

INDUSTRIAL DEVELOPMENT AND TRADE IN BOTSWANA

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Since independence in 1966 Botswana's economy has been propelled mainly by the primary sector (initially agriculture and currently mining). At independence the agriculture sector dominantly contributed about 40 per cent to GDP while the mining sector's contribution to GDP was quite insignificant. The narrowly defined industrial sector contributed only 6 per cent to GDP.

Currently, the industrial sector contributes only about 4 per cent to GDP and the mining sector contributes dominantly approximately 35 per cent to GDP. However, the country still has some hope in the industrial sector in propelling the necessary economic diversification from risk and uncertainty of the mining sector.

On the trade front, historically, industrial development in Botswana ties squarely with South Africa's trade policy and generally with the Southern African Customs Union (SACU) established in 1910 and revised three years after independence 1969. Currently, the country is a member of the Southern African Development Community (SADC) and

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has been affiliated to the World trade Organisation (WTO) since 1995 (Siwawa - Ndai, 1997: 339).

The challenge to the country is designing strategies and policies relevant to regional and global competition given the small market of the economy.

The objective of this paper is to examine critically the performance of the industrial sector with reference to economic diversification and trade at regional and global levels.

The format of the paper is as follows: After the introductory remarks, Section 1 deals with a review of the industrial and trade policies. Industrial performance is examined in Section 2. Section 3 discusses industry and trade issues. Conclusions and recommendations are provided in Section 4.

1. INDUSTRIAL AND TRADE STRATEGIES AND POLICIES

For about two decades economic diversification has been central in shaping both macroeconomic policies and sectoral policies including industrial and trade policies.

Effective efforts to diversify the economy started in 1982. These include, among others, Financial Assistance Policy (FAP), Selebi -Phikwe Regional Development Programme, Botswana Development Corporation (BDC) projects and in recent years, tourism and financial services (Sentsho 2001: 7).

The need to diversify the economy became probably greater than before in 1984 due to the impact of the highest 1983/84 record of the mining sectoral contribution to GDP (52.6

per cent). As a result Government Paper No 2 of 1984 was published to cover Industrial Development Policy as one of the means of achieving economic diversification. The basic thrust was to diversify the economy away from dependence on the primary sector especially mining using import substitution as a strategy.

The current Industrial Development Policy, however, has shifted the strategy to export - oriented growth as per Government Paper No 1 of 1998. The change was essentially a reaction to the 1990s global competition forces, which affected Botswana, and many other countries.

As the National Vision 2016 underscores the main challenge is to build up manufacturing to play a more central role in the economy (Republic of Botswana (henceforth RB) 1997: 21). As explained in Section 3.2 the challenge is compounded by expected reduction in trade barriers as a result of the SACU, SADC and WTO agreements, and the global technological differences.

2. INDUSTRIAL DEVELOPMENT AND ECONOMIC DIVERSIFICATION POLICY

2.1 JUSTIFICATION OF INDUSTRIALISATION IN THE DIVERSIFICATION PROCESS

The justification of diversification of industrialisation in the diversification process generally stems from the following arguments:

Firstly, diversification away from primary commodities and towards manufactured goods and service would reduce risks and vulnerability to the long-term deteriorating trend in

the commodity terms of trade and the associated loss in real income (Bank of Botswana 2000: 75).

Secondly, industrial investment will tend to have more forward and backward linkages with other sectors especially the primary sector. The richness in inter-linkage explains the highest growth elasticities of the industrial sector and the increasing contribution to GDP in the long run.

Thirdly, industrialisation has great possibility of technological transfer and adoption and creation of technology.

Fourthly, industrialisation leads to additional advantages such as expansion of employment if the right techniques are chosen (cf Siphambe 2000: 291).

Lastly, industrialisation ensures economic dependence based on own manufactured goods along with goods and services from other sectors. This is in line with the argument of stability of balance of payment, income, tax receipts and the like arising from industrialization (Kapunda 2003a: 8).

It should, however, be stressed that sustainable economic diversification cannot be accelerated by the industrial sector alone. As the Mid-Term review of NDP 8 (RB 2000: 1, 36) clarifies the argument for Botswana, sustainable economic diversification should be achieved primarily through accelerated growth of the non-mining sectors of the economy, especially manufacturing along with agriculture, tourism and (financial) services.

