the region. It is this mechanism that allows Cadbury to deal with the high cost of transport. Lorries coming to Botswana with inputs do not return with finished product for sanitary reasons. However lorries that bring finished Cadbury products to Botswana for sale return to South Africa with chewing gum and hence the normal trade imbalance that so hampers other exporters is managed within the firm. The difficulty arises in imbalances between the Botswana demand for Cadbury products and the demand for chewing gum throughout South Africa.

Can Manufacturers Botswana Ltd – A subsidiary of BDC

Background to the Company

In 2002 the Botswana Development Corporation undertook a full-scale feasibility study on can manufacturing to service the meat, fruit, vegetable and fish canning market in the Southern African Development Community (SADC). The study concluded that can manufacturing could be a commercially viable project as the current demand for food cans in the five SADC countries is over 1.75 billion food cans per annum, valued to be P623.34 million. Research further indicated that the market would continue to grow over the next five years. Although the market is dominated by one group of South African companies called Nampak it was apparent that technology used in the SADC region especially South Africa, which is the main player, needed to be complimented with additional advanced technology.

The study showed that Botswana imports all her can requirements especially, the Botswana Meat Commission (BMC), which is the main importer of food cans in the country. The feasibility study indicated that consumers need an alternative supplier other than the existing supplier from South Africa. Can Manufacturers Botswana (Pty) Ltd plan was to concentrate on the production of cans, which are most popular in the market. These cans are the 73x110, 65x102 and 52x89 millimeter sizes. The Botswana Meat Commission, the meat industry as a whole, the SADC fishing industry, the fruits and vegetables industry and the food processing industry in general use these sizes.

The feasibility study initially indicated that the target markets would be Botswana, South Africa, Swaziland and Namibia. In other words production for export was expected to commence from the very beginning of the project. The estimated market for cans in the region is 3 billion cans and the initial estimated quantities of cans to be produced by Can Manufacturers at 80% capacity would be 97 million cans based on the production capacity on one manufacturing line. Currently operating at 80% capacity would produce 160 million cans of various sizes. Can Manufacturers Botswana (Pty) Ltd was aiming for a 5 to 10% share of the region's market and hoped to increase its output in the latter phases of the project.

The project uses raw material in sheet form and pre lacquered, to reduce the high cost of this process which will require high costly standards of quality assurance and in order to further reduce the costs of production, initially the lids were imported complete from Europe. The company has acquired additional plant for production of lids. The production of lacquered and/or lithoprinted sheets is a complicated and costly process, as well as a very risky venture, and the company does not plan to manufacture these in the near future.

The company was established in 2006 by the state and is fully owned by Botswana Development Corporation which has an explicit venture capital mandate. It started operations in 2007 in Lobatse, in close proximity to the country's only large scale user of cans, the Botswana Meat Commission which produces Ecco Brand canned beef. At present it has a very a small workforce of 25 which has been decreased from a peak of 40 workers upon opening of the company. BDC has said at the official opening that it had invested P126 million in this project, this investment has since been increased to approximately P 200 million. The added exposure arose from expansion projects which continue to be implemented, i.e. introduction of a second line and an 'end-making' line which is to cost P77 million.

The company has state-of-the-art automated canning facility using very modern SIG German equipment which initially costs USD 92 million. It originally operated two production lines but this has been scaled down to one production line since the restructuring of the company in August 2010.

The Economics of the Firm and of Location

Cans are by nature a low value to weight item and therefore the costs of location and transport is vital to determining the viability of any proposed business model. In the case of Can Manufacturers all the inputs are imported from Europe and Asia which are supposed to have a lower cost. This means that tin plate and copper which are all used in the production of the company's products, have to be shipped from Europe/Asia to Durban and then transported by road to Lobatse in Botswana. We enquired as to whether it would not be cheaper to procure inputs from South Africa from Mittal steel. The difficulty with this model is that the main supplier sells its entire output to the main competitor i.e. Nampak and as a result no production is available even if it were cheaper than German sourcing.

