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GLOBALIZATION AND SUSTAINABLE HUMAN DEVELOPMENT:
PROGRESS AND CHALLENGES FOR BOTSWANA

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**PARTNERSHIP ON
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LIBERALIZATION AND
SUSTAINABLE HUMAN DEVELOPMENT**



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EXECUTIVE SUMMARY

1. At the time of its independence in 1966, Botswana was one of the poorest countries in the world. It is now a middle-income country with GDP per head in 1998 of US\$3080.
2. Botswana has maintained at all times a relatively liberal set of economic policies. The Botswana Government has not undertaken a major change of direction of economic policy, from a closed to an open economy. It has not had to adopt a World Bank/IMF structural adjustment programme.
3. Botswana does and does not have an open economy. On the one hand, *Botswana has always had free trade with South Africa, and the other members of the Southern African Customs Union (SACU, the other members are Lesotho, Swaziland and Namibia).* On the other hand, *SACU as a whole has been highly protected.* Botswana is therefore affected by globalisation of trade only at second hand. It does not have an independent trade policy, except to the extent that choosing not to leave SACU can be said to have been a policy.
4. Thus, Botswana is an interesting case study on whether regional integration (customs union) will act as a stepping stone towards globalization in the long run. Currently, Botswana is affected more directly by regional trade integration than by globalization. Globalization affects Botswana more through its impact on South Africa than through any direct impact on Botswana. Having to be competitive with imports from South Africa and achieving some limited success in exports to South Africa may prove beneficial for Botswana's global competitiveness. On the other hand, one cannot rule out the possibility that the protection provided by the common external tariff under SACU has prevented Botswana producers from becoming competitive enough to be able to export outside the region.
5. The situation as regards *financial* liberalisation is slightly different. From the time when they were introduced in 1976, 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.
6. Botswana has very underdeveloped financial markets, and so is relatively immune from the *direct* effects of financial contagion. There has been little inflow of short term and speculative finance, and domestic financial markets are illiquid so that short term outflows are not practical.
7. Even if short term outflows of finance were possible, Botswana is protected in present circumstances from any possibility of damaging effects from short term financial contagion. The foreign exchange reserves are more than three times the domestic money supply.

8. Botswana is also well protected from the second stage of financial contagion, that is, the collapse of the banking system. The commercial banks in Botswana are soundly managed, and well supervised by the Bank of Botswana. Moreover, the Botswana commercial banks are all subsidiaries of much larger international banks.

9. A possible future problem is that Botswana is trying to develop its financial markets further, which would expose the economy to short term financial contagion. New policies for preventing short-term financial contagion may then be needed.

2. Indicators of globalisation over time:

Ratio of foreign trade to GDP

10. Table 1 shows that the ratio of imports to GDP changed very little in the first 20 years after independence, but exports began to grow very rapidly. The trade deficit became a surplus by the early 1980s. Until the mid-1980s, the economy remained roughly as dependent on imports as it had always been.

Table 1. Exports and imports as a percentage of GDP, 1966-98 (percentages)

	1966-71	1972-76	1977-81	1982-86	1987-91	1992-96	1997-98
Exports/GDP	25	43	50	58	58	43	51
Imports/GDP	57	54	58	56	47	34	38
Trade/GDP	82	97	108	114	105	77	89

Source: Bank of Botswana Annual Reports, various years.

11. Since the mid-1980s, the development and diversification of the economy have reduced the ratio of imports to GDP from nearly 60%, to less than 40% at present, a major structural transformation.

Ratio of Foreign Direct Investment (FDI) to GDP

12. Botswana has been relatively successful in attracting foreign direct investment, although initially most was in the mining sector. Initially, capital inflows paid for all of the capital goods required by the mines, and for infrastructure: foreign direct investment in the case of the mines, and Government borrowing for infrastructure.

13. The Botswana economy's dependence on foreign capital inflows has since changed completely. The extraordinary growth of diamond export earnings has completely eliminated *financial* dependence on foreign capital inflows.

Diversification of export destinations, and non-traditional exports

14. Botswana has not succeeded in diversifying export destinations. Diamond exports (80% of the total) all go to London. Most beef exports go either to Britain or to South Africa. Non-traditional exports, mostly manufactured goods, go either to Zimbabwe or South Africa. Some manufactured exports go to Europe and the United States, but only because of quota limitations on exports from countries with lower costs than Botswana. Non-traditional exports have grown fast, keeping up with the very rapid growth of diamond exports.

15. The question that remains to be answered is whether Botswana manufacturers can make a further step. The first step was shifting from import substitution to exporting to South Africa. The second step would be exporting to the rest of the world.

16. At best, Botswana manufacturers will use South Africa as one stage in their development, leading eventually to global competitiveness. At worst, Botswana manufacturers will turn out to have been overprotected by the SACU common external tariff, and will not prove able to compete with imports as tariff protection is reduced, and still less to export to the rest of the world.

3. International trade agreements affecting Botswana

17. Analysis of Botswana's international trading arrangements is complicated by the fact that most of them are currently being renegotiated, or are about to be renegotiated.

(a) Southern African Customs Union (SACU)

18. SACU dates from 1909. It has never had a central secretariat. All substantive decisions have been made by the South African government without consultation with the smaller member states. This has become increasingly unacceptable to the BLNS governments.

19. BLNS receive revenue based on their imports, regardless of the size of the total revenue pool. As a result, South Africa's share of the common revenue pool has steadily decreased, which is increasingly unacceptable to South Africa.

20. Only about 17% of total Botswana government revenue is from SACU, and Botswana normally has a budget surplus. Botswana would lose SACU revenue, if reform were to give Botswana a fixed share of the total revenue pool, as is being discussed in the current negotiations, and if the total revenue pool were also to decrease, as is likely (see below, EU/SAFTA). The country cannot expect diamond revenues to continue growing, and any alternative source of economic growth in Botswana, whether from manufactured or service exports, will provide very much less government revenue per unit of GDP than diamond mining. In the medium and long term, therefore, Botswana will need to consider fiscal reform.

21. At present, Botswana has relatively low rates of tax: the highest marginal rate of personal income tax is 25%, as is the corporate tax rate. Manufacturing companies pay only 15% on their profits, as will any investors in the proposed International Financial Services Centre. This is necessary to attract foreign investment.

22. The preferred alternatives to increasing tax rates are to broaden the tax base, and to increase the efficiency of tax administration and of government expenditure, in order to make better use of tax revenue. Harmonisation of indirect taxation within SACU is also needed, to reduce administrative problems at the border. These have increase recently with the introduction of different indirect taxes in Botswana and South Africa, in particular. Botswana will introduce VAT in 2001. This is a first step towards harmonisation of indirect taxes within SACU, and could be relevant to a SADC free trade area.

(b) Lomé Convention

23. Negotiations between the European Union and the African, Caribbean and Pacific countries (ACP) were concluded in February 2000, although the current rules for trade do not end until 2005. After some years of relatively stable trading arrangements, the new agreements will be quite different.

24. The ACP countries are required to negotiate Economic Partnership Agreements (EPAs) between regional groups of ACP countries and the European Union. Each of these regional EPAs must be a free trade area. This appears to reflect the European Union's ideological preference for regional trading arrangements. A basic reason for the change is that the European Union is no longer willing to apply to the WTO for exemption for the Lomé Convention. Because the latter contains non-reciprocal trading concessions (basically that ACP countries have free access for manufactured exports to the European Union, but do not have to offer reciprocal privileges), it is against WTO rules, and therefore requires specific exemption.

(c) The European Union/South Africa Free Trade Agreement (EU/SAFTA)

25. Firstly, South African exporters will gain the same duty-free access to the European Union market as that currently enjoyed by the BLNS countries under Lomé. Increased competition from South African exporters will be small, because both countries' production is small in relation to the European Union market.

26. Secondly, European Union exporters will eventually gain duty-free access to SACU (for most commodities), over a period as long as 12 years. Some commodities will continue to be protected.

27. Each of 10 firms surveyed in Botswana in 1998 is currently protected from European Union. However, half of the firms would continue to be protected, some could compete with tariff-free imports in some or all products, and others were likely to be able to compete because

- the Botswana firms produced low-quality products unlikely to be exported from the European Union
- competition currently comes from other (non-EU) imports.

28. Thirdly, producers in Botswana could gain from the reduced cost of imported inputs from the European Union, and from switching to European Union sources. The effect is small because the common external tariff is low or zero on most capital goods, and on most imported intermediate inputs.

(d) The proposed SADC free trade area

29. Enough countries, including crucially South Africa, have now signed the SADC trade protocol for implementation. The most common reason for failure of regional economic integration in Africa is a belief that the most developed economy gains a disproportionate share of the benefits.

30. There is a serious risk that a SADC free trade area will fail for the same reason. The East African Community failed because of jealousy of Kenya, for example. The same is even more likely to happen in a SADC free trade area, where South Africa represents 74% of SADC GDP.

31. A further reason for concern is that in several SADC countries manufacturing industry was highly protected, and/or under public sector ownership, both of which led to extreme inefficiency. It is unlikely, therefore that such producers will be capable of competing with imports from South Africa, and even more unlikely that they will be able to export to South Africa.

32. The non-SACU members of SADC will quickly become disillusioned if they do not gain short term benefits. A possible solution would be for them to attract investment by South African manufacturers, who would export to South Africa. The necessary macroeconomic conditions do not exist in many SADC countries, and the credibility of low rates of inflation (if and when achieved) being sustained is extremely low. Firstly, the track record of these governments in macroeconomic management is very poor. Secondly, success in reducing rates of inflation has sometimes been reversed. Thirdly, the IMF and the World Bank lack credibility as "external agencies of restraint".

33. In order to attract investment, SADC governments need to reduce inflation, and to create a belief that inflation will remain low and stable. This would take a very long time for some SADC governments *acting individually*. A possible solution would be for SADC governments to *agree among themselves* on macroeconomic policy convergence around relatively low rates of inflation, with credible sanctions. Such an agreement would be strengthened by investment incentives, possibly supported by aid donors. Withdrawal of such incentives, together with a loss of duty-free access to the South African market, could be used as a sanction for non-compliance with macroeconomic convergence.

34. From Botswana's point of view, the creation of a SADC free trade area would be of marginal significance. Botswana already has free trading arrangements with both South Africa and Zimbabwe (80% of the SADC market). It should be noted that Botswana, and the other small members of SACU, do not need external agencies of restraint to establish their macroeconomic policy credibility. They have always had inflation rates close to that of South Africa.

(e) The United States Africa Growth and Opportunity Act

35. The Act would support foreign investment from the USA, export access to the US market under the Generalised System of Preferences (GSP), and aid. It has implications for Botswana, but has unsatisfactory elements.

36. Firstly, the Act was proposed *unilaterally* by the US government, without consultation with African governments.

37. Secondly, the Act would require that the US President certify *each year* that each African government satisfies a long list of requirements, in order to be eligible for the benefits offered by the Act. No country in the world could meet all the conditions at all times. Eligibility under the Act could therefore be ended at any time to suit American interests. It is especially onerous that the Act requires African countries not to do anything "that undermines United States national security or foreign policy interests". Excluding a developing country from the General System of Preferences for such a reason may in fact be illegal under WTO rules.

38. Thirdly, textile exports to the United States from Africa must be manufactured using American cloth. This would be deeply impractical in Botswana, where clothing exports are mostly manufactured using cloth from South Africa or Zimbabwe.

4. Globalization and Growth

39. Botswana's growth experience shows that there is much more to the country's development than the availability of natural resources. Botswana's superior economic performance rests on prudent fiscal and macroeconomic policies and a deliberate policy towards developing human resources. The growth that Botswana experienced during the 1970s and 1980s with growth of GNP per capita averaging 8.4 percent per annum could

not, however, be sustained in the 1990s. GNP per capita experienced slower growth during the early 1990s, averaging 1.7% per annum, which was partly due to earlier excessive growth in government spending and a decline in the productivity of public expenditures. A major question is whether this growth can be sustained since much of it is based on a high rate of growth of government spending.

40. The Report argues that globalization does not explain the recent slow growth. A more reasonable explanation seems to be that the economy has reached the limit of the benefits from continued increase in the sale of its major commodity, diamonds. In fact, globalization may have had positive effects on growth through a technological revolution in manufacturing and tourism. The linkages via Internet, cell phone, computers and other new technologies have brought faster and more efficient communication between economic agents in Botswana.

5. Human development issues

Poverty and inequality

41. It is frequently alleged that liberal economic policies cause the benefits of growth to accrue to relatively few individuals who are able to take up the new opportunities. In most countries where economic liberalisation was put into practice, tendency for poverty to increase and income distribution to worsen has indeed been noticed. One of the major reasons why this happens is that policies are adopted in an economic environment that already has a lot of price distortion through subsidies and other market interventions.

42. The proportion of Botswana living in income poverty fell sharply between 1985/86 and 1993/94. The proportion of poor and very poor persons declined from 59% to 47%, while the proportion of poor households fell from 49% to 38%. Greater poverty reduction was experienced in the urban centres than in the urban villages and rural areas, because of greater formal sector growth in the urban centres than in the other areas. Poverty reduction was less in female-headed households. The most important causes of poverty identified are insufficient formal-sector jobs, low wages for those employed, and lack of alternative income-generating options to supplement wage incomes of those employed, and lack of potential in agriculture to provide adequate incomes to a majority of the population. This is because of the highly adverse climatic conditions. Even though poverty has been falling in general, it is disappointing that such large numbers of people and households in Botswana are still considered poor or very poor, especially when this picture is considered in relation to good economic performance.

43. Non-income aspects of poverty reflected in such human development indicators as life expectancy had shown significant improvements, but their benefits have been lost due to AIDS/HIV.

44. Botswana's income distribution is quite skewed. Although it is difficult to isolate the effect of liberalization on income distribution, liberalization has no doubt contributed to income inequality in Botswana, even though in an indirect way. The emphasis on a strategy of free enterprise meant that those who had the means to participate meaningfully did benefit quite substantially, while a good number were left out. Liberalisation of trade, finance and capital flows did extend the benefits to those who were able to participate, while these policies further marginalized those who were already worse off. Unless the government designs good policies to deal with the side effects of globalisation, it is likely to lead to increases in income inequalities in Botswana.

Employment and unemployment

45. Employment growth has resumed, the most recent annual growth figure being 5.8%. Much of the growth in employment has come from the private sector; the government's share has remained fairly constant at between 35% and 40%.

46. Unemployment appears to be less of a social problem than in other countries. The informal sector is less developed in Botswana than elsewhere, and many lower-paid jobs are done by illegal migrants. This suggests that the unemployed have family support.

