THE IMPLICATIONS OF GLOBALISATION FOR FOREIGN DIRECT INVESTMENT IN BOTSWANA[1]

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Abstract.

This paper looks at the effect of globalisation on the Botswana economy. The paper argues that Botswana is affected by globalisation through a number of mechanisms, including international trade, international flows of finance, and the impact of globalisation in neighbouring economies to which the Botswana economy is strongly linked. The paper argues that Botswana has followed a liberal approach to trade and finance for most of the time as a member of SACU. The country is also well known for having a very good enabling environment for foreign direct investment (FDI), and yet FDI has steadily decreased since 1997. The paper explores some of the reasons that may have led to declining FDI in Botswana.

1. Introduction

Globalization is a buzzword. Even though the term has become fashionable, its meaning and implications, particularly for developing countries, are far from clear. It is now synonymous with any new development. Most scholars agree that globalization is perhaps not a new phenomenon, since trade and foreign direct investment, the most commonly used indicators of globalization, grew rapidly in the nineteenth and early twentieth centuries (Bhalla, 1998, Tsie, 2000). What is different is the pace of the process in the current phase of the phenomenon. The process is evident wherever one goes. Japanese cars are plying our roads, Western films are all over us, and international news bulletins are on every hour. A wide range of quality products has been made available, implying that

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consumer choice has been widened. Positive developments such as the Internet, e-mail and cellular phones have also been seen in communication technology. These developments have made it possible for people of the world to communicate more effectively.

Globalization has economic, political and cultural dimensions, all of which have a social impact. On the economic side, there are five key features of globalization. These are:

(i) the rapidly expanding international trade, facilitated by newer technologies among others. A growth in foreign trade as a share of Gross Domestic Product (GDP) is commonly used as an indicator of globalization.

(ii) the increase in foreign direct investment (FDI) and capital flows.

(iii) the increasing internationalization of production, distribution and marketing of goods and services as a result of the adoption of new organizational forms of production by multinational enterprises and growth in capital markets and FDIs.

(iv) the growing global competition among producers and suppliers of goods and services.

(v) the adoption of economic reforms and liberalization of trade and investment policies undertaken even by developing countries. These changes are all facilitated by the adoption of new technology including information technology (Bhalla, 1998; ILO, 1999

2.0 General Global Economic Trends

One of the characteristics of globalization is the increase in the international trade flows and increase in the degree of openness of world economies. For most countries, the share of exports in GDP is higher now than ever before in history. The rise in export/GDP ratio has been much stronger in low and middle-income countries than in high-income countries (ILO, 1999;Bhalla, 1998). One other major feature on the trade side is that exports of services are rising faster that exports of goods. This is mainly due to improved possibilities of storage, processing and communication of data (ILO, 1999). Generally, national economies are much more open than before.

Foreign direct investment is another area that has a clear trend that describes the modern era. Even though data shows some considerable fluctuations rather than an uninterrupted increase, the trend is clearly a considerable increase. Data shows that short-term capital flows have increased even more dramatically, especially in the emerging market economies (ILO, 1999). The growth of capital flows resulted from the fall of the fixed exchange rate regime, deregulation and liberalization of capital flows, and the opportunities this has provided for speculation on variable exchange rates. According to Paul Streeten (1998), globalization of financial flows has been uneven in that there are hardly any flows to low-income countries. Among developing countries, it is those with substantial human capital and good government policies that attract capital. Good government policies have normally been associated with the liberal ideology, particularly, those that encourage the development of a strong private sector.

Globalization has stimulated technological progress by intensifying competition, which in turn has forced the introduction of new technology. The satellites, Internet, and cellular phones have increased the speed of communication throughout the world, leading to what some have come to label a ‘borderless world’ or ‘global village’. Enterprises, especially multinational corporations, are increasingly working on an international scale. To adapt to the international competition, enterprises introduce flexibility in their internal operations as well as change their relationship with domestic and foreign enterprises (ILO, 1999). A vast majority of the poor in the developing countries are either completely left out (e.g. subsistence farmers) or are marginalized by the process (Streeten, 1998).