At present production occurs on only one automated line which employs a very small number of operators. The one line production means that the company is operating at 20% capacity. The company is expected to break even in financial year 2010/11 with an estimated capacity utilization of 26%. Maximum capacity is estimated to be around 200 million cans per annum. According to the GM 98% of all the company's current production goes for export to RSA, Zimbabwe or Zambia.

This business model is uncommon as normally new small firms entering an extremely competitive and price sensitive market such as cans normally aim at securing domestic market before attempting what is normally a more challenging entry into the export market. While BMC supports Can Manufacturers (Pty) ltd by procuring their requirement for round cans from them, the bulk of cans required for BMC products is sourced from Nampak in South Africa and Glud and Mustrand in Europe, the underlying reason being that the company bought machinery which does meet the need of BMC for traditional square cans for tinned beef. The square cans for Ecco would have been a high margin sales item which the company could have used as a basis to develop its export capacity over time. The company therefore entered the export market through necessity and prematurely rather than by design of the initial business plan.

The company said that it was finding the export market very challenging and had so far not made a profit. According to the 2009 Annual Report of BDC the company had injected a further Pula 52 million into the company after injecting Pula 18 million to finalize plant expansion in 2008. It estimates that its can prices are 10%-15% higher than that of its South African competitors. As a result it is forced to supply markets such as Zambia and Zimbabwe as well as parts of the South African market which other producers were unwilling to supply because of the risk of creditor default. In fact the company already one default in the Zambian market.

The cost of location decreases the ability of the firm to produce for the export market. Basic raw materials have to be shipped from Durban and final product has to be sold into South Africa. Total sales of the firm oscillate around P 10 million per annum. Transportation costs for the materials used plus delivery of the final product amount to 8-10% of annual operating expenditure of the company.

Foamex Industries Pty (Ltd)

Background

Foamex Industries is primarily involved in the manufacturing of expanded polyethylene foam, which is used in many industries such as protective packaging, building and construction, bed manufacturing, and leisure. Polyethylene foam is used for roof insulation, acoustic insulation, duct insulation, as moisture barrier under wooden floors, expansion joint filler in building and construction. In the bedding industry the foam is used extensively as mattress support (for example corner supports, side supports, wave supports and posture bars. It is also used as cushioning and padding on mattresses and bases.

Protective packaging foam applications include wrapping and cushioning of fragile and sensitive goods during transportation and for safe storage. These include glassware, televisions, stereos, and other electronic equipment. In the agricultural sector, foam netting and cut pads are ideal for prevention of damage and spoilage of agricultural produce such as papaws, apples, mangoes, etc. Leisure applications include foam pool noodles used as floaters for people learning to swim, gym mats, kick pads, sleeping mats etc.

At present the SACU Common External Tariff for foam products in 17% without which Foamex would not be able to compete with foreign sources.

The Development of the Firm

Like Can Makers, Foamex is an outgrowth of an investment by the Botswana Development Corporation. The company commenced operations in 1995 under the name Poly-Foam (Pty) Ltd with only 10 employees in a 900m2 factory.

The original company was as a joint venture between BDC and the Korean firm, Joongbo Chemical Industries. Joongbo, was according to press accounts selling machinery to other companies in the region, flagrantly ignoring its agreement with the BDC to operate in Botswana and to supply the necessary technical and marketing support. According to the Managing Director "The mistake was our failure to apply due diligence. They sold machinery to us at more than three times the market value, hence the loan maintenance was too high."

The joint venture eventually collapsed and the company was sold in a management buy-out to its current owners Mr. Lisani Ndaba and Mrs. Bontlogile Ndaba. However it went through a series of unsuccessful private joint venture partners from both South African and Zimbabwean partners. As result of these joint venture failures the company required funding from Citizen Economic Development Agency (CEDA) and is today held up as one of its successful interventions. The company is now widely viewed as one of the successful indigenously owned manufacturing and exporting enterprises in Botswana.

The company has also evolved away from being a single product/single country entity. There are now several firms that are part of the Foamex Industries Group. The most important to the question of the economics of the industry is the establishment by Foamex of Foamex Industries CC in Johannesburg which is responsible for the marketing, sales, warehousing and distribution of Foamex Industries products that are exported to RSA. Foamex Industries CC has managed to penetrate the South African bedding, building & construction, insulation, protective packaging, leisure and agricultural markets.