2.2 INDUSTRIAL PERFORMANCE

At independence in 1966 the manufacturing sector's contribution to GDP was higher (about 6 per cent) than the recent 4 per cent level. The broadly defined industrial sector shows a similar trend (see Table 1 below):

Table 1 Industrial and Other Sectors' Contribution to GDP
(Constant 1993/94 prices)
(%)

	1966	1975/76	1985/86	2000/01	2002/03 ⁺
Agriculture	42.7	20.7	5.6	2.6	2.6
Mining	-	17.5	48.9	36.5	34.8
Manufacturing	5.7	7.6	3.9	4.1	4.3
Industry*	14.1	22.7	10.5	12.3	12.6
Others**	43.2	39.1	35.0	48.6	47.0
GDP (P million)	908.6	2083.5	5708.1	16524.4	18412.0

Sources: Calculated from Central Statistical Office (CSO) data and National Development Plan (NDP 9) data.

Notes: * Industry is broadly defined to include manufacturing (narrow definition of industry) plus the main supporting sectors: public utilities/electricity, gas and water) and construction.

** Remaining sectors essentially services.

⁺ Provisional

At that time agricultural sector dominantly contributed about 40 per cent to GDP. Beef production was the mainstay of the economy in terms of output and export earnings. However, the current sectoral contribution to GDP is only about 3 percent.

The mining sector whose contribution to GDP was negligible at independence started dominating the economy in the second half of the 1970s. As noted in Section 2 the highest sectoral share to GDP was 52.6 percent in 1983/84. The recent (2002/03) sectoral contribution to GDP is about 35 percent. This falling contribution of the mining sector should not be used to conclude quickly that significant diversification has been achieved.

Firstly, as noted in this section the manufacturing sector, which is expected to play a central role in the diversification process, is not contributing enough to GDP. Furthermore, as argued elsewhere (Kapunda 2003b: 11), manufacturing contribution to total employment and total export is only 11 percent and 5 percent respectively. Even the industrial sector, defined broadly, contributes only 12 percent and 23 percent to GDP and total employment respectively.

The second argument is based on the weak performance of the agricultural sector as noted in this section. Since the sector's forward and backward linkages are crucial in domestic industrialisation process, weak agricultural sector's performance influences negatively industrial development and economic diversification.

Thirdly, even the contribution to GDP of the important service – oriented sectors is still low. Tourism (reflected through trade, hotels and restaurants) and financial services, for example, each still contributes only about 10 per cent to GDP (Kapunda 2003b: 12).

However, the afore – mentioned arguments should not be allowed to hide the generally positive industrial trends. As noted in Table 1, for instance, the manufacturing contribution to GDP increased from 3.9 percent in 1985/86 to 4.3 percent in 2002/03. General industrial contribution similarly increased from 10.5 percent to 12.6 percent in the respective years.

Note also that manufacturing contribution to total employment increased from 8.5 per cent in 1985 to 11.1 percent in 2001 (Kapunda 2003b: 12).

On the growth front, the broadly defined industrial sector growth was higher than that of the mining sector in recent years. The average growth of the industrial sector was 6.5 percent between 1996/97 and 2002/03 while that of the mining sector was 5.2 percent in the same period (RB (NDP-9)-2003: 30).

Regarding industrial diversification, the manufacturing output which comprised mainly of meat and meat product at independence has been significantly diversified as shall be further noted in the next section.

3. INDUSTRY AND TRADE

3.1 INDUSTRIAL EXPORT PERFORMANCE

As noted in Table 2 manufacturing contribution to total exports has been relatively small since independence. The estimated percentage in 2000 was only 10.7 percent. For details see Table 2.