3.0 Economic implications of globalisation for Botswana

Most Economists expect globalization to go hand in hand with shrinkage of government. It is expected that the more the economy opens, the less the need for government. Two reasons are usually advanced for this thesis. Firstly those liberal trade policies with their bias towards neo-liberal theory tend to reflect a preference for markets, and therefore less government intervention. Secondly, it is argued that globalization makes government monetary and fiscal policies ineffective (Streeten, 1998). Research, however, shows that the scope for government has been larger and not smaller for economies that have taken advantage of world markets. Examples of such countries are Sweden, Austria, and Netherlands. Those governments have tended to act as an insulator against external shocks, risks and alleviation of market dislocations (Streeten, 1998).

Botswana’s development strategy is based on the philosophy of free enterprise and a market economy, and successive national development plans have always emphasised the role of government in the economy as a facilitator of economic growth and development rather than an active participant. For example, the state has limited its role to providing infrastructure, educating the labour force, setting the legal, fiscal and monetary framework within which various economic sectors operate, and securing favourable international arrangements for domestic producers and consumers (Botswana Government, 1979). However when Botswana attained independence, there was very little going on in terms of economic activity and there was also no private sector to drive the economy. It was up to the state to intervene in order to stimulate economic growth, despite its commitment to free enterprise and market economy. To this end, the government set up a number of public corporations, better known as parastatals, to fill the gap created by a lack of private sector provision (Mogalakwe, 1997). In its endeavour to support the growth of the private sector, Government also introduced various finance schemes. One such scheme was the Financial

Assistance Policy (FAP), which was set up in 1982 to break the financial constraints of new and old business wishing to expand[3].

More recently, there has been pressure on the government to roll back the state and privatise most of its involvement in parastatals. One major argument put forward is that not only are these parastatals inefficient, but also that there existence is crowding out the private sector (Mogalakwe 1997). These arguments, emanating mainly from the private sector itself, are in fact in accord with the government's own well-known commitment to a free enterprise economy. These arguments are also to a large extent influenced by globalization. Botswana's economic policies have been affected by changes in economic development thinking, which could be described as the globalisation of ideas. For example, Botswana chose to increase real domestic interest rates, and to announce a privatisation policy, in response to international policy advice, which in turn reflected current fashions in economic thinking, rather than financial necessity or donor conditionality.

Botswana is affected by globalisation through a number of mechanisms, including international trade, international flows of finance, and the impact of globalisation in neighbouring economies to which the Botswana economy is strongly linked.

With regard to trade, Botswana has always had free trade with South Africa and the other members of the Southern African Customs Union (SACU). By choosing to remain a member of SACU, Botswana has committed itself to completely free trade with the other members. On the other hand, SACU as a whole has been highly protected by the SACU common external tariff, which was developed to protect South African manufacturers over a period of more than 60 years (South Africa also imposed quantitative restrictions on imports, but these have now been abolished). Botswana is therefore affected by globalisation of

[3] FAP was replaced with CEDA in 2001.

trade only at second hand, to the extent that South Africa has liberalised its trade policy and, by definition, that of SACU.

This rather unusual situation means that there is no sense in which Botswana can be said to have undertaken trade liberalisation as a matter of deliberate policy in the normal sense, but only to the extent that choosing not to leave SACU can be said to have been a policy. The option of leaving SACU has been considered on many occasions, but the decision has always been to remain a member, because of SACU's net advantages for Botswana. The most important of SACU's advantages is free access for Botswana's exports to the South African market.