In a related venture in 2000 the promoters of Foamex Industries formed a joint venture with Peo Holdings (Pty) Ltd, a Debswana (De Beers/Government of Botswana)

venture capital initiative) to create a company called Polymex Industries. Polymex manufactures plastic drums and containers in Gaborone. The products, which comprise 5 litre bottles, 20 litre drums and 25 litre drums are used for packaging liquids such as chemicals, fuels, drinking water etc. Polymex has been in operation for the past decade and has grown significantly during that period, substituting most imports. During the past 3 years, the shareholders of Foamex have also diversified out of the plastics field by establishing Kwayedza Enterprises (Pty) Ltd and Brick Corp (Pty) Ltd, both which manufacture cement stock bricks in Pilane and Gaborone respectively.

The Economics of the Industry and the Cost of Transportation

Some 90-95% of the company's annual turnover is as a result of exports, principally to South Africa though new export markets are being developed in Zimbabwe and Zambia. Foamex has experienced exceptional growth as in 2006 its estimated sales were reported to be in the vicinity of Pula 2.5 million.

The company currently employs 150 people in a 10,500m2 facility in 2010. During its 15 years of existence, production output has more than quadrupled while sales have increased 10 fold, propelled by exports which contribute to over 90% of total sales. Approximately 70% of those exports are destined for Gauteng Province. The company management estimates that the market in Southern Africa is small at approximately ZAR 80 million per annum. This would make Foamex one of the largest firms in the market with approximately 33% market share. Due to the small size of this industry, there are, according to the company only three other significant producers in RSA based in Pretoria, Johannesburg and Cape Town.

Foamex has received financial assistance from CEDA but receives no direct business assistance or support from government apart from access to the CEDA financial facilities. Like other firms in the survey the most important issue for a low value to weight item such as polyethylene foam is the transport costs associated with getting the raw granules from the port and getting the final product to the market. The value of a container of the final product is extremely low at approximately Pula 40,000 and with freight costs to Gauteng at normal levels the business would not be competitive vis-a-vis South African based firms. Normally transportation cost would be 12-15% of the total cost of the shipment but this is decreased dramatically through a process of establishing a system of backloading where many of the trucks that export goods to Botswana have to return to Gauteng empty because there are so few exports.

By offering a nominal rate of less than Pula 4,000 for a returning truck, Foamex is able to significantly lower costs and truck owners are happy to receive something for the return run for which they would otherwise return empty. The normal cost of a container to Gauteng would be approximately Pula 7,000 or up to 12-15% of the value of a normal shipment. With shipments of about 4 containers per day this would seriously impact the firm's profitability. Without the use of back loads to manage transport costs and the resulting cost saving of over P3 million per annum, a high value to weight and small margin business such as Foamex would be of very doubtful profitability.

The high transport cost of shipping raw materials from Durban and transporting the final product to Gauteng raises the issue of whether Botswana is the optimal location for such a business and whether the company would not be better off relocating to South Africa. There are at least two very important reasons why the company continues to locate in Botswana. The first is the low rate of corporate tax which is afforded such manufacturing enterprises which at 15% is half of that which exists in South Africa. The second reason is labour costs

and stability. Labour costs are much lower in Botswana at about a third of the rates payable in South Africa. More importantly, the labour situation in Botswana is far less militant hence one is more certain of getting reliable production times than our neighbours in the south. Foamex has a production schedule that runs 24/7 and with 'just-on-time' business model this provides the company with a competitive advantage over producers in South Africa as buyers do not have to maintain stock. The industry also requires substantial labour input and therefore the advantage of relatively lower labour costs makes a substantial difference in the choice of location. However the firm points out the other countries, such as Namibia are offering a number of tangible incentives aimed at luring especially export oriented manufacturing firms to locate their operations there.