47. There is no clearcut evidence that liberalization and globalisation have led to any adverse employment effects. In fact some recent estimates show that the introduction of EU-SAFTA will have positive effects on both domestic output and employment. In general, therefore, a shift to tradables will increase employment marginally. Botswana has recently adopted a privatization policy, which is part of its public reform policy. In the short run, we expect privatization to result in job losses. To the extent that government is a major employer, the public sector retrenchments will significantly lead to general unemployment. This is especially true given that the other sectors of the economy are presently unable to absorb all the labour force.

48. One interesting aspect of the labour market in Botswana is that worker's representation is very weak as compared to other countries in the region. An advantage of this are few industrial strikes and a favourable climate for foreign investment. Having weak and fragmented unions may also mean that wages can be kept very low, and thus lead to lower costs of production and lower product prices, which may enhance Botswana's competitiveness in the global market.

The status of women

49. Botswana ranked 102 out of 143 countries on the Gender-Related Development Index in 1997, and came second in the region after South Africa on the Gender Empowerment Measure of the UNDP. Both life expectancy at birth and adult literacy rates are higher for women than for men. Botswana women have benefited from the globalisation of ideas, with a significant number of women's NGOs actively involved in public policy.

50. On the other hand, female workers earn less than their male counterparts, receiving between 43% (plant and machine operators) and 95% (professionals) of male wages. Women dominate in relatively less well-paid occupations, and comprise 55% of the unemployed. They are also overrepresented (66%) among informal sector employees.

Small enterprise development

51. Liberalization and globalisation can have both positive and negative effects on the development of SMEs. On the one hand, the opening of new opportunities will mean that more SMEs will be attracted to the market and old ones will expand, resulting in increased employment creation. A more likely impact of liberalization is that the government may in the future be required to reduce or remove completely its direct subsidies for manufacturing firms. This may be necessary in order to conform to GATT and WTO to which Botswana is a signatory member. Since many of the SMEs have depended substantially upon subsidies and incentives from the Financial Assistance Policy, the rate of creation of new SMEs may slow down substantially.

52. Botswana's micro enterprises have always been thriving under conditions of stiff competition from the relatively highly developed products from the South African market. Most of them are able to survive mainly because they complement rather than compete with the South African goods. Given the increase in openness, most of these enterprises may close down due to customers preferring cheaper products from elsewhere, especially from East Asia. This is especially true with regard to the clothing industry, where a lot of imitations from the Republic of Korea, Taiwan are already flooded in the market.

6. The impact of globalisation on sustainable development

(a) Property rights

53. Most of the land in Botswana is held under communal tenure systems which contribute to environmental degradation. Part of the reason for this is that the communal tenure system does not confer exclusive rights to users. Lack of access to land may lead to other activities such as deforestation due to fuel wood harvesting, already a common feature along highways in northern Botswana. There is shown to be a strong relationship between income and the rate at which people discount future costs and benefits of present decisions. In meeting the present needs, the poor ignore future consequences of their actions which often results in resource degradation.

(a) Price Incentives

54. Generally, price liberalization of agricultural produce will raise producer prices. In turn this is expected to increase agricultural output and thus lead to resource conservation. But price increase could also undermine conservation if it leads to overexploitation of resources. This has been the case with grazing for beef in Botswana, where high beef prices encouraged wide ownership of cattle among the population leading to rangeland degradation.

55. Where local costs are perceived as likely to exceed benefits or where outsiders are likely to derive the most benefit from an activity, such activity deserves to be rejected, as was the case of the abortive Southern Okavango Integrated Water Development Project. The project which aimed at dredging part of the Okavango Delta was abandoned following pressure from the local community and international organisations.

(c) Human Sustainability and the ACP-EU Beef Protocol

56. Two issues of human sustainability are at stake due to the effect of the ACP-EU beef protocol. First is the continued overstocking and overgrazing which causes range degradation, and increased long-term vulnerability to drought.

57. The second issue relates to the effect of the elephant populations that have evidently outgrown their range. The human-elephant conflict that has ensued, the impact of the large concentrations of elephants on the range, and the human-elephant interaction, undermine sustainable development. The destruction of the habitat by the increased elephant population has far-reaching repercussions for both the elephant populations and other animals. Given that wildlife and wilderness are the most important tourist attractions in Botswana, their destruction may have adverse consequences for the growing tourist industry.

58. As a cattle-raising country Botswana has had access provided under the Lomé Convention to the EU beef market, in which prices are higher than world prices. Although access to the EU beef market has had and still has a positive effect on the Botswana economy, its effect on the environment is not equally positive. Increased cattle losses during drought are increasingly attributed to perceived range deterioration, associated with overstocking and overgrazing.

(d) International conventions

59. In recognition of the regional and global significance of natural resource utilisation, the Botswana Government has ratified a number of international treaties and is also a signatory to a number of regional agreements. By signing these international agreements, Botswana demonstrates its willingness to work with other nations at the regional level. It signifies a change of previous attitude, arising from the globalisation of environmental ideas. It is a significant shift from resource appropriation activities driven by nationalistic

interests, toward globally and regionally determined goals. With respect to the utilisation of watercourses, globalisation can be said to have had a positive impact as far as environmental resource policy is concerned. It has raised national policy awareness to global issues.

(e) *Tourism*

60. A notable positive result of globalisation is the development of the tourist industry. Tourism appears to be one of the most sustainable foreign currency-earning industries. Indications are that tourism is a growing industry in Botswana with great potential for foreign currency earnings. Globalisation has great potential to further increase benefits from the tourist industry because the number of tourists visiting Botswana is likely to increase. The extra effort by the Botswana government to prevent poaching could be seen in the light of this growing potential for economic benefit from the tourist industry. Tourism also has its negative sides in that it can also introduce cultural habits that conflict with local cultural practices. It can also escalate prices for local goods and services and make them inaccessible to local communities. For example, Botswana's low-volume high-cost tourism policy can reduce visits to the game parks by local people due to high fees charged.

7. Lessons for other African countries

61. To what extent can lessons from Botswana's achievements be applied to other African economies? Most of the lessons are not applicable to the rest of Africa given Botswana's unique features. Some of these features are the existence of a participatory democracy with roots in the traditional set-up in the form of a kgotla (the traditional village meeting place at which all men could speak freely); and a small population with relatively few tribal differences so that the country is relatively peaceful and stable. Botswana's case is therefore not easy to replicate.

62. But there are certain areas where the other African countries could benefit by following Botswana's example. One of the major ones is prudent economic management. A number of African countries have had an abundance of resources. Most of them have managed those economic resources badly. They chose to engage in excessive spending of export windfalls, whereas Botswana chose to spend wisely. Government spending of the diamond windfall has been deliberately constrained within the limits set by skilled manpower availability, and ability to finance future recurrent costs. The lesson for the rest of Africa, therefore, is that financial resources alone do not necessarily lead to success. Success is achieved by effectively managing those resources.

63. A second major lesson for Africa is that democracy is perhaps necessary for success. Most of the African countries were led by authoritarian governments, while Botswana was led by a relatively democratic government. Even though there has never been a change of government from the election process, the existence of a strong opposition has kept government in check most of the time. Newspapers that are relatively free to write and criticise government policies provided another check. Such is not the case for most of the countries in Africa.

64. Another lesson could be that countries should strive to achieve a reasonable amount of peace and security. This goal is, however, very difficult to emulate since each country has its own peculiar circumstances that have been historically shaped over time. Tribalism for instance creates problems in achieving peace and security in many African countries

8. Summary of conclusions and recommendations

(a) Macroeconomic and development issues

65. The most important development priority in Botswana is to diversify the economy in general, and to diversify production for export in particular. The Botswana Government is thoroughly aware of this priority. The latest Plan made this clear.

66. Supplementary measures are needed to alleviate poverty for those households not capable of supplying labour to the job market. The number of such households is expected to increase because of HIV/AIDS. The Government is considering a child allowance to be paid to all those taking care of orphans.

67. In order to take full advantage of the European Union/South Africa Free Trade Agreement, it is recommended that the Botswana Government should assist producers in obtaining information about cheaper sources of imported inputs from the European Union. It is also recommended that a large sample of firms likely to be affected by the new European Union/South Africa Free Trade Agreement should be surveyed.

68. If a SADC free trade area is established, it is recommended that member countries should seek agreement on achieving macroeconomic stability in each country, and that donors should be approached to provide investment incentives for South African companies to invest in the non-SACU members of SADC, in order to try and prevent premature failure of the SADC free trade area.

69. Most of the policies necessary to achieve economic diversification are already in place, including exchange rate policy, low rates of direct tax, investment in making industrial and commercial plots available, subsidies directed at employment creation, the creation of a new agency to promote investment and exports, the establishment of an International Financial Services Centre, priority for education to create a supply of trainable employees, and privatisation. On the other hand, leased land and the way it is implemented has been much criticised.

70. The Government is trying to establish an International Financial Services Centre (IFSC), for which most of the necessary legislation was passed during 1999. Some further legislation is required: a new Act for captive insurance and reinsurance companies, and amendments to the Proceeds of Serious Crime Act.

(b) Sectoral issues

1. Sustainable development

71. The current efforts to promote community-based resource monitoring and management should be supported. Communities need to be educated on environmental issues, and in this context environmental NGOs (ENGOS) need financial support and technical assistance. More generally, other institutions of civil society need financial and technical assistance, including trades unions, employers' organisations and women's organisations.

72. Technical assistance is required to train ENGO staff in the techniques of environmental investigation and education, to help them to apply for government contracts to perform services for government for a fee. ENGOS also require assistance to implement some community-based programmes.

73. Although policy development is ongoing regarding government-NGO partnership, the lack of investigative skills may explain government reluctance to fully embrace the ENGOS programmes beyond expression of desire to do so. NGOs need support to demonstrate their capability and accountability before government can endorse them as reliable development partners. *Technical assistance is required* for building a sustainable ENGO movement.

74. In Botswana efforts are underway to promote natural resource monitoring and community-based resource management along the same lines as the CAMPFIRE programme in Zimbabwe. The main aim of this approach is to give communities living near wildlife areas a stake in the management of wildlife by ensuring that they benefit from wildlife conservation. The desire to continue receiving income benefits from animals, it is hoped, would encourage them to ensure wildlife conservation.

75. Community-based resource monitoring and management requires basic accounting and management skills. It is hard to imagine how the communities that are engaged in resource management can manage without these skills. If they are not developed, the communities will depend on outsiders. This obviously raises the question of the sustainability of such an exercise. There is, therefore, a need to develop very basic forms of management and bookkeeping that local communities can operate.

2. International trade negotiations

76. The Botswana Government needs technical assistance with the large number of current international trade negotiations. The two most important international trading arrangements affecting Botswana are currently being renegotiated: the Southern African Customs Union, and the Lomé Convention. The stability of international trading arrangements in the past, and membership of SACU, mean that Botswana is currently lacking in the necessary experience and expertise.

3. Policies for small and medium enterprises

77. A new policy on small and medium enterprises (SMEs) was introduced during 1998 in response to the report of a Task Force. Its main components were: a new institutional framework (Small Business Act, Small Business Council, and Small Business Promotion Agency); a micro-credit scheme, and a scheme to guarantee credit from the commercial banks; reform of legislation and regulations; improved education and training for business, in schools and in post-school institutions. These measures are necessary and deserve support. However, the Government did not go as far as recommended by the Task Force. For example, it was recommended that the Government should no longer provide training directly, but contract it out to NGOs and the private sector, because of the Government's poor record in providing such training itself. A similar opportunity was missed in insisting that the Government would itself provide the new Business Assistance Centres recommended by the Task Force.

78. Government has introduced various financial schemes in support of SMEs, e.g. Financial Assistance Policy (FAP) set up in 1982 which is currently being evaluated. Its emphasis on subsidising the employment of unskilled labour, and on manufacturing, is no longer appropriate and may have outlived its usefulness. The structure of the global economy has also changed, with greater possibilities in the export of services compared to manufactured goods than at the time when FAP was introduced. It will be essential that the Government act more quickly on the recommendations of the FAP evaluation, than it has done on those of previous major policy evaluations.

1. INTRODUCTION

79. 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. Its economic policies have also 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 because of financial necessity or donor conditionality.

80. In the context of this study, it is important to note that Botswana is no longer a low-income developing country. At the time of its independence in 1966, Botswana was one of the poorest countries in the world, and therefore very clearly in the category of low-income countries. Exceptionally rapid economic growth over 33 years, more rapid than any other member country of the World Bank with a population of more than one million, has transformed Botswana into a middle-income country with GDP per head in 1998 of US\$3080 [*Bank of Botswana*, 1999].

81. A second important point is that Botswana has maintained at all times a relatively liberal set of economic policies. Although policies have of course changed and developed over time, the Botswana Government has not undertaken a major change of direction of economic policy, from a closed to an open economy. The country's development strategy has consistently been based on the philosophy of free enterprise. The Government 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]. The economy has not suffered from balance of payments crises, so that the Botswana Government has not had to adopt a World Bank/IMF structural adjustment programme. There is therefore no overall sense in which one can usefully discuss pre-reform and post-reform events.

82. A third important point relates to the extent to which Botswana does or does not have an open economy. On the one hand, *Botswana has always had free trade with South Africa, and the other members of the Southern African Customs Union (SACU, the other members are Lesotho, Swaziland and Namibia)*. 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 trade only at second hand, to the extent that South Africa has liberalised its trade policy and, by definition, that of SACU.

83. The absence of restrictions on imports has allowed the economy to have an ample supply of imported inputs. Other policies pursued were conducive to private capital accumulation, in that they provided a reasonable return to both domestic and foreign investors, especially the mining sector [Salkin *et al.*, 1997].

84. Botswana does not have an independent trade policy. So long as it remains a member of SACU, it has to accept whatever trade policy is adopted by South Africa. In the past, South Africa has not consulted Botswana and the other small members of SACU on trade policy issues. The current negotiations on a new structure for SACU are to a considerable extent about whether this should be changed. Membership of SACU also means that producers in Botswana must all be competitive with imports from South Africa. As a consequence, some have managed to export to South Africa. It remains to be seen whether this will prove to be a stepping stone to exporting to the rest of the world. Alternatively, it may be that protection provided by SACU's external tariff has made it difficult or impossible for Botswana to diversify export markets for non-traditional exports.

85. This rather unusual situation means that Botswana has undertaken trade liberalisation, as a matter of deliberate policy, only to the extent that choosing not to leave SACU can be said to have been a policy.

86. In recent years, South Africa has taken some steps towards globalisation of its economy, in both trade and finance. It joined the World Trade Organisation (WTO) after a democratic government was elected in 1994, as a developed country. In pursuit of its obligations as a member of the WTO, South Africa has significantly lowered the common external tariff of SACU, and phased out the export subsidy programme (GEIS), ending it in 1997. The tariff reduction programme actually proceeded faster than WTO recommendations, although the programme of liberalisation was not as rapid as in, for example, Chile and Poland because it was not introduced as a condition of a structural adjustment programme. The weighted average tariff on manufactured products was reduced to 5.6% by 1998, compared with 14% in 1994. Only textiles, clothing, shoes, furniture and transport equipment still had average tariffs above 20% in 1998 [ILO, 1999b]. These tariff reductions affected all members of SACU equally.