A key aspect of globalisation is the opening up of national financial markets to international capital flows. Prior to 1976, in contrast to the free movement of finance within the Rand Monetary Area, Botswana applied South African exchange controls to transactions with the rest of the world. From the time when they were introduced, Botswana's exchange controls tended to be more liberal than those of South Africa. Thereafter, they were gradually liberalised further, ending in complete abolition of all exchange controls in February 1999. Neither the liberalisation nor the eventual abolition of exchange controls made very much difference. From their first introduction in 1976, Botswana's exchange controls were not severe enough to impose significant constraints on the current account. There were never any exchange controls on visible trade (nor any other controls on imports). The controls on invisible trade and capital movements were generally quite liberal, and the exchange control rules were liberally interpreted. The exchange control rules, which did have an impact, were those that restricted the ability of Botswana residents to hold foreign financial assets; the eventual abolition of these particular rules was therefore significant, although their gradual liberalisation, over the preceding years, meant the impact was not sudden.

One of the benefits of financial globalisation is that countries should be able to attract more investment capital, if international investors are confident that their investments can be reversed. This is guaranteed by allowing for free movement of capital, which is what Botswana guaranteed by liberalizing exchange controls. Domestic share and bond markets can also benefit from the participation of international investors, both in attracting more capital to the country, and because market liquidity can be improved by increasing the number of market participants. In turn, greater liquidity increases the efficiency of capital markets, and therefore their contribution to economic development.

However, this also opens domestic financial markets to speculative flows of international capital. Both inward and outward flows, if excessively large over too short a period, can have damaging effects. Financial contagion occurs when a financial crisis in one country causes international investors to revise their assessment of financial markets in other countries, which are regarded as having similar problems. In extreme cases, international investors revise their assessment of all developing country markets as a result of a crisis in one country or in one region. This means that individual developing countries may be affected by financial contagion even if their own economic situation is fundamentally sound, so that large-scale and immediate withdrawal of funds is not justified by economic fundamentals.

Small developing countries such as Botswana, with very underdeveloped financial markets, are relatively immune from the direct effects of financial contagion, either because there has been little or no inflow of short term and speculative finance, or because domestic financial markets are so illiquid that short-term outflows are not practical. Money that has not come in cannot flow out; and money that has come into illiquid investments cannot flow out except over an extended period. However, where a country such as Botswana is strongly linked to a larger country with developed financial markets (in this case South Africa), the economy may be indirectly affected by financial contagion.

There are in addition several ways in which financial crises in other countries might affect the Botswana economy in the medium term, for example through causing falls in the prices of Botswana's commodity exports, or through increased competition in export markets from Asian countries whose currencies have devalued by large amounts. More broadly, reduced global economic growth could also have an adverse impact.

One aspect of globalisation which affects Africa more than any other region is the increase in aid conditionality. This is mostly associated with structural adjustment programmes involving loans from the IMF and World Bank, which have steadily increased the range of conditions attached to their lending, and the intensity with which the conditions are monitored. In addition, other aid donors have increasingly refused to provide anything other than "humanitarian aid" to countries without an IMF/World Bank structural adjustment programme, and to withdraw their aid where such programmes break down.

Botswana has escaped much of this increase in aid conditionality for one basic reason. Botswana has never had to borrow from the IMF, or to have a structural adjustment programme. Indeed, Botswana has provided a small amount of finance to the IMF, additional to that required by the country's quota. At the time of a collapse in diamond sales in 1981 and 1982, Botswana did negotiate a loan from the IMF, and the terms of a Letter of Intent were agreed. However, by the time the Letter of Intent reached the IMF Board, the measures already taken by the Botswana Government prior to approaching the IMF were working so successfully, notably in reversing the decline in the foreign exchange reserves, that Botswana was by that time ineligible to borrow.

Another economic area highly affected by globalisation is foreign direct investment (FDI). It is frequently pointed out that Africa has received a very small part of the large increase in flows of foreign direct investment to developing countries, which has occurred in recent years. Global outflows of foreign direct investment increased at 27% a year from 1986 to 1990, and at 16% a year from 1991 to 1995. Most recently, foreign direct investment increased from US $380 billion in 1996 to US $649 billion in 1998 [United Nations, 1999: 9].