Mogomotsi Enterprises (t/a Mabeo Furniture)

Background to the Company

The company developed initially from a very small enterprise producing largely for the domestic market starting in 1997 with some 3-4 employees. It now has approximately 20 employees. The firm is owned and managed by Mr. Peter Mabeo who is also the Managing Director. His objective in establishing the company was to design and create highly crafted contemporary furniture that could be sold on any domestic or international market. At first the company geared its production to the custom end of the domestic market for high end commercial sales for shop fitting. There were early notable successes in terms of markets and sales for the local market including projects implemented for Barclays Bank Botswana, the Botswana Tourism Board, the Botswana Bureau of Standards, Shell Oil and US Aid. While these efforts resulted in a considerable improvement in the production processes and the experience of staff it did not fundamentally change the balance sheet or the income statement of the company.

When the company commenced operations in 1997 it faced numerous constraints to its profitability including limited experience in production and industry knowledge, a lack of suitable collaborators who knew the international market as well as staff who were not used to production for the demanding export market. The company's attempt to address these and many other challenges took a number of years, especially until such time as local staff were trained to a level where they were able to produce high quality products for the top-end domestic and export market. In order to address this Mabeo entered into joint venture arrangements with a South African company and also sought technical assistance for training. It was not until 2006 that the firm was able to start developing a range of products with collaborators that were aimed purely at the export market. It is this shift into exports that is what distinguishes Mabeo from other enterprises as there was no stage in its history where the company had successfully penetrated the local market thereby creating a revenue base for its export activities.

The Economics of the Firm and the Industry

The dilemma facing the company was to attempt to gain experience in a highly competitive domestic market and then move into export which was the principle objective of the proprietor. The difficulty of such a well worn and traditional business development strategy when the final objective is moving into the export market is that domestic and South African competitors are generally able to produce low cost, high volume items with which such a small local firm with what was initially poorly financed and skilled would be unable to match. This meant that profitability in this market was very low for domestic producers. Moreover, with the imports onto the local market of low cost modular items from Asia, production for the domestic market is very challenging and generally unprofitable.

The shift into a highly competitive export sector without a profitable domestic revenue base was extremely challenging and has only rarely been successful but is a result of the company's lack of realistic financial alternatives given the competition on the domestic market. The move into the export market started in earnest in 2006. The business model of Mabeo fits into the very model of the export strategy of Botswana as it aims to develop a product that is not resource intensive but is design and skill intensive. Unlike other exporting firms this type of export is, if successful, is normally profitable as the location of Botswana as a small landlocked country with no natural forest resources for building furniture is not an overarching barrier to the success of the firm. Indeed the talent of Mr. Mabeo has been to market Botswana and to turn production from Botswana into a commercial asset by using the Setswana vernacular in naming products.

The apparent price and cost disadvantage of being located in a small landlocked country like Botswana can only be transformed into a commercial asset in this peculiar type of top-end niche market. The export sector has been developed using environmentally certified Mozambique timber from a sustainable forest. It is estimated that the shipping costs of the timber from Mozambique represents approximately half the CIF price of the timber. The high costs of export while a barrier are much less significant in this type of high margin, high end niche product. However, the very considerable investment required in marketing and design that was undertaken by Mabeo is necessary as a precondition to overcoming the cost disadvantages of locating in Botswana.

The shift into the export market at the very top end of the design market is extremely challenging, especially for a company with a limited production capacity to provide what that market requires, which is consistent supply of a range of designed products. Mabeo has found suitable trade fairs to market his products and marketing companies in Europe, North America and Asia have in fact co-operated in the attempt to enter the export market. Products were designed with the assistance of some of the most internationally renowned interior designers including Patty Johnson and Garth Roberts from Canada, Claesson Koivisto Rune from Sweden and Patricia Urquiola in Italy. The last of these is amongst the most highly reputed international interior designers. It is precisely this work in establishing relationships with such high level designers that is the main source of the commercial advantage of Mabeo Furniture in the export market

The firm has received considerable assistance from the export oriented Botswana government agencies as well as international development agencies. US Aid, through the Southern African Trade Hub has been instrumental in assisting Mabeo to penetrate the US market. CEDA and BEDIA have also assisted the company to move into the export market. In the past the company also received grants from the Financial Assistance Program (FAP) which came to end in 2000. The company has also received technical assistance from DfiD as well as Dutch Aid to improve the quality of workmanship.