87. South Africa has recently negotiated a free trade agreement with the European Union, which was finally signed in October 1999 and was scheduled at the time of writing to come into force at the beginning of 2000. Although as SACU members Botswana, Lesotho, Namibia and Swaziland were not directly involved in the negotiation of the new Free Trade Agreement, the changes that it will introduce will by definition affect the smaller members. Other prospective changes in trading relations include the proposal for a SADC free trade area, the upcoming renegotiation of the Lomé Convention, and the African Growth and Opportunity Act proposed by the United States Government. These changes are discussed in Chapter 6.

88. Botswana is therefore directly affected more by regional trade integration, than by globalisation. At present, the latter affects Botswana and more through its impact on South Africa than through any direct impact on Botswana. The question as to whether regional integration will all will not prove a stepping stone towards Botswana becoming globally competitive is discussed briefly in Section 3.

89. The situation as regards *financial* liberalisation is slightly different. Until 1976, Botswana used the South African currency, as a member of the Rand Monetary Area (now the Common Monetary Area whose members are Lesotho, Namibia, South Africa and Swaziland). The Botswana Government left the Rand Monetary Area and introduced an independent currency and monetary system, in 1976, in order to have an independent monetary and exchange rate policy. The degree of independence was, however, limited by the continued importance of the South African economy to Botswana (see Chapter 3). The consequences of financial liberalisation in Botswana, and the impact of financial liberalisation in South Africa on Botswana, are discussed in Chapter 4.

90. What this amounts to overall, is that Botswana has been affected by trade liberalisation in South Africa, to which it has had to adapt, and will be affected by the creation of new, or changes in existing, international trade agreements. Botswana has also been affected by its own financial liberalisation, to a limited extent.

91. As is always the case for small countries with a very much larger and more developed neighbour, the scope for independent economic policy is relatively limited, and depends to a considerable degree on changes of policy in the larger neighbour.

2. INDICATORS OF GLOBALISATION OVER TIME

(a) Ratio of foreign trade to GDP

92. The ratio of Botswana's external trade to GDP should in principle provide some indication of the degree of globalisation of the Botswana economy. However, even this straightforward statistic requires some interpretation, as it can give a misleading impression without additional explanation.

93. In the early years after independence in 1966, it could be said with little exaggeration that everything produced in Botswana was exported, and that anything consumed was imported. Beef was almost the only visible export, and almost the only domestically produced commodity that was also consumed within Botswana. Only services were both produced and consumed within Botswana, and many services were themselves highly dependent on imports. Despite receiving relatively favourable prices for beef exports from the European Union, under a special beef protocol of the Lomé Convention, the economy had a large trade deficit which was financed by the remittances of migrant mineworkers in South Africa, and by aid (initially almost all from the UK). The country's extreme poverty limited the ability of most of the population to pay for imports.

Table 1. Exports and imports as a percentage of GDP, 1966-98
(percentages)

	1966-71	1972-76	1977-81	1982-86	1987-91	1992-96	1997-98
Exports/GDP	25	43	50	58	58	43	51
Imports/GDP	57	54	58	56	47	34	38
Trade/GDP	82	97	108	114	105	77	89

Source: Bank of Botswana *Annual Reports*, various years.

94. Table 1 shows that the ratio of imports to GDP changed very little in the first 20 years after independence. What did happen was that exports began to grow very rapidly from the start of the 1970s, as production of diamonds and copper-nickel developed. The trade deficit was gradually reduced, disappearing completely by the early 1980s. This had the effect of increasing the ratio of visible trade to GDP, so that by this measure the economy appeared to have become more open. What was actually happening, however, was that until the mid-1980s the economy remained roughly as dependent on imports as it had always been, but that it was able to pay for those imports from export earnings to an increasing degree. As a result, the economy became less dependent on aid and migrant worker remittances to pay for imports. Eventually, increasing trade surpluses enabled the country to build up exceptionally large foreign exchange reserves, currently equivalent to about 30 months of imports of goods and services.

95. Since the mid-1980s, the development and diversification of the economy have reduced the ratio of imports to GDP from nearly 60%, to less than 40% at present. This represents a remarkable structural transformation.

96. Even in the 1970s, the suggestion that significant manufacturing production might develop was regarded as eccentric, or at least as absurdly optimistic. There seemed no reason to think that those producing for the Botswana or SACU markets would want to invest in Botswana. It seemed more rational for investment to take place in South Africa which represents about 95% of the SACU market, than to invest in the very underdeveloped economy of Botswana, with its tiny domestic market. There was also a bilateral trade agreement between Botswana and Zimbabwe, dating from 1956, so that much the same argument appeared to apply to the choice of investment location between Botswana and Zimbabwe.

97. Among many other factors inhibiting investment in Botswana to serve the domestic and SACU markets, Botswana's underdeveloped infrastructure was a serious handicap. The railway linking Botswana with South Africa and Zimbabwe was the only reliable means of transport, as the road system was very underdeveloped. Even in the mid-1970s, there was only one significant stretch of tarred road in Botswana, linking Lobatse and Gaborone, and none of the roads to Botswana from neighbouring countries was tarred at that time.

(b) *Ratio of Foreign Direct Investment (FDI) to GDP*

98. Statistics of foreign capital flows to and from Botswana were dominated by the mining sector for many years. These statistics were themselves complicated by the unusual financial circumstances of the copper-nickel mine (BCL), because it has always been unprofitable. The losses have been financed in large part by loans from the foreign shareholders. Interest on these loans has become a very large part of BCL's losses, although this interest is not in fact paid. For example, BCL's accumulated deficit increased from P3.1 billion in 1994, to P6.2 billion in 1998. The increase of P3.1 billion has been financed by increases in borrowing, partly new loans (P0.5 billion) but mostly by the accumulation of accrued interest, arising from interest due but not paid, on both new borrowing and the borrowing already undertaken in 1994 (P2.6 billion) [BIDPA, 1999b]. The *balance of payments accounts* show, however, that interest has been paid to the foreign shareholders, and this imputed payment is matched by an imputed inflow of capital in the form of new shareholder loans. These movements have at times dominated the capital account of the balance of payments, and in particular the statistics of foreign direct investment.

99. After taking account of these complications, it is clear that the Botswana economy's dependence on foreign capital inflows has changed completely since independence in 1966. The extraordinary growth of diamond export earnings has completely eliminated financial dependence on foreign capital inflows.

100. For the record, Table 2 below shows inflows of capital from abroad into Botswana, for the 1990s, to illustrate the orders of magnitude involved. The imputed inflows associated with losses of the copper-nickel mine at Selebi-Phikwe, and other similar flows, are shown separately; these capital inflows do reflect to some extent the confidence of foreign investors in the Botswana economy, in that the foreign shareholders have accepted the non-payment of interest on previous shareholder loans in order to keep the mine open. These inflows are, however, very different in character from foreign investment in new economic activities. Policy towards foreign investment is further discussed in Chapter 8 (b).

**Table 2. Capital inflows (percentage of GDP)
(P million)**

Year ^(a)	Imputed interest	Otherdir. investment	Total direct investment	Other investment	Total inflows	Total as % of GDP
1990	183.7	-43.7	140.0	13.7	153.7	2.4
1991	216.5	-215.9	0.6	248.7	249.3	3.3
1992	223.8	-247.9	-24.1	605.9	581.8	6.9
1993	226.7	-945.0 ^(b)	-718.3	620.6	-97.7	-1.1
1994	381.9	-445.3	-63.4	173.7	110.3	1.0
1995	58.9	22.9	81.8	-175.7	-93.9	-0.7
1996	80.9	159.2	240.1	-99.1	141.0	1.0
1997	96.1	283.5	379.6	-359.3	20.3	0.1 ^(c)

Notes: (a) balance of payments statistics for capital inflows are for calendar years; GDP statistics are for years ending in June.

(b) the Botswana Government bought out one of the foreign shareholders in the copper-nickel mine in 1993, resulting in a large capital outflow in that year.

(c) the fall in net inflows was for technical reasons concerning the commercial banks' foreign exchange accounts and was not associated with the Asian crisis.

Source: Bank of Botswana *Annual Reports*.

(c) Share of output and employment in the tradable and non-tradable sectors

101. A further possible indicator of globalisation over time is the share of output and employment in the tradable and non-tradable sectors. In the last 12 years, the share of mining in GDP has fallen from 47% (in 1986/87) to 34% (in 1997/98). This fall in the share of mining in GDP occurred despite mining having grown in real terms by 62% over the period. The share of agriculture also fell, to an all-time low of 3% in 1997/98, reflecting the very rapid urbanisation of the population, and the greater opportunities in the non-agricultural sectors, especially for young people with more education than their parents. The other tradable sector, manufacturing, maintained but did not increase its share, at around 6% of GDP. Overall, therefore, the three tradable sectors reduced their share of GDP from 57% in 1986/87, to 42% in 1997/98.

102. By definition, therefore, the non-tradable sectors increased their share of GDP from 43% to 58% (Table 3, which reflects the same structural changes as Table 1). The sectors which increased their share of GDP most were trade, hotels and restaurants (an increase of four percentage points from 13% to 17%), and banks, insurance and business services (also an increase of four percentage points, but from a smaller base of 6%, increasing to 10%). The other service sectors all increased their shares of GDP, although by smaller amounts. Despite the leading role played by the spending of diamond revenue by the Government, the share of "General Government" increased by only two percentage points, from 14% to 16%, although social and personal services, which include education, increased their share of GDP from 2.8% to 4.4%.

**Table 3. Share of output in the tradable and non-tradable sectors
(3-year averages, percentage shares)**

Years ending March	1987-89	1990-92	1993-95	1996-98
Tradable sector	54.9	47.9	43.9	32.8
Non-tradable sector	45.1	52.1	56.1	67.2

Note: tradable sector defined as mining, agriculture and manufacturing; the rest of GDP defined as non-tradable.

Source: Bank of Botswana *Annual Reports*.

(d) Diversification of export destinations

103. As well as diversification of the type of goods exported, diversification of the country's exports would reduce risk. The official statistics are set out below in Tables 4 and 5.

**Table 4. Botswana's direction of exports, 1980-98, by value
(selected years, P million)**

Year	SACU	Zimbabwe	Other Africa	UK	Other Europe	US	Other	Total
1980	26	12	21	8	240	82	2	390
1985	78	41	14	53	1120	73	6	1384
1990	157	226	53	41	2832	4	5	3319
1995	1277	182	49	2223	2147	52	11	5941
1997	1485	383	114	5840	2444	102	23	10391

Source: *Statistical Bulletin*, various issues.

**Table 5. Botswana's direction of exports, 1980-98, by percentage shares
(selected years, percentages)**

Year	SACU	Zimbabwe	Other Africa	UK	Other Europe	US	Other	Total
1980	6.6	3.1	5.4	2.1	61.3	21.0	0.5	100.0
1985	5.6	3.0	1.0	3.8	80.9	5.3	0.4	100.0
1990	4.7	6.8	1.6	1.2	85.3	0.1	0.2	100.0
1995	21.5	3.1	0.8	37.4	36.1	0.9	0.2	100.0
1997	14.3	3.7	1.1	56.2	23.5	1.0	0.2	100.0

Source: *Statistical Bulletin*, various issues.

104. These statistics are deeply distorted by changes in the *recorded* destination of diamond exports. In reality, all the exports of rough diamonds, comprising some 80% currently of Botswana's total exports, end up in London. There they are sold by De Beers' Central Selling Organisation, at 10 "sights" each year, to selected buyers. Shifts in the apparent destination of diamond exports are of no particular relevance. Exports of beef also go to London. They are relatively insignificant, however.

105. What is more interesting is the destination of non-traditional exports. There was a significant growth in manufactured exports to Zimbabwe in the 1980s, much of it by Zimbabwe manufacturers who shifted operations to Botswana to take advantage of the availability of foreign exchange for imported inputs, the right to export back to Zimbabwe under the 1956 trade agreement, and an overvalued Zimbabwe dollar. Much of this trade collapsed after 1990, because of the liberalisation of exchange controls in Zimbabwe, and a collapse of the Zimbabwe dollar. Exports of manufactured goods recovered from this setback, mainly by making inroads into the South African market, and to a lesser extent by exporting clothing and textiles to Europe and the United States.

106. The increase in exports to SACU (overwhelmingly South Africa) is affected by another special factor. In the 1990s, Botswana began to export vehicles, assembled from imported components, initially as semi-knocked-down kits, and more recently from completely knocked-down kits. These vehicle exports during the years shown in the tables had an exceptionally high import content, estimated at 85% (see notes to Table 7). As a result, exports to South Africa are greatly exaggerated in Table 4 and 5, because the gross value of vehicle exports rose above P1 billion. The car assembly factory closed early in 2000.

107. A further factor increasing exports to South Africa is that Botswana began to export soda ash from 1991, most of which also went to South Africa, with relatively small amounts going to other neighbouring countries; total soda ash exports were P166 million in 1998.

108. Although the statistics are distorted by vehicle exports, exports to South Africa did increase even if the extent of this shift in direction is exaggerated in Tables 4 and 5. It is also correct that exports to Zimbabwe fell right back after 1990.

109. The growth of manufactured exports in particular, and non-traditional exports in general, does amount to a considerable diversification of the Botswana economy. It is just that the growth of diamond exports has been so large, that what was once a diversification, from beef and migrant remittances, has now itself become dominant. As a result, the economy now requires further diversification away from dependence on diamonds. This is the theme of the current *National Development Plan* (NDP8). The need for such a diversification is greatly increased by the fact that diamond mining employs relatively few people (see Table 6).

Table 6. Employment intensity in different economic sectors (1998)

	Employment (000s)	GDP (P million)	Jobs per P million of GDP
Mining and quarrying	8700	7682	1.1
Manufacturing	24000	988	24.3
Other	206800	11758	17.6
Total ^(a)	239500	20428	11.7

Note: (a) formal sector employment only; excludes migrant mineworkers in South Africa (10,800 in 1998), and employees in domestic service and the Botswana Defence Force.

Source: Bank of Botswana *Annual Report*, 1998.

110. On the other hand, Botswana has at present moved very little in the direction of becoming less dependent on its trade with South Africa. It can be argued to be a considerable achievement that Botswana manufacturers have managed to penetrate the South African market to an extent which is significant, in terms of the Botswana economy if not that of South Africa. This has been achieved despite the long history of manufacturing in South Africa, and its resulting advantages in terms of greater technical sophistication, and greater availability of inputs of both goods and services. The South African economy also enjoys very much greater economies of scale.