Table 2 Manufacturing Contribution to Total Exports relative to Minerals and Other Sectors (Selected Years)

(Percentage)

Year	Total Manufacturing	Minerals	Minerals and Meat	Total Export (P'000 fob)
1985	14.7	84.5	91.5	1,384,284
1991	12.3	88.9	90.5	3,738,009
1993	13.1	84.5	88.3	4,964,000
1995	26.4*	72.9	75.9	5,941,470
1997	20.2	78.8	81.0	10,390,700
1998	24.0	75.6	79.0	8,696,922
1999	15.0	84.8	86.6	12,227,847
2000	10.7	90.8	92.7	13,834,682
2001**	8.2	86.6	87.6	10,063,156

Source: Botswana Central Statistical Office data

Note:

* Vehicle parts being dominantly high (16.1 percent)

** Provisional

The main export direction of trade being the common custom area, Zimbabwe, USA, UK and other European countries. (For details see Appendix Table A). This is comparable to the main import direction shown in Appendix Table B.

However, as noted in Section 2 diversification has taken place within the manufacturing sector from beef at independence to other consumer goods, intermediate and capital goods. For details see Appendix Table C.

3.2 TRADE CHALLENGES AND OPPORTUNITIES

As noted in the introductory remarks apart from economic diversification Botswana faces the challenge of growing intensity of competition at regional and global level. Some of the expected aspects to guide the competition include the anticipated reduction of barriers or free trade as a result of SACU, SADC and WTO agreements and the growing global technology and improved work organizations.

Several problems may arise from regional or world agreements. At SACU level, for instance, the requirement of common policies and strategies on agricultural and industrial development may be in conflict with interest of individual country's competitive policy given the different levels of industrial development. Furthermore, the less industrialised country within SACU is likely to face more stiff competition. As Tsheko (2003: 3) argued Botswana faces more stiff competition for industrial goods from the more industrialised South Africa. This renders development of the manufacturing sector a

difficult task. Similar arguments can generally be given at other regional or global level when less industrialised countries are involved in trade with more industrialised economies.

The implication of the Botswana's export - oriented industrial policy therefore faces problems related to stiff competition.

To enhance international competitiveness the current Industrial Development Policy, nevertheless, underlines the need for higher productivity in the industrial sector using more skilled employees and improved technology. The 2003/2004 Botswana government Budget/Annual Economic Report and the National Development Plan (NDP9) (2003/04 - 2008/09) re-emphasize the message through the theme: Improving Competitiveness Through Global Markets. The documents underline the fact that domestic industries have to compete in global markets through trade.

Hitherto, several measures has been taken in line with international competitiveness.

Examples are in order:

- The Ministry of Trade and Industry in collaboration with the United Nation Development Programme (UNDP), has started a programme, which entails the formulation of investment and export promotion strategies, a modern investment law as well as capacity building in the negotiation of bilateral investment treaties

(RB 2000c: 15). Although this is a positive measure more effort is required to implement the investment and export strategy.

- Local Organizations like the Botswana Development Corporation (BDC) and the Botswana Export Development and Investment Authority (BEDIA) have selected niche industries on which to focus its investment and export promotion drive. These industries include manufacturing of textiles and garments, jewellery, tannery and leather products, glass and information and technology products, which can utilize locally available materials (RB 2003a: 129, 2003b: 31, 2003c: 15). However, all these efforts seem to be merely initial stages of export and investment promotion. Furthermore, although the emphasis on use of locally available inputs is commendable as it leads to strong inter - industry linkages it remains a challenge to high productivity motive when imported inputs are cheaper and of high quality.
- In August 2002 the USA Government amended the African Growth and Opportunity Act (AGOA) to accommodate Botswana's and Namibia's requests to be reclassified temporarily as least developed countries for purposes of accessing raw materials for textile industries from other countries including those outside Africa (RB 2003c: 16). However, domestic enterprises have not availed themselves fully of this opportunity.

- The proposal by the USA government to negotiate a free trade area between the SACU member countries and the United States with the aim of securing market access for SACU products to the USA market on a more permanent basis seem to be attractive (RB 2003c: 16). However, that requires, among others, trading high quality products, which remains a challenge to some members of SACU.