The company won several awards at the furniture design awards. In 2006-2009 the firm has displayed its products at International Contemporary Furniture Fair (ICFF), It was ten first African company to do so. In 2006 and 2008 the company was awarded the Editor's choice award at the ICFF. In 2007 the company succeeded in exporting 2 containers of Maun Windsor chairs to the USA to a design shop with 75 studios in up-market locations. In 2008 ABC Home in New York launched one of the Mabeo products. Also in 2008 the company succeeded in launching its products in Tokyo at an up-market retailer. The biggest marketing success has been the teaming up of the Mabeo with Patricia Urquiola who is one of the best known designers and has helped the company to penetrate new markets through its own studio. In November 2010 Mabeo's now famous Maun Chair appeared on the front cover of Interior Design Magazine, one of the most prestigious in the industry.

Yet despite the investment in marketing and design as the company has successfully launched its own range of products this has not been translated into profits. The firms sales in 2010 were Pula 4 million, almost entirely export because the firm is unable to increase production to take advantage of the investment in marketing. The company is in need of recapitalization if it is to take advantage in its long investment in marketing and design. For boutique products such as Mabeo's furniture generally the most significant constraint is the amount of working capital required to establish reputation and market. This has been achieved but it is unclear whether the firm will be able to capitalize on this investment.

Many developing countries seek precisely the sort of product produced by Mabeo because of the close association of the product to the country and the importance this has for national branding. Many countries try to 'brand' their tea, coffee, rum and sugar etc. Most do not succeed in differentiating their product eg Papua New Guinea coffee, Ghana cocoa etc but some such as Sri Lanka (Ceylon) Tea, St Lucia Rum, Demerara (Guyana) Sugar, Fiji Water do succeed because of very substantial and innovative investments in marketing and branding undertaken by the exporter and the government. In the case of the Mabeo the use of the vernacular and what are clearly *Batswana* products has a great potential exposure of Botswana in high income markets and bears many of the hallmarks of what may become a 'national brand' product. These sorts of products make the country instantaneously recognizable and have significant spillovers into the tourism and services sectors. Given that there is no competitor in Botswana there needs to be some consideration by government as to the commercial value of the continuation of production of export furniture to aid the process of 'Botswana branding'.

Annex II – Costs of doing Business in SADC (2004)

Source: Commonwealth Secretariat

	Employment													
	Construction worker (hourly $)	Checkout operator in large supermarkets (hourly $)	Kitchen Porter (hourly $)	Bank Clerck/Teller (annual $) "local banks"	Bank Clerck/Teller (annual $) "foreign banks"	Garage Mechanic (annual $)	Payroll Clerck (annual $)	Qualified Teacher in State School (annual $)	Branch Manager (annual $) "local bank"	Branch Manager (annual $) "foreign bank"	General Registered Nurse (annual $)	Unemployment rate	Literacy rate	Manufacturing labour cost per hour
Botswana	0.36	0.45	1.15	N/A	4340.00	5800.00	2000.00	6900.00	N/A	25730.0	8740.00	19.33	75.00	0.39
Lesotho	0.39	0.34	0.34	2690.84	3288.82	1227.02	754.63	3587.80	15945.8	19932.2	2272.27	48.60	82.90	N/A
Malawi	0.12	0.17	0.14	2102.00	1923.00	1174.00	810.00	890.00	3622.00	3922.00	1330.00	N/A	57.60	N/A
Mauritius	1.90	0.75	0.70	2140.00	2140.00	3000.00	2780.00	3420.00	8540.00	8540.00	4600.00	8.00	83.00	0.60
Mozambique	0.17	0.09	0.16	4250.00	5250.00	1740.00	2244.00	1004.33	25324.0	42207.0	1625.00	N/A	39.50	0.07
Namibia	0.53	1.06	0.90	N/A	N/A	7864.08	8446.61	6153.06	N/A	N/A	7012.14	34.50	91.00	N/A
Seychelles	1.96	2.50	2.00	7000.00	9200.00	7000.00	8000.00	9750.00	32000.0	70000.0	9000.00	6.00	88.00	2.00
South Africa	0.80	1.34	0.71	5980.00	5980.00	7176.00	6976.00	7768.00	18936.00	14950.00	7774.00	29.50	85.93	10.46
Swaziland	0.27	0.52	0.69	3790.00	4429.00	2000.00	1765.00	4803.00	26237.00	23971.00	3005.00	22.80	79.60	N/A
Tanzania	0.66	0.59	0.41	3792.00	4944.00	660.00	780.00	840.00	8400.00	18000.00	720.00	12.90	80.00	N/A
Zambia	0.19	0.14	0.13	2700.00	2800.00	1500.00	1380.00	1190.00	5460.00	5460.00	1150.00	75.00	78.10	N/A
Zimbabwe	1.51	0.99	1.13	8656.45	8656.45	5734.90	982.87	4761.05	58611.36	58611.36	11053.56	70.00	85.00	0.46
Hong Kong, China	5.17	6.65	4.31	15641.51	15641.51	12890.5	24039.2	30016.31	42308.99	42308.99	19918.31	4.90	92.00	5.47
India	0.32	0.21	0.24	1122.73	1326.87	734.88	1592.24	1959.68	2082.16	7348.80	1163.56	9.20	52.00	0.64
Botswana Vs RSA	0.44	0.89	-0.44	#VALUE!	1640.00	1376.00	4976.00	868.00	#VALUE	-10780.0	-966.00	10.17	10.93	10.07