111. The question that remains to be answered is whether Botswana manufacturers can make a further step. The first step was shifting from import substitution to exporting to South Africa. The second step would be exporting to the rest the world (other, that is, than in the case of exports which are only produced because of quota restrictions on Far Eastern producers).

112. At best, Botswana manufacturers will use South Africa as one stage in their development, leading eventually to global competitiveness; indeed, it could be argued that earlier and immediate exposure to global competition would have caused Botswana manufacturers to sink rather than to swim. It could also be argued that the gradual reduction in the common external tariff of SACU is very much what is necessary to make possible a gradual development of globally competitive producers.

113. At worst, Botswana manufacturers will turn out to have been overprotected by the SACU common external tariff, and will not prove able to compete with imports as tariff protection is reduced, and still less to export to the rest of the world. In this worst-case scenario, manufacturing in Botswana would either require permanent protection, at the expense of consumers and economic efficiency, or most manufacturing would be destroyed by global competition. Very unusually, the Botswana Government is not open to the sort of lobbying that normally arises from protected manufacturers, against the removal of that protection. So long as the Government does not decide to leave SACU, reductions in the common external tariff are exogenous, being decided under present arrangements entirely by the South African Government.

(e) *Direction of trade: imports*

114. Dependence on South Africa as a source of imports has changed very little. Roughly 80% of imports come from South Africa at present, and there has never been much change in this figure. It is known that some of these imports may originate from outside SACU, and be sold to Botswana by suppliers in South Africa, but the proportion is not known. This failure to diversify import sources should be interpreted with an understanding of Botswana's position as a member of SACU. The common external tariff of SACU makes it profitable for Botswana to buy most of its imports from South Africa, rather than from sources that would be cheaper if there were no common external tariff. Indeed, the price-raising effect of the common external tariff is one of the main justifications for the 1.42 multiplier in the SACU revenue distribution formula. It was estimated that in the late 1980s this price-raising affect was greater than the benefit provided by the multiplier, so that membership of SACU imposed a net financial cost on Botswana. Since then, reductions in the external tariff have improved the net position.

3. EXCHANGE RATE POLICY AND ECONOMIC DIVERSIFICATION

115. Exchange rate policy in Botswana has two principal objectives. The first and most important objective is to maintain an exchange rate which makes it possible for producers of tradable goods and services to compete with imports, and to compete in export markets. The second objective is to alleviate as far as possible the impact of imported inflation, mainly from South Africa because some 80% of imports are denominated in the South African currency. It has of course frequently been impossible to pursue both of these objectives at the same time.

116. Nevertheless, the Botswana Government has in some years managed to appreciate the Pula without increasing the *real* bilateral exchange rate against the South African rand against the interests of the tradable sector. Provided that the Pula is appreciated against foreign currencies fairly slowly, the consequent reduction in the cost of imports reduces domestic inflation in Botswana *before* the rising nominal exchange rate has done any serious damage, to the interests of exporters and those producers who compete with imports. In turn, the lower is the rate of inflation, the lower is the pressure on wages from increased domestic prices. At times, therefore, it has been possible to reduce the rate of inflation in Botswana with no real cost to the economy.

117. Between 1976 when the Pula was introduced to replace the rand, and 1990, the overall trend was for an increase in the rand value of the Pula. It reached an end-year peak against the South African rand of R1.37 in 1990, compared with the one-for-one rate at which it was originally exchanged. Between 1977 and 1990, consumer prices in Botswana rose only 4.3 times, while over the same period consumer prices in South Africa rose by a multiple of 6.2. As a result, Botswana's bilateral real exchange rate index against the rand fluctuated within

a narrow range, never moving below 90 or above 110 (1980 = 100). Exchange rate policy in

the 1990s continues to have as its main objective the maintenance of a stable real exchange rate against the rand, but this has been achieved by maintaining an approximately constant nominal Pula/rand exchange rate.

118. Exchange rate policy is greatly complicated when those foreign currencies which are important for Botswana's foreign trade move by large amounts against each other. In such circumstances, it is impossible to sustain stable exchange rates against all foreign currencies, whether in nominal or real terms. This problem has arisen when the rand has fallen sharply against non-regional major currencies over short periods. Because the Pula is officially pegged to a currency basket consisting of the rand and the SDR, when the rand falls against the SDR, the Pula is forced up against the rand. Although this reduces the cost of imports, and can therefore reduce inflation as explained above, if the movement is too large it works against the interests of the tradable sector because of the time lag between a Pula appreciation and a reduction in the rate of inflation below what it would otherwise have been. A large appreciation, say greater than 5% in a short period, would render producers of tradable goods and services significantly uncompetitive. Moreover, because prices tend to be sticky downwards, appreciation greater than the rate of inflation would probably not cause prices to fall, again making producers uncompetitive.

119. In these circumstances, the Botswana authorities have been forced to follow sudden large rand depreciations, although this policy has often been unpopular. Those with non-regional foreign currency liabilities, such as importers and those paying foreign educational and other fees, find their costs sharply increased. Their complaints are reinforced by the belief that Botswana should not need to have a weak currency when it has balance of payments surpluses, and exceptionally large foreign exchange reserves. However, the Botswana Government has resisted popular opposition to its exchange rate policy, in the interests of diversifying the economy through the development of non-mining exports, and the creation of employment.

120. While the real exchange rate against the South African rand has remained stable, the weakness of the rand against non-regional currencies has dragged the Pula down in both nominal and real terms against the SDR. In practice, this has had little impact on the diversification of the Botswana economy, because relatively few non-traditional exports go to non-regional countries. There has in the 1990s been some foreign investment from outside the region, mainly by companies from the Far East. These countries face restrictions on their exports to Europe and North America, and invest in Botswana to avoid these quota restrictions, and to take advantage of subsidies (FAP, see Chapter 8(d)). The profitability of this activity has been increased by the weakness of the rand, but Botswana's costs and productivity are not competitive with those of the Asian countries of origin of the investment. The impact has been relatively small. In other words, marginal changes in the profitability of this activity are not the main reason for the investment.

121. The main consequences for Botswana of rand weakness against the SDR are two types of windfall gain. Firstly, traditional exports (minerals, beef and copper-nickel) are exported outside the region, so that rand depreciation increases the buying power of these export earnings in South Africa, which remains the main source of Botswana's imports. Secondly, most foreign exchange reserves are invested in assets denominated in non-regional currencies; Pula devaluation increases the Pula value of these foreign exchange reserves. This would be of no relevance if the future spending of the foreign exchange reserves were expected to be on imports from outside the region. However, it is likely that Botswana will continue to import mainly from South Africa because of the common external tariff of SACU, reinforced by convenience and geography. To the extent that Botswana continues to buy from South Africa, rand and Pula devaluation against the SDR increases the future buying power of the foreign exchange reserves, creating a second windfall gain. Increased inflation in South Africa could erode these gains before the foreign exchange reserves come to be spent, but this has not happened after recent rand devaluations.

122. Having a clear exchange rate policy is one thing, being able to pursue it is another. The globalisation of financial markets, with the accompanying large short-term capital movements, have made it difficult for many countries to maintain their preferred exchange rate policies. Balance of payments difficulties, the servicing of past debts, and the difficulties of managing large fluctuations in export prices, also make it difficult to pursue a preferred exchange rate policy. These difficulties are particularly severe in developing countries. For example, it may be possible for a country like the United States, or Germany, to offset large short-term capital movements by quite small changes in interest rates. It is extremely difficult and frequently impossible in developing countries, because they cannot attract short-term capital at any interest rate. Botswana is exceptional in this context, in having large enough foreign exchange reserves to maintain the Government's chosen exchange rate policy.

123. Maintaining a competitive exchange rate has been one of the most important factors in diversifying the economy. A competitive exchange rate is a necessary, if not a sufficient, condition for the growth of non-traditional exports. Although Botswana's dependence on imports has declined since independence, there is no way in which economic growth can take place without increased demand for imports.

124. In the past, the increased cost of imports resulting from economic growth has been more than covered by the growth of export revenue from diamonds. Diamond export growth, and as a consequence government revenue, have frequently been higher than expected. The Ministry of Finance and Development Planning, in budget speeches and development plans, has been forecasting crossover points (where imports begin to exceed exports, and government revenue begins to exceed government spending) for a number of years, while surpluses have continued to be generated. Nevertheless, it is inevitable that the surpluses cannot continue indefinitely, and that deficits will eventually exhaust the

accumulated financial reserves. At some point, therefore, economic growth will depend on Botswana being able to earn foreign exchange from non-traditional exports, of both goods and services. The growth of non-traditional exports will also be an important source of additional employment, as it has in the past.

125. While exchange rate policy has been an essential element in the Botswana Government's efforts to diversify the economy, regional trade agreements have also played a large part, especially Botswana's membership of SACU. Membership gives the economy duty and quota free access to the South African market. The South African economy is about 25 times larger than that of Botswana. The proximity of the South African economy is both a disadvantage and an opportunity for Botswana. On the one hand, investment within a free trade area tends to locate itself in the industrially more advanced areas. In these circumstances, it might have been expected that Botswana would find it impossible to attract manufacturing investment in competition with the very much more industrialised and technically advanced areas of South Africa. Yet manufacturing employment in March 1998 was approximately three times as large as employment in mining, and was higher than employment in the construction industry [*Statistical Bulletin*, December 1998].

126. The Customs Union, and the bilateral free trade agreement with Zimbabwe, force all manufacturing firms in Botswana to be competitive with imports from South Africa and Zimbabwe. Being competitive with imports does not necessarily mean that the producer is competitive enough to export. Transport costs provide some "natural protection" against imports (although not much, given the nearness of the industrial areas of South Africa and Zimbabwe); and exporting requires the producer to cover the cost of transport to the export market. In addition, a firm has all the problems of selling in a new market if it wishes to export as well as to be able to compete with imports.

127. Nevertheless, some manufacturers have succeeded (see Table 7). The remarkable point about Table 7 is that non-traditional exports (mostly manufactured goods) have managed to maintain their share of total exports, despite the phenomenal growth of diamond exports. This means that non-traditional exports have also grown extremely rapidly. A second important point is that all manufacturers in Botswana have the *opportunity* of selling in the Zimbabwe and South African markets, and therefore of not being limited by the small size of the Botswana market.

128. Although the South African economy has been growing extremely slowly over a long period, Botswana has in practice been able to increase its exports to South Africa, mainly manufactured goods, by capturing market share. This suggests that Botswana's non-traditional exports may not be *income* elastic. It is possible to increase market share in most products (the assembly of vehicles and exports of pasta are exceptions) without causing concern among South African producers, or the South African Government, because they are not seriously threatened by the quantities that Botswana producers are able to export. On the other hand, Botswana producers are relatively small suppliers to the competitive markets of South Africa and Zimbabwe, so that demand for these exports is *price* elastic.

**Table 7 Share of non-traditional exports (NTX) in non-vehicle exports
(P million, current prices; shares are of total exports *excluding* vehicles and parts)**

	1980	1985	1990	1995	1996	1997	1998 ^(a)
Vehicles & parts	-	-	-	957	1148	1183	789
Other NTX	41	107	332	493	619	826	702
Diamonds	238	1048	2614	3984	5722	7670	5453
Total exports	391	1384	3340	5941	8142	10391	7523
Total exports less vehicles	391	1384	3340	4984	6994	9208	6734
Other NTX share (%)	10	8	10	10	9	9	10
Diamond share (%)	61	76	78	80	82	83	81

Source: Central Statistical Office, *Statistical Bulletin*, various issues.

Notes: (a) first nine months only.

(a) Non-traditional exports are recorded officially to include vehicles with an approximately 85% import content in the years shown; the plant closed in January 2000. Shares in the Table of NTX and diamonds are of total exports excluding vehicles and parts, to avoid distortion of the statistics.

129. The other important question is whether ability to export to South Africa will prove to be a stepping stone towards exporting to the rest of the world. This could go either way. Having to be competitive with imports from South Africa, and achieving some limited success in exporting to South Africa, could prove to be just the necessary gradual introduction to global competitiveness that Botswana needs. It could be argued that Botswana firms would have been unlikely to be able to compete in global markets, without this initial stage. On the other hand, it could be that the protection provided by the SACU common external tariff has prevented Botswana producers from becoming competitive in global terms, so that they are not capable of exporting outside the region. As the common external tariff is lowered (see Chapter 6 below), Botswana firms will be increasingly exposed to global competition. At that stage, Botswana will discover which firms can adapt and benefit from increased competition, and which firms are not capable of increasing their productivity sufficiently to remain competitive. At present, exports of manufactured goods to non-regional destinations are almost exclusively confined to products which face quota restrictions if exported from other countries.

130. Table 7 does not include service exports. Historically, the main service export has been tourism. It has been argued that the main tourist attraction, the Okavango delta, cannot absorb further growth. However, the current rate of growth of tourist arrivals is quite high, as shown in Table 8. Another positive indicator is that tourist visits to National Parks and Game Reserves increased by 63% from 1995 to 1997, from 77,000 to 125,000.

Table 8. International arrivals for "holidays"
(thousands)

1993	1994	1995	1996	1997
107	113	150	165	186
+ 2.7%	+ 5.6%	+ 32.7%	+ 10.0%	+ 12.7%

Source: Central Statistics Office *Statistical Bulletin*, various issues.

131. It may be that further growth of the traditional forms of tourism would change the character of the Botswana tourist experience. Evidence from other countries, however, is that people are prepared to pay to view wildlife in relatively crowded conditions, and that this can generate significant income and employment. In addition, a recent consultancy report argued strongly for the development of alternative forms of tourism, including community-based tourism in villages; and Botswana may also be able to duplicate the conversion of low quality farmland into successful game reserves as has been achieved across the border in South Africa.

132. Botswana has some advantages in attracting other forms of service export, and to a limited extent this has already started to occur. There are no national level statistics, but there is anecdotal evidence of consultancy and other service providers choosing to locate in Botswana in order to service the SADC market. The Botswana Development Corporation also has plans to develop Botswana as an International Financial Services Centre; this would probably not involve off-shore banking, and should not include attracting business dependent on tax-avoidance in other countries, but there is a realistic possibility of attracting less glamorous activity such as the back-office administration of international investment activities.

4. FINANCIAL LIBERALISATION AND FINANCIAL CONTAGION

133. 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. As was common at that time, these exchange controls imposed tight restrictions on capital movements, and on invisible imports (for example, limits on foreign exchange for such items as foreign travel). There were no restrictions on payment for visible imports.

134. 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. The controls on invisible trade and capital movements were generally quite liberal, and the exchange control rules were liberally interpreted.

135. 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 that the impact was not sudden.

136. 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. 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.