4. CONCLUSION AND POLICY RECOMMENDATIONS

For about two decades the industrial sector in Botswana has been viewed as the central hope of economic diversification. However, currently its performance is still far from adequacy. Furthermore, the sector is faced by challenges of trade and stiff competition at both regional and global level. As a reaction to the situation the following recommendations are in order:

Firstly, despite the current global emphasis on private investment a mutual mixture of the invisible hand of the market with the visible hand of the state should guide the process of industrialisation, economic diversification, trade and development similar to the case of the East Asian Tigers. Specifically the Botswana Government, should, for instance:

- (i) support the industrial sector selectively. Small and medium enterprises, largely due to their employment and GDP contribution should be given

special attention. The support should be provided within a reasonable duration. Support may also be provided to any project, which is commendable for potential or actual high quality products. The support may involve incentives such as subsidized loan and tranststory tax exemption to encourage both citizens and foreigners;

- (ii) support the reduction of costs in the sectors which are crucial to industrial and other sectors of the economy such as transport and public utility;
- (iii) intensify through the ministry which deals with industry and trade, investment and export promotion strategies to promote foreign direct investment and local enterprises;
- (iv) support industrial and skilled labour training and technological progress;
- (v) maintain and implement an effective competition policy centred on fair competition.

Secondly, the industrial investors should make more effort to compete directly through raising product quality, efficiency, and productivity and maintaining minimum input costs.

Thirdly, industrial investors should compete indirectly. The small scale and medium enterprises, for instance, can compete successfully through niche marketing by identifying and occupying tightly defined segments of the market place, which they can serve better than large firms. Traditional crafts and other labour intensive products can be exported to market not tapped by global players.

Lastly, domestic enterprises should exploit to the fullest the AGOA and other trade opportunities; but should devise long-term competitive strategies when such opportunities will have expired.

**Appendix Table A: EXTERNAL TRADE DIRECTION OF TRADE:
EXPORTS**

(Percentage)

Year	Common Custom Area	Zimbabwe	Other Africa	U K	Other Europe	USA	All Other
1994	13.9	2.7	1.0	25.1	56.4	0.7	0.2
1995	21.5	3.1	0.8	37.4	36.1	0.9	0.2
1996	18.3	3.1	0.6	54.3	22.5	1.0	0.3
1997	14.3	3.7	1.1	56.2	23.5	1.0	0.2
1998	17.2	2.9	1.3	55.5	21.5	1.0	0.6
1999	10.4	2.4	1.1	66.5	18.2	0.7	0.7
2000	6.7	3.9	0.9	69.7	17.5	0.6	0.7
2001	6.1	1.9	1.0	86.8	3.0	0.2	1.0

Source: Botswana Central Statistics Office

**Appendix Table B: EXTERNAL TRADE DIRECTION OF TRADE:
IMPORTS**

(Percentage)

Year	Common Custom Area	Zimbabwe	Other Africa	UK	Other Europe	South Korea	USA	All Other
1994	78.0	5.9	0.5	2.5	5.9	2.1	1.9	3.3
1995	74.0	5.5	0.3	2.5	6.0	7.1	2.0	2.5
1996	78.0	5.7	0.4	2.6	4.2	4.4	1.3	3.4
1997	72.5	4.5	0.5	2.0	7.0	9.5	1.1	3.0
1998	74.8	3.9	0.6	3.4	6.8	4.8	1.4	4.4
1999	76.6	3.9	0.3	2.7	6.5	2.6	1.8	5.6
2000	73.9	3.5	0.3	4.2	12.3	0.2	1.6	4.0
2001	75.6	3.3	0.4	5.3	8.0	0.2	2.8	4.5

Source: Botswana Central Statistics Office

Appendix Table C: MANUFACTURING STRUCTURE

(Percentage)

Industry	1992/93	1993/94	1994/95	1995/96
1. Meat and meat products	19.7	17.3	14.0	14.0
2. Dairy products	16.9	16.8	13.6	12.6
3. Beverages	13.0	12.8	10.7	10.0
4. Bakery products	4.7	4.9	4.3	4.1
5. Textiles	10.2	9.8	8.1	7.4
6. Tanning & leather products	1.6	1.6	1.3	1.3
7. Chemicals & Rubber products	4.7	4.6	3.8	3.6
8. Wood & Wooden products	1.7	1.6	1.4	1.3
9. Paper & Paper products	6.5	6.9	5.7	5.4
10. Metal products	11.4	13.1	28.4	32.1
11. Other manufacturing products	9.6	10.6	8.7	8.2
1-11. Total (1985/86 prices- Pm)	821.5	863.0	1079.5	1183.9

Source: Botswana Central Statistics Office

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