	Electricity		Water		Telephone						Fuel	
	Costs of Electricity (standard commercial line)	Connection fee (standard commercial line)	Costs of Water (standard commercial rate)	Connection fee (standard commercial line)	Installation fee (stand. comm. line)	Line rental fee (stand. comm. line)	Rate per minute local calls (peak hour	Rate per minute of international calls to London during peak hour ($)	Rate per minute of international calls to Tokyo during peak hour ($)	Rate per minute of international calls to New York during peak hour ($)	Retail price of diesel (per litre)	Retail price of petrol (per litre)
Botswana	0.04	482.00	1.87	98.00	36.00	4.00	0.6200	0.81	0.90	0.81	0.35	0.37
Lesotho	0.30	34.87	0.64	85.28	29.89	3.48	0.0500	0.66	1.02	0.72	0.38	0.38
Malawi	0.06	19.57	0.68	49.58	15.66	1.30	0.0200	1.20	1.20	1.20	0.58	0.71
Mauritius	2.70	16.40	1.64	49.30	164.00	3.30	0.1000	1.32	1.25	1.32	0.38	0.65
Mozambique	0.15	79.00	13.53	37.00	32.55	8.77	0.1000	1.00	1.00	1.00	0.38	0.47
Namibia	0.04	5.34	0.60	0.00	27.96	4.17	0.0300	0.29	0.94	0.83	0.34	0.37
Seychelles	N/A	36.20	0.02	360.00	85.35	12.87	0.0467	1.30	1.50	1.30	1.00	1.20
South Africa	0.04	1296.00	0.48	378.61	23.82	8.97	0.1200	0.41	0.60	0.46	0.37	0.39
Swaziland	0.05	5.88	0.69	77.00	85.57	2.35	0.0114	0.53	0.79	0.83	0.38	0.38
Tanzania	0.09	192.00	2.62	200.00	135.00	4.00	0.3160	2.04	2.04	2.04	0.58	0.61
Zambia	0.04	175.00	0.15	69.00	59.00	2.30	0.0180	2.10	2.10	2.10	0.65	0.71
Zimbabwe	0.08	N/A	0.19	N/A	205.59	10.82	0.1100	0.19	0.23	0.23	1.20	1.34
Hong Kong, China	N/A	N/A	0.59	N/A	60.90	16.51	0.0000	0.26	0.51	0.26	0.75	1.39
India	0.08	N/A	0.17	N/A	61.24	5.10	0.0700	0.64	1.19	0.99	0.40	0.58
Botswana Vs RSA	0.00	814.00	-1.39	280.61	-12.18	4.97	-0.50	-0.40	-0.30	-0.35	0.02	0.02