Africa's share of these flows has been very small, varying between 1.2% and 1.6% from 1995 to 1998. However, Africa's share of global GDP is also very small, at about 1.1%, so that by this measure Africa receives slightly more than its proportionate share of foreign direct investment. It should be noted, though, that a large part of foreign investment in Africa has been in the mining sector, which is attracted very simply by the discovery of economically viable mineral resources. It occurs in spite of, rather than because of, the general investment climate, which has been consistently poor in a large number of African countries. Because GDP per head is so low in Africa, if foreign direct investment is measured by the amount received per head of the population, then Africa did not do well. Africa received only US$10.9 per head in 1998, compared with an average for developing countries of US$35.4, although Africa's receipts by this measure had increased by 77% since 1995. These statistics are summarized in Table 1.

In general FDI has been unevenly distributed. The top ten recipients are China, Brazil, Mexico, Argentina, Poland, Chile, Malaysia, Venezuela, Russian Federation, and Thailand. Most of these countries have advantages of market size, increased openness, improved policy and strong economic fundamentals (Akinkugbe, 2003). What is important to note is that FDI is attracted by prospects of getting profits, which depends on resources among other thing. The point is that good policies in themselves may not be adequate to attract FDI. It is for this point that countries considered to be undemocratic compared to Botswana, for example Angola, have attracted more FDI than Botswana; because they offered more prospects for profitable investment.

Table 1. Inflows of Foreign Direct Investment (FDI), by different measures

	Share of FDI inflows 1998 (%)	**FDI inflows per $1000 of GDP 1997 (US$)**	**FDI inflows per capita 1998 (US$)**
Africa	1.2	15.6	10.9
All developing countries	25.8	26.9	35.4
Developed counties	71.5	12.4	518.3
World	100	15.8	108.9

Source: United Nations (1999) *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development* (New York, United Nations)

The Botswana government has been striving to put into place all the necessary things that would allow the country to have a comparative advantage in attraction of foreign direct investment. Two of the main policies have been low direct taxes and a subsidy scheme under the Financial Assistance Policy (FAP).

Other advantages for location of foreign direct investment to Botswana in comparison with other countries in the region are:

- The country has a stable political environment, with democratic elections every five years, which have always been regarded as free and fair even though no change of government ever occurred since independence.
- The country also has an exceptionally stable macroeconomic policy environment, backed by the financial surpluses, which make a financial crisis virtually impossible.
- Exchange rate policy is directed at maintaining a competitive real exchange rate, in particular against the South African Rand because of the importance of South Africa as an export destination for non-traditional exports. This policy has considerable credibility because of it having been pursued ever since Botswana stopped using the Rand in 1976, and developed its own exchange rate policy, because of being backed by exceptionally large foreign exchange reserves.

- Botswana has "good labour relations", especially in comparison with South Africa, which has strong and militant trade unions, which played a major part in the struggle to end apartheid and therefore have considerable influence within the ANC government. Trades unions in Botswana are relatively weak, resulting in strikes being few.
- Crime levels in Botswana are relatively low, especially in comparison with those in South Africa.
- Producers in Botswana have access to the South African market because of Botswana's membership of SACU, and to the Zimbabwe market because of the 1956 trade agreement
- The Botswana Government has invested in serviced industrial land and factory shells, in order to reduce the capital required for new investments, and to speed up the investment process. However, this policy has not always worked successfully because of certain operational problems.
- The Botswana Government has the financial resources to provide a relatively high level of education to all of the school-age population, and for it to be credible that current educational policies can be sustained. There is considerable evidence that the higher level of education the greater the opportunity for profitable investment in the export of both manufactured goods and services (Wood and Mayer, 1998).