137. However, this also opens domestic financial markets to speculative flows of international capital. These may be caused by domestic events, or by events abroad which have nothing to do with the domestic economy (financial contagion). Individual developing countries may be affected by financial contagion even if their own economic situation is fundamentally sound.

138. Financial contagion is essentially a short term phenomenon. It affects countries initially through financial markets: foreign exchange markets, share markets and bond markets. These are what might be called the first round effects. The *second round* and potentially more damaging effects, of financial contagion, occur if a country's domestic banking system is vulnerable to crises in the country's financial markets: for example if domestic banks have borrowed abroad and lent the money to domestic borrowers, or if domestic banks are overexposed to the local share and property markets. Recovery from the first stage of financial contagion can be relatively rapid, but rehabilitating a country's banking system takes longer, and is more costly.

139. 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 devalued by large amounts. More broadly, reduced global economic growth could also have an adverse impact.

140. The Asian crisis of 1997 spread financial contagion to several other Asian countries, and the Russian crisis of 1998 spread financial contagion to developing countries in all parts of the world. Botswana was not *directly* affected by these in 1997 and 1998, however, and any impact is likely to remain limited for many years (see below).

141. There has been some foreign portfolio investment in the shares quoted on the Botswana Stock Exchange, and a sudden withdrawal of this investment could in theory have a major impact on share prices. However, the share market is extremely illiquid, so that withdrawal on any significant scale is in fact impossible in the short term. Foreign investors in the Botswana market for shares know this in advance, so that they do not invest in the expectation of being able to execute a short term reversal of their investments. For this reason they are unlikely to attempt it.

142. Botswana has the beginnings of a bond market, with the first three issues having been made in the last two years. However, the total raised by these bond issues is only P0.3 billion, and in most weeks there are no transactions at all, making the bond market even more illiquid than the share market.

143. Even if short-term outflows of finance were possible, Botswana is further protected in present circumstances. Any short term withdrawal of foreign finance could be accommodated out of the foreign exchange reserves, without any impact at all on the domestic economy. The only consequence of reduced foreign exchange reserves would be a slightly smaller income for the Bank of Botswana, most of which goes to the government budget. The Botswana Government has large enough balances at the central bank to accommodate any short term fall in its revenue. The foreign exchange reserves more than three times larger than the domestic money supply (at end-December 1998, the broadest definition of the money supply, M4, was P7.6 billion, compared with foreign exchange reserves of P26.5 billion).

144. Botswana is also well protected from the *second stage* of financial contagion, that is, the potential collapse of the banking system because of risky exposure to financial markets. The commercial banks in Botswana, do not borrow abroad, do not buy shares, are not excessively exposed to the local property market (or indeed to any other particular sector), and the relevant economic fundamentals are sound [Pelaelo and Damane, 1999]. Research has shown that share prices in Botswana do appear to be affected by domestic economic variables: "the real exchange rate, domestic and South African real GDP growth having a positive influence, and domestic real interest rates having a negative influence" [Jefferis and Okeahalam, 1999: 25], but this does not impact on the banking system's soundness. Most crucially, the commercial banks (and in the most recent years other financial institutions) are well supervised by the bank examination department of the Bank of Botswana [Harvey, 1998].

145. A further reason for the absence of banking crises, and their being unlikely in the future, is that the Botswana commercial banks are all subsidiaries of much larger international banks, two from South Africa and two from the UK. Another reason is that Botswana has not licensed any indigenous commercial banks. Large numbers of these indigenous banks have failed in other African countries, for example, Kenya, Uganda, Nigeria and Zambia, although mainly because of insider lending rather than financial contagion [Brownbridge and Harvey, 1998: 210-3].

146. There is a potential future problem. Botswana, together with the other smaller economies in the Southern African region, is trying to develop the country's financial markets. The underlying objective is to make allocation of finance more open to market forces, including foreign supply and demand. In Botswana, this has not been done as part of an IMF/World Bank programme, although the World Bank has provided advice pointing in this direction, on which the authorities based much of their subsequent strategy [World Bank, 1989]. A disadvantage of such financial development is that it increasingly exposes national economies to financial contagion. As financial markets develop in both size and liquidity, and as the foreign exchange reserves decline relative to the size of financial markets, the country may in future need to devise strategies for preventing financial contagion, or for coping with it if it cannot be prevented.

147. Although Botswana appears to be immune from direct, short-term financial contagion, the economy could be vulnerable to financial contagion in South Africa. The South African economy is the most vulnerable in the region to financial contagion because foreign investors have been major investors in South African shares and bonds, making it possible for large outflows to occur.

148. The Asian crisis of 1997 had little impact on South Africa. In contrast, the Russian crisis of 1998 had some impact on share prices in South Africa, which fell by about 40% in September 1998. The exchange rate actually strengthened slightly, but this was only achieved at the expense of a sharp increase in short term interest rates. Net foreign liabilities rose by 27%. There was no second stage financial contagion, however. The banks in South Africa were not significantly affected. They had avoided those actions which would have made them vulnerable. The major commercial banks in South Africa are long-established and well regulated; bank insolvencies have therefore been limited to relatively small institutions [Harvey, 1999].

149. Botswana was not affected by these events in South Africa. The Botswana share market was one of the few in the world which was apparently completely untouched by either crisis. There were certainly no price falls which could be associated with the two foreign crises. It is of course possible that prices might have risen further in different circumstances, although this does seem unlikely. The composite share index rose by 101% in 1997, and rose a further 34% during 1998. The growth rate of the non-mining economy increased in the year to June 1997, to 7.9% as compared with 5.0% in 1995/96. This higher growth rate was sustained in 1997/98 (at 7.7%), and there is every reason to think that this rate of growth will have been sustained in 1998/99. In other words, the rate of growth of Botswana's economy, although low compared with the rates achieved in the 1980s, was fast by global standards, very fast by African standards, and showed absolutely no sign of being affected by foreign financial crises.

5. THE ASIAN CRISIS AND TRADE EFFECTS: BOTSWANA'S RESPONSE

150. In one major respect, Botswana's economy was severely and directly affected by the Asian crisis. There was a marked fall in the demand for diamonds, most of which was caused by the fall in demand from countries in Asia, most particularly Japan, but also other crisis economies. Diamond export earnings fell by roughly 25% in the fourth quarter of 1998, contributing to a 12.5% fall in total export earnings in the calendar year. Partly because of this, and partly because of a more than 20% increase in government spending, Botswana had its first budget deficit for 16 years in 1998/99. A budget deficit of this size (P1.4 billion) could be financed for 14 years from the Government's accumulated surplus balances at the Bank of Botswana. The deficit did not therefore have any impact on the real economy.

151. The rate of growth of government spending, over 20% per year for several years, was clearly unsustainable. A cutback was necessary regardless of whether the government budget was in deficit or surplus; it would have been just as important even if the diamond market had been strong and the government had expected to generate yet another surplus. It may be that the budget deficit made it easier for the Minister of Finance and Development Planning to announce a reduced rate of growth of spending in 1999/00, particularly as 1999 was an election year. If this speculative argument is correct, then the Asian crisis might have been indirectly helpful to the management of the Botswana economy. In the event, government spending continue to grow out more than 20% in 1999/2000.

152. Against earlier expectations, however, diamonds sales recovered strongly in the second half of 1999, because:

- the Central Selling Organisation of De Beers concentrated on reducing the level of stocks held by the downstream market participants.
- a campaign to sell "millennium diamonds" exceeded expectations, to the point where 1999 is now expected to be an all-time record year for the sale of rough diamonds by De Beers.
- the United States economy continued to grow steadily, and
- the crisis Asian economies recovered faster than expected.

153. There are further reasons why government spending cannot continue increasing at more than 20% a year. This rate of growth is faster than the rate of growth of the economy. Government is therefore increasing its share of economic activity. This is directly contrary to expressed government intentions, which are to reduce the role of government in the economy, in order to favour the private sector. The economy needs to attract more foreign investment, and this will be more difficult if the Government's share of the economy is increasing.

154. A second point is that over-rapid increases in government spending "crowd out" the private sector. Thirdly, government has been overspending its medium-term development plans, as set out in NDP8. Development spending in 2000/01 will more than exhaust the amount remaining from the Plan estimates, with two years of the Plan to run.

155. The bad news is that reducing the rate of growth of government spending will reduce GDP growth, and the growth of employment. There is some scope for running modest budget deficits, financed by running down government balances, but this cannot continue indefinitely.

6. INTERNATIONAL TRADE AGREEMENTS AFFECTING BOTSWANA

156. Analysis of Botswana's international trading arrangements is complicated by the fact that most of them are currently being renegotiated, or are about to be renegotiated:

- SACU (currently being renegotiated);
- SADC (currently being negotiated);
- the Lomé Convention (negotiations to start in 2000);
- the next global round of WTO negotiations (expected to start in 2000);
- the European Union Free Trade Agreement with South Africa (due to become operative on 1 January 2000, but some details still not agreed);
- the United States Africa Growth and Opportunity Act (currently being debated in the US Congress).
- The current degree of uncertainty is most unusual. Until recently, Botswana's international trading agreements had been stable for many years.

(a) Southern African Customs Union (SACU)

157. SACU dates from 1909. It has never had a central secretariat. All substantive decisions have been made by the South African government, specifically the Board of Tariffs and Trade, which introduces new tariffs, and tariff changes, without consultation with the smaller member states. Changing this total lack of influence on SACU decisions is one of the main objectives of the BLNS countries in the current negotiations. It is also probably one of the reasons why it has proved so difficult to reach agreement. It is always difficult for a government which has exercised complete power over an important issue to give up that power, or even a small part of that power. Any system of voting which does not give a decisive majority to South Africa probably seems unacceptable to the South African government, particularly because it represents some 95% of the combined income of the countries in SACU. On the other hand, any system which enables the South African government to ignore their views completely has become increasingly unacceptable to the BLNS governments.

158. The other significant issue in the negotiations concerns the revenue-sharing formula. Until 1969, BLNS received fixed proportions of the common revenue pool of SACU. In 1969, the revenue formula was renegotiated, giving Botswana and the other small members states a share of revenue, from the common external tariff and excise duties, based on their share of imports and consumption of goods subject to excise duties. This share was subject to a multiplier of 1.42, to compensate for the price-raising effect of the common external tariff, and for the lack of any mechanism to induce investment in the peripheral countries. In the 1970s, a floor was placed on revenue, in that if the average tariff on Botswana's imports fell below 17%, a rate of 17% would apply; similarly, if the average rate rose above 23%, that rate would apply. In practice, the minimum rate of 17% has applied for some years.

159. One of the features of this revenue-sharing arrangement is that BLNS receive revenue based on their consumption of the relevant commodities, regardless of the size of the total revenue pool. As a result, together with reductions in the common external tariff of SACU, South Africa's share of the common revenue pool has steadily decreased. That share is now only about 20%, compared with South Africa's 95% share of SACU GDP. One of South Africa's main objectives, therefore, in seeking to renegotiate SACU is to change the revenue formula. For example, each member country might get a constant percentage share of the total. This would mean that each country's customs union revenue would rise and fall with the total size of the revenue pool.

160. In fact, South Africa gains greatly from the present arrangement. The common external tariff guarantees South Africa a very large share of the import markets of the BLNS countries. This has not been sufficient to prevent the South African government from wanting to renegotiate the SACU agreement.

161. Lesotho, Namibia and Swaziland depend heavily on SACU revenue (see Table 9 below). Botswana is an exception. Botswana is also exceptional in that it normally has a budget surplus.

**Table 9. Dependence on SACU revenue and budget deficits
(percentage of GDP) (annual averages)**

	SACU revenue as % of total revenue 1991-96	Budget surplus/deficit as % of GDP 1990-95
Botswana	17.1%	+ 5.0%
Lesotho	41.7%	- 4.5%
Namibia	27.6%	- 6.9%
Swaziland	44.8%	- 0.5%

Source: IDS/BIDPA, 1998.

162. Botswana would nevertheless lose significant SACU revenue, if reform were to give Botswana a fixed share of the total revenue pool, and if the total revenue pool were also to decrease. The latter has been happening already. Further decreases in the common revenue pool are now effectively certain to result from the EU/SA FTA, because some 40% of South Africa's imports currently come from the European Union, most of which will in due course become duty-free. Further reductions in the common external tariff in line with WTO obligations are also likely to occur.

163. Botswana may be less vulnerable to losses of SACU revenue than Lesotho, Namibia and Swaziland. Nevertheless, in the medium and long term government revenue from diamond exports cannot be expected to continue rising, so that Botswana will need to consider alternative sources of revenue. This point is reinforced by the argument that any future source of economic growth in Botswana, whether from manufactured or service exports, will provide very much less government revenue per unit of GDP than diamond mining where the government revenue content is exceptionally high.

164. At present, Botswana has relatively low rates of tax: the highest marginal rate of personal income tax is 25%, as is the corporate tax rate. Manufacturing companies pay only 15% on their profits, as will any investors in the proposed International Financial Services Centre. This might suggest that there is some scope for increasing tax rates, but that would run directly counter to the country's economic strategy of trying to stimulate investment in general, and to attract foreign direct investment in particular. It is argued that a universally low corporate tax rate is a more effective investment incentive than subsidies directed at particular investment expenditures, or concessions for particular categories of investment: "the provision of a uniform incentive of low tax to everybody seems to be well-based. This is compared with a system based on generally higher rates, but which is littered with concessions. Administering such concessions adds, inevitably, to the costs of the associated bureaucracy, and may be the product of interest-group pressure rather than economic logic" [*Bank of Botswana Annual Report 1997*: 106]. One could add that specific subsidies also generate corruption and rent-seeking.

165. The preferred alternatives to increasing tax rates are to broaden the tax base, and to increase the efficiency of tax administration and of government expenditure, in order to make better use of tax revenue. In particular, there is a case for domestic indirect taxation to replace the revenue lost because of reduced tariffs on imports from the European Union. It would not be possible to tax those goods imported from the European Union while not taxing equivalent goods, but a general broadening of the indirect tax base should be possible.

166. There is a further reason for considering a revision and extension of the tax base for indirect taxes. One of the benefits of SACU should be minimal non-tariff barriers at the borders, on goods in transit between member countries. This advantage has been lost in recent years. Firstly, South Africa has introduced Value Added Tax (VAT), and because of inability to collect VAT at the point of sale, has been collecting it on goods entering South

Africa from Botswana. Secondly, residents of Botswana can reclaim VAT paid on goods purchased in South Africa when they are brought to Botswana. Thirdly, some goods purchased in South Africa become liable to Sales Tax when imported into Botswana. The most effective way of eliminating these problems would be to harmonise indirect taxation in SACU member countries. Botswana has announced that VAT will be introduced in 2001. The rates are not yet public.