	Cost of Land				Taxes								
	Average annual cost per square metre of industrial (factory) space (average industrial estate)	(…) from	Average annual rent of per square metre of office space in the prime location	(…) from	Corporate tax rate for residents	Corporate tax rate for non-resident	Value added tax (VAT) or sales tax rate.	(…) Min	(…) Max	Export duty rate (duties from exports as percentage of total government tax revenues)	Import Duty: weighted average (nominal) tariff rate	Import Duty: Un-weighted average (nominal) tariff rate	Receipts from import duties and taxes (including custom duties, VAT, sales taxes, supplementary duties, etc) as percentage of total government tax revenues as available for the latest year
Botswana	29.00		111.00		25.00	25.00	10.00			0.00	N/A	N/A	21.00
Lesotho	0.54		4.73		35.00	35.00	10.00			0.00	21.00	N/A	18.20
Malawi	2.50		6.50		30.00	35.00	20.00	30.00	40.00	0.00	11.00	17.00	30.00
Mauritius	0.67		0.66		25.00	25.00	15.00			0.00	33.00	N/A	80.00
Mozambique	0.000235		11.50		35.00	35.00	17.00			1.00	N/A	N/A	17.20
Namibia	1.94		6.39		35.00	35.00		15.00	30.00	N/A	N/A	N/A	30.00
Seychelles	27.50		425.00		N/A	N/A		5.00	15.00	0.00	N/A	N/A	65.00
South Africa	15.00		6.13		30.00	30.00	14.00			0.00	N/A	N/A	28.30
Swaziland	1.82		4.41		30.00	30.00	14.00			0.00	N/A	20.00	67.00
Tanzania	4.00		13.50		30.00	30.00	20.00			N/A	12.50	20.50	66.70
Zambia	36.00		5.00		30.00	30.00	17.50			N/A	N/A	N/A	N/A
Zimbabwe	43.37		183.95		30.00	30.00	5.00			0.00	22.20	17.50	19.00
Hong Kong, China		101.00		991.00	16.00	16.00	0.00			N/A	0.00	0.00	N/A
India	65.00			708.00	35.70	48.00	0.00			0.10	32.20	29.50	28.40
Botswana Vs RSA	-14.00	0.00	-104.87	0.00	5.00	5.00	4.00	0.00	0.00	0.00	#VALUE!	#VALUE!	7.30

	Transport						
	Airfreight cost of transporting 100 kilograms of general cargo **to** London ($)	Airfreight cost of transporting 100 kilograms of general cargo **to** Tokyo ($)	Airfreight cost of transporting 100 kilograms of general cargo **to** New York ($)	Airfreight cost of transporting 100 kilograms of general cargo **from** London ($)	Airfreight cost of transporting 100 kilograms of general cargo **from** Tokyo ($)	Airfreight cost of transporting 100 kilograms of general cargo **from** New York ($)	Shipping cost of transporting a standard 20ft Full Container Load (FCL) general cargo **to** Rotterdam ($)
Botswana	340.00	504.00	488.00	300.00	550.00	400.00	1850.00
Lesotho	217.00	257.00	252.00	324.06	1340.56	300.00	1530.00
Malawi	397.00	470.00	438.00	875.00	2030.00	1340.00	2070.00
Mauritius	238.00	330.00	316.00	1990.00	1725.00	1635.00	1921.00
Mozambique	166.00	216.00	170.00	N/A	N/A	N/A	1350.00
Namibia	296.48	320.38	349.07	1550.48	2023.07	1420.34	1853.42
Seychelles	575.00	345.00	465.00	987.00	1601.00	1340.00	1450.00
South Africa	175.00	220.00	235.00	235.29	547.99	295.00	950.00
Swaziland	225.00	275.00	245.00	308.82	1369.97	300.00	1270.00
Tanzania	382.00	762.00	590.00	835.00	1930.00	1375.00	950.00
Zambia	398.00	830.00	538.00	540.00	1998.55	1964.00	2000.00
Zimbabwe	505.00	850.00	530.00	775.00	2000.00	1346.00	2660.00
Hong Kong, China	288.47	211.54	320.52	493.70	596.34	603.48	750.00
India	799.92	690.99	686.09	680.12	1562.58	757.86	950.00
Botswana Vs RSA	-165.00	-284.00	-253.00	-64.71	-2.01	-105.00	-900.00

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