Despite the existence of a more conducive enabling environment in Botswana, foreign direct investment flows (FDI) into Botswana has steadily decreased since 1997. From an annual average of $29 million for 1989-1994 period, FDI inflows reached $100 million in 1997, but declined significantly to $37 million in 1999 and to $30 million in 2000 (UNCTAD, 2001). As shown in table 2, net inflow of FDI as a percentage of GDP declined from 9.8 percent in 1980 to a low of 0.5 percent The critical question is why such a disappointing record when the basic elements of an enabling environment are well in place. Table 3 shows the Botswana’s share of FDI, which fell from 60% to less than 2 percent in 1996-2000. In terms of FDI, Botswana has been loosing its comparative advantage since the 1990s.

Table 2. Trend of FDI as a proportion of GDP- Botswana.

Selected years	1980	1985	1990	1995	1998	1999	2000
Foreign direct investment , net inflows (% of GDP)	9.87	4.5	2.5	1.43	1.9	0.72	0.57

Source: UNCTAD: World Bank (2002, World Development Indicators (WDI), 2002 World Bank, Washington DC.

Table 3. FDI in Botswana compared with SADC and LDCs, 1975-2000(%)

Item	**SADC**			**LDCS**		
	1975	1990	2000	1975	1990	2000
GDP	0.6	2.7	3.3	0.5	2.4	2.4
FDI stocks	2	9	1.7	30	16	4
FDI Flows (5yrs)	60	32	1.5	15	12	1.5

Source: United Nations, Investment Policy Review Botswana.

Two hypotheses are advanced for this unsatisfactory performance. First, that other countries in the region have opened up to FDI and began to receive increasing FDI, through privatization programmes and projects in natural resources or in their processing. Second, it may be argued that, with the end of apartheid in 1994, South Africa became a competitor in attracting FDI into the region, and that a number of South African companies with investment in Botswana returned to their home countries. There is also the fact that Botswana has no shortage of local savings, which is sometimes used to finance expansion of production in major sectors.

There are other untested hypotheses that explain the decline in FDI in Botswana. One of these is that Botswana has other constraints. One of the major constraints are the shortages of skilled labour and of serviced industrial and commercial land. Although the Botswana Government has invested heavily in education and training, the extraordinarily rapid growth of the economy has generated continuing shortages of skilled labour. These shortages have been compounded by the difficulties and delays associated with obtaining work permits and residence permits for expatriate labour.

The policy of servicing industrial and commercial land ahead of demand has been implemented on what should have been an adequate scale, but has been frustrated by government procedures. In recent years, large numbers of serviced industrial and commercial plots have remained undeveloped because they were allocated to people who held on to them in the hope of making a speculative profit. The regulations require plots to be developed within two years, but when this is not done the requirement is not enforced and the plots are not repossessed. Potential investors therefore face the frustrating experience of not being able to obtain highly visible vacant plots, while the Government's investment is wasted so long as plots remain unused.

Other frequently mentioned constraints on investment include the high cost of utilities in Botswana, the cost of international transport, and the problems of bureaucracy and delays at international borders.

4.0 Conclusions

Botswana has been affected by globalisation mainly through changes in ideas or fashion. The country chose to liberalise most markets and is embarking on a privatization process out of its own choice and not as part of structural adjustments as in other African countries. In regard to trade liberalization, the country does not have an independent trade policy because of its membership to SACU. The country has had liberalized capital and foreign exchange markets for some time since 1976. The country also has good policies that could attract FDI including good governance, good labour relations, good economic management, and low crime, etc. Despite this good record, the country has been experiencing a relative decline in FDI, since the 1990s. The general explanation to this decline is that FDI is driven by the need to be more profitable first and foremost. In other words, good policies may be necessary but cannot be sufficient to attract FDI. It is also possible that Botswana has lost its competitive edge due to the independence of South Africa. Since South African independence, some of the South African firms have been relocating into South Africa. Some FDI is also being attracted to the countries that are currently liberalizing their economies. There is need to do an in-depth analysis of FDI in Botswana, in terms of the actual areas. This should give us a general picture of which areas have actually been on decline and why the trend.

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