167. Concerning increased efficiency of tax administration, there is by now evidence that setting up an independent revenue authority has had positive effects in a number of African countries, including South Africa, Tanzania, Uganda and Zambia. In the latter three cases, the real value of government salaries had been eroded by inflation to the point where government officials could not afford to spend time at their jobs, so that setting up independent revenue authorities with independent salary structures proved an extremely effective way of increasing government revenue. Botswana does not face a situation of this type, but there is evidence that countries in less difficult circumstances can also benefit from this type of administrative reform. For example, South Africa itself set up a new tax collection agency in 1997, administratively independent, with its costs financed by the right to a percentage of the tax that it collects. This type of in-built incentive has proved extremely effective, enabling the agency to pay salaries high enough to keep skilled personnel, and to exceed its targets for revenue collection in the first year of its existence.

168. There is also evidence of the effectiveness of new types of reform of the administration of government spending, including commercialisation, privatisation, and new management systems based on the types of incentives used in the private sector.

169. Botswana has been considering a privatisation policy, broadly defined to include commercialisation of government activities and out-sourcing. A privatisation task force reported in July 1998, but the Botswana Government took until the first quarter of 2000 to present a privatisation policy White Paper to Parliament. It would seem that this delay can be attributed to there being no political or economic imperative driving privatisation. Botswana is not in urgent need of additional government revenue, and does not need to unburden itself of loss-making parastatals. Most of the large parastatals in Botswana are currently profitable. In 1997/98, non-financial parastatals generated an operating surplus of P327 million, an increase of 15% over the previous year [Bank of Botswana *Annual Report* 1998: S62]. In particular, some previously loss-making parastatals have moved into profit in recent years, including Air Botswana and Botswana Railways. The Government's main reason for considering privatisation, therefore, is the expectation that it will increase efficiency in the economy and in the provision of government services. When the White Paper was at last debated in parliament, there was considerable opposition, including much criticism from the backbench members of the ruling party. However, the policy was eventually accepted in April 2000. The Government plans to establish a Public Enterprises Evaluation and Privatisation Agency (PEEPA) to implement this policy.

170. There have been other public-sector administrative reforms also. The Botswana Government has recently introduced five-year contracts for Permanent Secretaries (the senior civil servant in each ministry), with each vacancy advertised to open competition, and assessment of performance when considering renewal of contracts (although it is too recent for this to have been done yet). The Government has also begun a review of its ministries, starting with the Ministry of Commerce and Industry where a review of its structure and performance is currently under way. The recommendations of this review, and their implementation, will be extremely important, both as an indication of how serious the Government is in reforming and reducing the size of its activities, and in setting a precedent for the reform of other government ministries in the future.

(b) Lomé Convention

171. Negotiations between the European Union and the African, Caribbean and Pacific countries (ACP) were concluded in February 2000, although the current rules for trade do not end until 2005. After some years of relatively stable trading arrangements, the new agreements will be quite different.

172. The ACP countries are required to negotiate Economic Partnership Agreements (EPAs) between regional groups of ACP countries and the European Union. Each of these regional EPAs must be a free trade area. This appears to reflect the European Union's ideological preference for regional trading arrangements. It will undoubtedly cause difficulty because ACP regions do not currently have such regional free trade agreements. Moreover, free trade agreements entered into in order to attract aid and trading privileges from the European Union are less likely to be successful than free trade agreements entered into willingly for internal rather than external reasons. The external incentive to create such free trade agreements will be that ACP states, which are not members of an EPA, will have their export access to the European Union downgraded to the Generalised System of Preferences (GSP).

173. A basic reason for the change is that the European Union is no longer willing to apply to the WTO for exemption for the Lomé Convention. Because the latter contains non-reciprocal trading concessions (basically that ACP countries have free access for manufactured exports to the European Union, but do not have to offer reciprocal privileges), it is against WTO rules, and therefore requires specific exemption.

174. Most ACP countries have not been able to take advantage of the existing free access to the European Union for their manufactured exports on any significant scale. No doubt, this is why the privileges were offered in the first place. They were not offered to those former dependent territories which would have been able to export manufactured goods on a significant scale, particularly clothing and textiles, for example India, Indonesia, Pakistan, Bangladesh and Sri Lanka.

175. Least developed countries will be allowed to retain Lomé privileges even if they are not in an Economic Partnership Agreement. This concession will not apply to Botswana. The anomaly of Botswana being regarded as a least-developed country, for purposes of the Generalised System of Preferences, is extremely unlikely to continue.

(c) The European Union/South Africa Free Trade Agreement

176. The free trade agreement between South Africa and the European Union was signed in October 1999, and should have been implemented on 1 January 2000. However, at the time of writing, further negotiations were taking place, on where and for how long South Africa can continue to such words as port and sherry. Assuming that these issues are finally agreed upon, the free trade agreement will apply to Botswana and the other small members of SACU.

177. This free trade agreement will cover tariff-free trade in 96% of South Africa's exports to the European Union almost immediately, and in 85% of the European Union's exports to South Africa over an extended period, with the European Union reducing its tariffs on imports from South Africa before South Africa is obliged to reduce its tariffs on imports from the European Union. There is thus an asymmetrical introduction of free trade in both timing and coverage in favour of South Africa.

178. In that the agreement applies equally to Botswana, it will have the following effects if and when it comes into force (apart, that is, from the revenue effect which was discussed in the previous subsection on SACU). Firstly, South African exporters will gain the same duty-free access to the European Union market as that currently enjoyed by the BLNS countries under the Lomé Convention. Generally speaking, any increased competition from South African exporters with existing exports from Botswana is expected to have a very small impact if any, because both countries' production is small in relation to the European Union market. In addition, for there to be a significant increase in competition, it is necessary that both Botswana and South Africa should currently be exporting a particular item (in significant quantities). Analysis of the current trade statistics identified only two such products: frozen meat, and clothing. It is unlikely that South Africa will be given improved access for beef exports to the European Union, and anyway most of Botswana's beef exports are chilled rather than frozen. The other item identified as being exported by both countries, T-shirts, is not a homogeneous product, and the two countries may be targeting different sub-markets, particularly as the value of exports is currently quite small in both cases (Ecu 2.6 million for South Africa, and Ecu 1.8 million for Botswana, in 1996). For both countries, exporters face what is effectively a horizontal demand curve, that is, one in which changes in the quantity exported have no effect on price, and where additional supply can be sold without difficulty and without affecting other suppliers. Interviews with a sample of 10 firms in Botswana, selected in order to try and identify firms likely to be affected by the new trade agreement, found that none of the sample firms would be threatened by improved South African access to the European Union [IDS/BIDPA, 1998].

179. Secondly, European Union exporters will eventually gain duty-free access to SACU (for most commodities), over a period as long as 12 years, depending on the category to which each commodity belongs. Those commodities subject to protocols will continue to be protected for the time being; the agreement sets no time limit on this protection. Analysis of the trade statistics identified 12 items, but of these "seven are related to the motor vehicle industry [and are therefore protocol items] and a further four (two types of switching apparatus, pipe appliances and toilet waters) are likely to be associated with differentiated sub-product markets" [ibid]. The remaining item, leather, is only produced to the wet blue stage in Botswana, and is all exported to Italy, so that it is not threatened by imports from the European Union.

180. The ten companies interviewed in Botswana appeared more vulnerable to competition from the European Union, as a result of the new trade agreement, than the firms interviewed in Lesotho, Namibia and Swaziland, especially if protocol items eventually lose their protection. All of the firms interviewed are currently protected from European Union imports in the SACU market, at rates varying from 15% to 84%. In only two cases, did companies state that their products could compete *with tariff-free imports* from the European Union, and in one of these cases reduced European Union subsidies to their own producers would be necessary. A further three companies would be able to compete in some but not all of their products, and might be able to shift production to those products which would remain competitive. Four companies were not certain about their ability to compete, but in three cases they were likely to be competitive because

- the Botswana firms produced low-quality products unlikely to be exported from the European Union
- competition currently comes from other (non-EU) imports (although enlargement of the European Union to include low wage Eastern European countries could pose a problem)
- currently only a small proportion of imports comes from the European Union, so that the main competition is from other countries.

181. However, half of the companies interviewed produce products which will be protected under protocols for an indefinite period. This is not surprising, since the common external tariff provides an incentive to produce precisely those products with the highest levels of protection.

182. Thirdly, it is possible that producers in Botswana could gain from the reduced cost of imported inputs from the European Union, and from switching to European Union sources for imports currently imported from other countries. The impact of this effect is, however, likely to be small because the common external tariff is low or zero on most capital goods, and on most imported intermediate inputs. Indeed, only three of the 10 companies interviewed in Botswana buy imported inputs from the European Union at present, and the tariff is significant for only one company. Even in this case, most of the tariff is rebated

because the product is exported outside SACU. For the other two companies, the imported inputs are either duty-free or of minor significance. It seems likely therefore that tariff reductions will produce negligible cost savings for producers in Botswana, if the sample of firms interviewed is representative. It is possible that further benefits could be identified once tariffs on imports from the European Union have actually been reduced, because producers in Botswana may not know at present of the possibilities of buying more cheaply from the European Union. This is especially true of smaller firms which do not have information on costs in countries from which they do not presently buy, and indeed have no reason at present to incur costs in order to find out.

183. Once tariffs on imports from the European Union begin to be reduced, and in due course eliminated, it will be important that firms are provided with the necessary information as to whether they should switch to European Union sources for imported inputs. It may be that the Botswana Government should assist in providing this information, especially for smaller firms and those without international connections. It should not be a problem for those firms which are subsidiaries of large international companies, with established global networks of information. Differences in knowledge of the cost of imported inputs from different parts of the world were very clear from the sample of firms interviewed.

184. Overall, it would appear from this sample of firms, chosen because of their likely vulnerability to the new free trade agreement between the European Union and SACU, that the short and medium term impact of the agreement is not likely to be large. Although all of the producers are currently protected by the common external tariff, either they believe that they will be able to compete successfully with duty free imports from the European Union, or they will continue to be protected by protocols. Nevertheless, the Botswana firms appear slightly more vulnerable than, for example, the firms interviewed in Lesotho and Swaziland, where more firms have developed exports to South Africa of products for the low income end of the market, which are not exported by the European Union and not likely to be. The Lesotho and Swaziland sample also has more firms exporting to the rest of the world, which are by definition already competitive with the European Union.

185. Although there appears to be no immediate reason for concern, the sample of firms interviewed was rather small, and it is extremely important that further research be done to discover whether the sample was representative of the situation that Botswana will face under the new free trade agreement with the European Union. This was recommended in the report on which this section is largely based, but nothing has yet been done by the Botswana Government.

186. It should also be noted that the BLNS governments are in discussion with the European Union as to how the latter might assist with adjustment to the effects of the European Union/South Africa Free Trade Agreement. Among the proposals made by the BLNS governments are for budgetary support to offset the loss of SACU revenue, support for fiscal reform, the removal of the remaining restrictions on exports (mainly agricultural) to the European Union, capacity building in trade policy and customs administration, assistance for companies which need to restructure, a training fund for workers retrenched because of competition from duty-free imports from the European Union, and further studies of the impact on individual producers.

(d) The proposed SADC free trade area

187. SADC member countries have signed a protocol agreeing to set up a free trade area, and the requisite number of countries (including South Africa) ratified it by the end of 1999. However, negotiations on details, for example rules of origin, are continuing.

188. South Africa's position is complex. On the one hand, at the most senior level, including the President, the South African government has frequently stated that it has an interest in the more rapid development of the other members of SADC, in particular those which are not already members of SACU. It is argued that this would slow down the inflow of illegal migrants into South Africa. South Africa is also aware of the political problems caused by large bilateral trade deficits of SADC members with South Africa. On the other hand, individual manufacturing sectors in South Africa are extremely wary of opening up South Africa's economy to unlimited and duty-free imports from SADC members, in particular Zimbabwe and Mauritius which are realistically the only ones currently capable of exporting significant quantities of manufactured goods to South Africa. Manufacturing industry in South Africa has a long history of lobbying successfully for protection, and there is no particular reason for thinking that the long-term national interest in opening up the South African market to its neighbours will be sufficient to override these sectoral interests. Evidence of this reality lies in the failure of South Africa and Zimbabwe to renegotiate a bilateral trade agreement which lapsed some four years ago, and has not been renewed despite continuing negotiations.

189. It may be worth asking why African countries persist in trying to establish regional free trade areas, or indeed continent-wide free trade, given that all previous attempts have either failed, or have become moribund and ineffective [see for example Lancaster, 1995]. It seems that the rhetoric of regional or continent-wide unity is irresistible, at least at international meetings. The reality is that only lip service is paid, so that nothing concrete is achieved. Where free trade areas are actually established, the most common reason for failure is a belief that one of the member countries gains a disproportionate share of the benefits.

190. There is a serious risk that a SADC free trade area will fail for the same reasons. The East African Community failed because of jealousy of Kenya, and the Central African Federation failed because of jealousy of Southern Rhodesia. If this was true of these two particular regional integration schemes, then it is a great deal more likely to happen in a SADC free trade area, where South Africa represents 74% of SADC GDP, and where South African manufacturing industry represents an even higher proportion of SADC manufacturing (85%). South African manufacturing is not only dominant in size, but a great deal more technologically advanced, giving it a further comparative advantage.

191. A further reason for concern about the acceptability of a SADC free trade area, among the non-SACU members, is that in several of them manufacturing industry was built up historically with high degrees of protection, and in some cases under public sector ownership, both of which led to extreme inefficiency. It is very unlikely, therefore, that these manufacturing sectors will be capable of competing with imports from South Africa if trade barriers are removed, still less of taking advantage of access to the South African market under competitive conditions.

192. One of the supposed advantages of a SADC free trade area is the creation of a larger market, which in turn is supposed to lead to cost reductions from economies of scale in production. However, if South Africa represents 74% of the SADC market, and with the other SACU members adding a further percentage point or two, the creation of a SADC free trade area will only create a market which is one third larger than that of South Africa. The benefits to South Africa are therefore extremely limited. Indeed given that South Africa already has a large share of the import market in most of the SADC member countries, South Africa has very little to gain. It is also relevant to note that a large part of the population of the non-SACU SADC members is extremely poor, with very little discretionary cash income. Rhetoric refers frequently to the creation of a "vast" market of some 200 million people, but the reality is less exciting given that most of these people have very little purchasing power, and many of their governments have severe balance of payments problems.

193. This analysis suggests that the non-SACU members of SADC may be interested in joining a free trade area, in order to gain access to the South African market. However, they will quickly become disillusioned if they do not gain short-term benefits. In present circumstances, unfortunately, the most likely outcome is that their bilateral trade deficits with South Africa will become even larger. If South Africa gains a competitive advantage through some form of preference over suppliers from the rest of the world, then South African exporters will increase their share of each SADC market even further than is the case at present. Meanwhile, the non-SACU members of SADC (with the possible exception of Zimbabwe and Mauritius) will not be in a position in the short term to export more to South Africa. Such a scenario would sharply increase a belief that would probably already exist, namely that South Africa would be over-dominant in a SADC free trade area, and would gain from it quite disproportionately so that it would further increase South Africa's dominance.

194. One possible way of addressing this problem would be to try and create conditions in the non-SACU members of SADC, which would attract foreign investment in manufacturing capable of exporting to South Africa. In practice, that means creating the conditions that would attract investment by South African manufacturers, since it seems improbable that non-regional investors would want to invest in, for example, Zambia or Tanzania in order to export to South Africa. Macroeconomic stability is a necessary condition for attracting investment, even if it is not a sufficient condition [O'Connell, 1997]. At present, these conditions do not exist in many of the countries involved. Taking inflation as one indicator of macroeconomic instability, the non-SACU members of SADC have, or have had in the recent past, very much higher rates of inflation than in SACU, with Mauritius as the only significant exception (see Table 10).

Table 10. Inflation in SADC countries (1980-98)
(annual percentages)

	1980-89	1990-95	1996	1997	1998
South Africa	14.6	11.8	7.4	8.5	7.0
<i>Other SACU</i>					
Botswana	10.8	12.5	9.8	8.6	6.7
Lesotho	13.8	12.9	9.3	[8.7]	[6.9]
Namibia	13.0	11.8	8.0	8.8	[6.2]
Swaziland	14.2	12.7	12.5	9.7	7.5
<i>Non-SACU SADC</i>					
Angola	-	870.3	905.3	111.2	[148.0]
Malawi	16.8	30.8	37.6	9.1	29.7
Mauritius	11.2	8.2	6.6	6.8	4.7
Mozambique	45.1	47.5	45.0	5.5	[- 1.3]
Tanzania	30.1	28.9	19.7	16.1	12.8
Zambia	38.4	117.7	46.3	24.8	[22.9]
Zimbabwe	12.8	25.9	21.4	18.7	31.8

Sources: Jenkins and Thomas, 1997; IFS; EIU.

Notes:

1. Figures for 1980-89 and 1990-5 from Jenkins and Thomas, 1997, which used IFS, World Bank, EIU and central bank annual reports.
2. Figures for later years from IFS, except those in square brackets which are from other sources, mostly EIU Country Reports, and may not therefore be comparable.

195. Although some countries have succeeded in reducing their rates of inflation, the credibility of low rates of inflation being sustained is extremely low. Firstly, the track record of these governments in macroeconomic management is very poor. Secondly, success in reducing rates of inflation (together with budget deficits which are the main cause of inflation, see Table 11) has sometimes been reversed, for example in Malawi, Angola and Zimbabwe (where inflation is currently 70%). Thirdly, currently available "external agencies

of restraint" [Collier, 1991] lack credibility. The main external agencies of restraint are the IMF and the World Bank (backed by other aid donors), who attempt to impose macroeconomic policy conditionality in providing structural adjustment loans. However, governments accept these conditions reluctantly, frequently fail to meet them, and abandon them at the first opportunity, for example if their main export prices rise. Fourthly, governments which have previously had extremely protectionist and/or socialist policies, lack credibility when they adopt a reversal of policy. In this context, it is slightly easier for new governments to gain credibility in the eyes of potential investors; long-established governments which change their macroeconomic and other policies take much longer to establish the necessary credibility.

Table 11: Budget deficits in SADC countries (percentage of GDP) (1980-98)

	1980-89	1990-95	1996	1997	1998
South Africa	- 3.3	- 6.5	- 5.3	- 4.7	- 3.0
<i>Other SACU</i>					
Botswana	+ 7.7	+ 5.7	+ 9.4	[+ 4.3]	[- 7.1]
Lesotho	- 5.9	- 4.5	+ 2.9	+ 1.7	[+ 0.4]
Namibia	- 13.5	- 6.9			-4.1
Swaziland	- 2.1	- 0.5	- 4.1	+ 0.0	+ 0.3
<i>Non-SACU SADC</i>					
Angola	- 11.1	- 25.7			
Malawi	- 12.3	- 13.3	- 5.5	[- 3.9]	[- 4.0]
Mauritius	- 6.2	- 2.9	- 4.0	- 4.0	[- 2.2]
Mozambique	- 23.5	- 25.5	- 17.0	[- 3.4]	[- 3.9]
Tanzania	- 10.1	- 6.5	- 0.4	+ 1.8	[- 5.6]
Zambia	- 15.1	- 12.4	- 2.6	- 1.9	- 4.3
Zimbabwe	- 7.8	- 10.0	- 10.3		[10-12] ^(a)

Note: (a) Zimbabwe budget deficit for 18 months to October 1998 stated officially as 4.9% of GDP. This excludes the cost of involvement in the Congo war. EIU estimates the real deficit at 10-12% of GDP.

Sources: as for Table 10?

196. In order to attract investment, therefore, SADC governments need to reduce inflation, and to create a belief that inflation will remain low and stable. This would take a very long time for some SADC governments *acting individually*, as argued above. A possible solution would be for SADC governments to *agree among themselves* on macroeconomic policy convergence around relatively low rates of inflation, basically around the rate of inflation in South Africa. Such an agreement would have to be negotiated. Such negotiations would be both difficult and lengthy. In order to be effective, an agreement would also need credible sanctions. The most effective sanction would be exclusion from membership, particularly if that meant exclusion from the South African market, and exclusion from South African investment in businesses capable of exporting to South Africa.

197. The agreement would probably need reinforcement in the form of investment incentives for South African companies willing to consider investment in the periphery of SADC, possibly supported by aid donors. These investment incentives would then have to be withdrawn if a member country failed to sustain a low rate of inflation, as the most readily available proxy for macroeconomic stability. Holding down inflation through direct intervention such as price controls would not be acceptable. In effect, a SADC agreement on macroeconomic policy convergence would be an internally created agency of constraint, and would therefore have greater credibility than an external agency restraint imposed against the wishes, and without the participation, of the relevant governments. In the modern jargon, a truly credible arrangement requires ownership.

198. From Botswana's point of view, the creation of a SADC free trade area would be of marginal significance. Botswana already has free trading arrangements with South Africa, which accounts for 75% of the SADC market. Enlarging this area free trade to include the whole of SADC would therefore add only about 33%. Furthermore, as already noted above, this 33% consists of countries with low discretionary purchasing power and low credit rating. Any addition to exporting possibilities would be welcome, but the possible impact would at best be relatively minor.

199. It should be noted that Botswana, and the other small members of SACU, do not need external agencies of restraint to establish their macroeconomic policy credibility. As is evident from Table 9, they already have inflation rates close to that of South Africa. In the case of Lesotho, Namibia, and Swaziland, this arises because they are in the Common Monetary Area, which acts as an effective external agency of restraint, similar to if not the same as the working of the CFA Franc area. With few exceptions, of which Botswana is one, those African countries with independent central banks have mismanaged the freedom that they provide, leading to large, and in some cases very large, currency depreciation.

120. It is not suggested that SADC is ready for a common currency, and the abolition of independent central banks and monetary systems. It appears clear, though, from the evidence of Table 12 below, that few countries outside of the CFA Franc zone have maintained macroeconomic stability, without some external agency of restraint on the inflationary financing of budget deficits by independent central banks.

**Table 12. Increase in the cost of one US dollar 1962-1998
(selected Sub-Saharan African countries)**

Country	Units/\$ 1962	Units/\$ 1998	Ratio 1998/1962
Liberia	1.00	1.00	1.00
CFA Franc	246.85	566.42	2.29
Ethiopia	2.4845	6.99	2.81
Mauritius	4.758	24.43	5.13
Gambia	1.784	10.22	5.73
Botswana	0.7143	4.68	6.55
Kenya	7.143	59.9	8.39
LNS	0.7143	6.27	8.78
South Africa	0.7143	6.27	8.78
Zimbabwe	0.7143	27.75	38.85
Malawi	0.7143	39.63	55.48
Sierra Leone	7.143	1550	216.99
Sudan	0.348	182.6	524.71
Nigeria	0.7143	566.42	792.97
Tanzania	0.7143	657.7	920.76
Congo (DRC)	64	137500	2148.44
Zambia	0.7143	2002	2802.74
Ghana	0.7143	2322	3250.73
Somalia	0.7143	2620	3667.93
Uganda (a)	7.143	127700	17877.64

Note: (a) actual rate for Uganda 1998: 1277 New Shillings (NS)/US Dollar; 1NS = 100 old shillings.

Source: IMF, *International Financial Statistics*; *African Business*, October 1998.

121. Botswana has more freedom than Lesotho, Namibia and Swaziland, but has consistently chosen monetary and exchange rate policies which maintain a stable real exchange rate with the rand, as already noted above. Botswana already has, therefore, the right macroeconomic conditions, and an unblemished track record to give credibility, to attract manufacturing investment from South Africa, and has indeed been successful in doing so.

122. These arguments should not be taken to indicate that this paper is against the creation of a SADC free trade area. Although its potential is probably less than has been generally expected, a SADC free trade area would have some real benefits. However, public statements about it by the potential member governments have shown no awareness of the reasons for the failures of past regional trading arrangements in Africa, and therefore provide no indications of why this free trade area should succeed where others have failed.

123. It should be of real concern that without such awareness, a SADC free trade area will probably fail. It is likely that a SADC free trade area *will* be established, only to fail within a few years because of the absence of short term benefits for several of its members. Even if there are *some* short term benefits, which seems unlikely in present circumstances, the arrangement could still fail if South Africa is seen as gaining more than the other members. Such a failure would be extremely damaging, because it would probably postpone the successful establishment of such a free trading arrangement for many years into the future. It has taken 20 to 25 years for the East African countries to consider re-establishing the East African Community after its failure in the 1970s.

124. It could also be argued that this is a particularly bad time to attempt to establish a SADC free trade area, for political reasons. Any free trade area requires that the member countries have strong political reasons for wanting to establish it, and to sustain it. This requires at least a minimum degree of good political relations between member countries. Historically, SADC has had some political success. Heads of government have met and discussed regional issues on a regular basis, despite wide differences in ideological perspective. The SADC governments have also sometimes intervened to support democracy in member states. Unfortunately, SADC is currently split by the fighting in the Democratic Republic of Congo, with some members actively involved on the government side, others probably supporting one or other rebel faction, and others doing their best to end the conflict. Pressing ahead with the establishment of a free trade area in these circumstances adds considerably to the likelihood of failure. Both the East African Community and the Central African Federation failed for political reasons, as well as because of a belief that one member was benefiting disproportionately.

125. It would therefore seem to be in Botswana's interest to use what influence it has to get the SADC member countries, and in particular South Africa, to consider the reasons for the failure of previous regional free trading arrangements in Africa, and to propose ways of making a SADC free trade area more likely to succeed. Such proposals could include a collective SADC agreement on macroeconomic policy convergence, in order for non-SACU members to attract the investment which would make short term benefits possible.

(e) The United States Africa Growth and Opportunity Act

126. There are some unfortunate aspects of the "Africa Growth and Opportunity Act" currently being debated in the US Congress, and intended to govern future economic relations between the United States and Africa. The Act has implications for foreign investment from the US, and for export access to the US market under the Generalised System of Preferences (GSP), as well as for aid. It therefore has implications for Botswana, which is actively seeking foreign investment despite not requiring the financial inflows. One type of foreign investment that Botswana would like to attract, and has already attracted to some extent, is in manufacturing for export to non-regional markets, including the United States. It would have been less onerous if eligibility could be continuous, until evidence is brought that a country is in breach of the eligibility conditions.

127. The first point to make is that the Act was proposed *unilaterally* by the US Government, without apparently any consultation at all with African governments, or with such regional bodies as the OAU, the UN Economic Commission for Africa, and the African Development Bank.

128. Secondly, the Act would require that the US President certify each year that each African government satisfies a long list of requirements, in order to be eligible for the benefits offered by the Act. This list covers every conceivable development idea currently fashionable in the United States.

129. The eligibility requirements start by requiring the US President to determine "that the country does not engage in gross violations of internationally recognised human rights", so that human rights (including frequent emphasis on women's rights) are placed ahead of the other conditions.

130. The Act then includes a large number of further criteria, which a country must satisfy, or show progress towards achieving. Many of these are controversial, in that people can reasonably disagree as to whether they are effective development policies, or as to whether they are practicable. They include joint ventures between local and foreign companies, joint ventures between large and small businesses, the expansion of agriculture-based industrial production, decentralisation, privatisation, the liberalisation of agricultural markets, the lowering of tariff barriers, joining the World Trade Organisation, etc. Some of these requirements are very plainly more in the interest of American businesses than in the interest of African economies. Moreover, deciding whether African countries have met these criteria must be debatable, which in turn would expose African countries to the damaging uncertainty of arbitrary decisions on eligibility.

131. No country in the world could meet all the conditions at all times. It would always be possible to find some criterion not being met fully, however good the intentions and performance of the recipient country. As a consequence, eligibility under the Act could be ended at any time to suit American interests. There is no provision in the Act for African countries to argue their case if they are certified as ineligible; in other words, there are no procedures for appeal.

132. What this amounts to is that, even a country like Botswana, which happens to meet many of the eligibility criteria, could have its export preferences in the American market, or its eligibility for American investment, ended at any time. This could occur because of having incurred American displeasure over some issue quite irrelevant to trade and investment, such as some perceived abuse of human rights judged entirely by American observers who would probably be pursuing some protectionist interest.

133. Perhaps most dangerous of all is that annual certification under the Act requires that African countries must not do anything "that undermines United States national security or foreign policy interests". One can understand that recipients of American aid and trading preferences should not undermine American national security, but it is absurd that they should at all times not do anything that might be construed as being against American foreign policy interests.

134. What this appears to mean is that a speech by a Botswana Government Minister could be used by political interests in the United States, opposed to the "privileges" granted under the Act, to get the United States President to certify that Botswana is no longer eligible. Excluding a developing country from the General System of Preferences may in fact be illegal under WTO rules, but it would be difficult for a small country like Botswana to challenge the United States government on such an issue. Meanwhile, the United States could (for example) deny access to Botswana exports while such a case was being made, probably bankrupting the exporting company or companies during that process. The Act could therefore result in Botswana being worse off in terms of access to United States markets, or eligibility for United States investment, than it is at present.

135. Another condition in the Act, which reveals very clearly that it is in great part designed to benefit producers in United States rather than producers in Africa, is that textile exports to the United States from Africa must be manufactured using American cloth. This would be deeply impractical in Botswana, where clothing exports are mostly manufactured using cloth from South Africa or Zimbabwe.

136. Overall, the Act would seem to be part of an attempt to globalise United States commercial interests, rather than part of a form of globalisation which would provide genuinely useful help to African economies.

7. POLICY DESIGN AND ECONOMIC PERFORMANCE

137. The growth of the Botswana economy rests in the discovery and exploitation of minerals, particularly diamonds. But Botswana's superior performance rests on prudent fiscal and macroeconomic policies and a deliberate policy towards developing human resources Rodrik [1998]. Botswana did not engage in excessive spending which would have resulted in appreciation of real exchange rates and hurt both agriculture and non-mining industrial growth. Botswana's participation in SACU limited lobbying for protection and spared Botswana from some of the rent-seeking and inefficiency that characterised import substitution strategies elsewhere [Freeman and Lindauer, 1999].

138. The growth that Botswana experienced in the 1970s and 1980s with growth of GNP per capita averaging 8.4 percent per annum, was not sustained in the 1990s when it averaged 1.7% per annum. However, GDP growth has recovered to an average of 8% per annum in the last three years. A major question is whether this growth can be sustained, since much of it is based on a high rate of growth of government spending which is not sustainable. Either government will have to cut down on spending drastically, or spend substantially more than planned, which would set a bad precedent.

139. A second major question is whether globalisation has anything to do with the relatively lower growth rates experienced in the last decade. It seems unlikely. Unusually for Botswana, government spending grew too fast in the late 1980s. This caused a property boom, which was reversed in the early 1990s, when that was also a setback in the diamond market. Quite rightly, the Government gave priority to regaining control over its own spending, which contributed to the slowdown of GDP growth. This had nothing to do with globalisation. For example, the lowering of the SACU common external tariff has not affected industry in Botswana (at least, there is no available evidence of such an effect).

140. One of the central objectives of Botswana's economic policy is the diversification of the economy. It has been acknowledged for many years, in various official policy statements such as budget speeches and National Development Plans, that economic growth driven by diamond export revenues and government spending cannot continue indefinitely. The diamond mining industry employs relatively few people. Its main impact on the economy is generated by the spending by government of its share of diamond mining profits, and to a lesser extent by government lending, directly to parastatals and indirectly through the financing of financial parastatals.

141. Diamond output is currently in a major expansion phase, through the doubling of production at the second largest diamond mine (Orapa). This will increase annual output from approximately 17 million carats to 23 million carats. Thereafter, however, there is currently no expectation of significant increases in output. Some further economic growth can be expected from continuing increases in government spending, but that too must be limited eventually. Moreover, it is stated government policy to reduce the relative size of the public sector.

142. It can also be argued that an extended period of catching up on pre-independence neglect (of every sort of public service, but most notably education, health and transport) may be coming to an end. If correct, this would make acceptable a slower rate of growth of public spending in future. This will be necessary anyway, because future growth will provide less government revenue than provided by the diamond sector. On the contrary, the government will probably have to offer tax concessions as an investment incentive.

143. It seems clear, therefore, that future growth of the economy must depend increasingly on private sector investment. Economic diversification based on private sector investment is also essential for individual welfare and poverty alleviation, since rapid growth of employment is the most effective way of achieving these objectives.

144. Some private sector investment can be expected from domestic sources, but investment in production for export, whether of services or goods, must come mostly from foreign direct investment. Botswana needs the management and technical skills, and knowledge of export markets, if not the finance, that comes with foreign direct investment. Botswana also needs future sources of foreign exchange earnings, since the current high level of foreign exchange reserves can be expected to decline after the ending of diamond export growth.

8. GOVERNMENT POLICY AND FOREIGN INVESTMENT

(a) Background: FDI inflows to Africa

145. 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].

146. Africa's share of these flows has indeed 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.

147. 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 extremely badly. 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 summarised in Table 13.

Table 13. 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 countries	71.5	12.4	518.3
World	100	15.8	108.9
<i>Memo item: Botswana</i>	<i>0.03</i>	<i>7.1</i>	<i>26.7</i>

Note: figure for Botswana includes imputed counterpart to deferred interest, see Chapter 2(b) above.

Source: United Nations (1999) *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development* (New York: United Nations): Tables 1.2, 1.3, Annex table B1.

(b) Background: FDI inflows to Botswana

148. Historically, inflows of Foreign Direct Investment into the mining sector played a huge role in the development of the Botswana economy, as described in earlier sections. Much of the post-independence investment in the non-mining private sector (with the exception of the important cattle sector) was also financed from abroad. In particular, investment in the manufacturing sector was mostly foreign. Initially, most of this foreign investment was from other countries in the region, notably South Africa and Zimbabwe; it was also relatively small-scale.

149. More recently, there has been some investment in manufacturing for export to the rest of the world, mostly to the European Union and the United States. This investment has been mainly in the manufacture of textiles and clothing by investors from the Far East, because of quota restraints on exports from the host countries. It is unlikely that this production would be able to compete internationally without the global restrictions on trade in these items.

(c) Botswana's continuing need for Foreign Direct Investment

150. Botswana is in the unusual position, compared with other countries in Africa, of not needing the finance associated with inflows of FDI. There is not, therefore, a financial constraint on private sector investment, *at the macroeconomic level*. There may, of course, be failures to match viable investment projects with available domestic finance, *within* the domestic economy; this problem has been addressed extensively by the Botswana Government, with varying success [Siwawa-Ndai, 1997; Mpabang, 1997; Peat, 1997]. Nevertheless, the Botswana economy remains in need of foreign direct investment. Botswana does need the management, technology, and knowledge of export markets incorporated in foreign direct investment.

151. The Government has invested heavily in public sector infrastructure, but has found it difficult to convert its financial surpluses into domestic investment in the private sector. The record of public sector financial institutions has been mixed. For example, the Botswana Cooperative Bank had to be liquidated, and the National Development Bank required major financial restructuring. The Botswana Development Corporation has remained profitable, although profits have fallen in recent years.

152. The difficulty of converting public sector surpluses into private sector investment has become less important. The private sector also has a surplus of savings. The commercial banks, which have the largest share of domestic financial resources after the Government, have for many years been extremely liquid. Pension funds and insurance companies invest the maximum allowable 70% of their total assets abroad, in large part because of the relative scarcity of domestic financial investment opportunities. Companies issuing shares on the Botswana Stock Exchange have had their share issues substantially oversubscribed, and the first three bond issues (two by parastatals, and one private sector issue) have also been successful.

(d) Botswana's advantages as a location for foreign investment

153. The Botswana Government offers two main financial incentives to investors, both foreign and domestic. Firstly, direct tax rates are low. The corporate tax rate is 25% (compared with a range of 35% to 40% in Lesotho, Namibia and Swaziland for example). The corporate tax rate for manufacturers is only 15%. [BIDPA, 1999b].

154. Secondly, the Financial Assistance Policy (FAP) provides wage subsidies of 80% in the first two years, and 60%, 40% and 20% in the following three years respectively, has a capital grant of P1000 per job created, and provides generous training grants. Although there have been some firms which left Botswana when these subsidies ended, or even before that, FAP has had some success in attracting foreign investment which remains after the end of the subsidy period. These FAP subsidies are available to both domestic and foreign investors. Small-scale FAP, which provides a one-off grant based on the number of jobs to be created, and applies to businesses with a maximum capital investment of P75,000, is only available to locally-owned businesses.

155. Botswana has other advantages as an investment location, at least in comparison with other countries in the region:

- The country has a stable political environment, with democratic elections every five years which have always been regarded as free and fair.
- The country has an exceptionally stable macroeconomic policy environment, backed by the financial surpluses which make a financial crisis virtually impossible.
- Exchange rate policy (see above) has been consistent in 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.

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- 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 with the ANC government. Trades unions in Botswana are relatively weak, and strikes are very rare.
 - 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.
 - 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, as described below under investment disadvantages.
 - The Botswana Government has the financial resources to provide a relatively high level of education, to all of the school-age population.

156. Education is of great importance, as it is the most fundamental way in which the Botswana Government can use its financial surpluses to create a lasting advantage in attracting investment. Access to primary and junior secondary schooling is universal, providing a relatively abundant supply of trainable labour. There is considerable evidence that the higher level of education, the greater the potential for export of manufactured goods and services [Wood and Mayer, 1998].

157. Botswana is in the position of being able to spend heavily on education, and to be able to sustain that spending. There are limits to the rate at which spending on education can be increased, for example as set by the speed at which new educational institutions can be created and made effective, and by the availability of teachers. It can be argued that the Government has pushed against those limits for many years.

158. Recurrent spending on education was more than 25% of total recurrent spending at the beginning of the current Plan period, and the Plan estimates showed it as maintaining that proportion, with the highest average annual growth rate (6.1%) of all ministries apart from the Ministry of Health (which started with a recurrent budget one quarter as large as that of the Ministry of Education). Reflecting the same priority, the annual average growth rate of manpower establishment for the Ministry of Education was above the average for the government as a whole. Development expenditure during the Plan period for education was estimated at 16% of the total. The statistics demonstrate very clearly the Government's determination to give education continuing priority.

159. Overall, educational policy should, among other objectives, increase the supply of trainable school leavers as fast as is practical, which is one of the most effective policies available to the Government for increasing the potential for non-traditional export production.

160. The Government has also set up institutions to attract foreign investment. It set up the Trade and Industry Promotion Agency (TIPA), which was part of the Ministry of Commerce and Industry. This was relatively unsuccessful, so the Government closed TIPA and replaced it with the Botswana Export Development and Investment Authority (BEDIA) in 1998. BEDIA is an independent parastatal with five board members from the private sector, and only two from government. BEDIA has had some success in bringing business delegations to Botswana, with a focus on India, Mauritius and South Africa. In the year since it started operations (at the beginning of 1999), five companies from Mauritius and two from India "have confirmed they are definitely setting up manufacturing operations in Botswana" [Marung, December 1999: 33]. It is reported that most of the firms which have expressed a commitment to investment in Botswana do not regard tax incentives and government subsidies as deciding factors, but have chosen Botswana because of the general investment climate [ibid].

(e) Botswana's disadvantages as a location for foreign investment

161. Two important constraints on investment in Botswana 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. This point has been made many times, but the problem remains.

162. 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 yields nothing so long as plots remain unused.

163. The building of factory shells ahead of demand has been rather more successful, but there have been years in which shells have not been available because of past caution on the part of the Botswana Development Corporation (BDC). In particular, BDC stopped building factory shells after the end of the property boom in the early 1990s, so that there was a shortage of factory shells when more rapid growth resumed in the second half of the decade. Since it was established in 1998, BEDIA has also been authorised to build factory shells ahead of demand, but has not yet done so.

164. 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.

165. Regarding the cost of utilities, it is probable that water will always be expensive in Botswana, and indeed it should be to reflect its scarcity. A high price for water is necessary in order to discourage water-intensive production, and to encourage production processes which use relatively little water. Regarding the cost of electricity, the real cost has been reduced in the 1990s, mainly as a result of the decision of the Botswana Government to allow a higher proportion of electricity imports in meeting domestic demand. The price index for "fuel and power" rose by 32.8% between 1991 and the end of 1998, compared with a rise in the all items consumer price index of 102.6%.

166. Regarding the cost of international transport, it is reported that African rail transport costs are double those in Asia. Air transport is four times as expensive as in East Asia. As a result, freight and insurance is 15% of export earnings in Africa, two and a half times higher than the average for developing countries [Collier and Gunning, 1999, cited in Wolf 1999]. However, the majority of Botswana's manufactured exports go to neighbouring countries, mainly South Africa, where the markets are quite close and there are good transport links.

167. In a survey of 172 firms in four SADC countries (Namibia, South Africa, Zambia and Zimbabwe), border delays were mentioned by only two countries (Namibia and Zimbabwe) among the seven most important factors affecting business adversely, although one of the sampled countries ranked bureaucracy as an important constraint. Interest rates and inflation were ranked in the same survey among the three most important constraints by all four countries [Marx and Peter-Berries, 1997]. Fortunately, Botswana has managed to maintain relatively low inflation, and interest rates which are stable and positive at low levels.

(f) Constraints on foreign and domestic investment already addressed

168. Some other constraints on private sector investment have been addressed. Much of the credit for this progress can be attributed to a series of biannual National Business Conferences bringing together the Government and the private sector, the first of which was in 1988. By the time of the 1998 Conference, it was possible to list a number of conference recommendations on policy and institutional reforms which had been implemented: the establishment of the Botswana National Productivity Centre, the High Level Consultative Council (at which senior representatives of government and the private sector discuss economic policy issues), the Botswana Bureau of Standards, and BEDIA; reductions in the top rates of corporate and personal income tax; the establishment of the Privatisation Task Force; reform of the Local Preference Scheme; and the publication of the Long -Term Vision for Botswana (Vision 2016) [BOCCIM, 1998].

169. "The good relations that prevailed between the government and private sector representatives [at the 1998 Conference] are partly due to this record, which has dealt with some of the more serious policy deficiencies identified in the past. It also reflects a change of attitudes, with more mutual respect, between participants" [BIDPA, 1998a: 4].

170. However, it was also argued that better relations between the private sector and the government concerned mainly larger scale businesses, while relations between government, on the one hand, and small and medium scale businesses on the other hand, are less good. In addition, while past recommendations of Business Conferences related to changes in policy, which are relatively easy to monitor and report back on, the resolutions of the 1998 Conference related more to the implementation of policies and to changes in attitudes, together with greater action by the private sector itself. These resolutions will be more difficult to implement, and more difficult to monitor. In particular, it is not clear who will be held accountable for the implementation of resolutions relating to the private sector, such as for example extending performance-based remuneration and other innovative methods of paying employees [ibid; BOCCIM, 1998].

171. The Government did respond faster to the report of the SMME Task Force. A new policy was introduced during 1998. Its main components were: a new institutional framework (Small Business Act, Small Business Council, and Small Business Promotion Agency); a micro-credit scheme, and a scheme to guarantee credit from the commercial banks; reform of legislation and regulations; improved education and training for business, in schools and in post-school institutions. However, the Government did not go as far as recommended by the Task Force. For example, it was recommended that the Government should no longer provide training directly, but contract it out to NGOs and the private sector, because of the Government's poor record in providing such training itself. A similar opportunity was missed in insisting that the Government would itself provide the new Business Assistance Centres recommended by the Task Force. The Government also rejected most of the recommendations that would have reduced the burden of regulations on SMMEs, and a relaxation of the policy that reserves certain businesses to citizens. This relaxation would have allowed more capital and expertise into the sector, and encouraged its development by making it easier for entrepreneurs to sell their successful businesses [BIDPA, 1998b; Ministry of Commerce and Industry, 1998; Ministry of Commerce and Industry, 1999b].

172. One particular recommendation of the Conference in 1998 was that a further conference on citizen economic empowerment should be held. It was clear that representatives of locally-owned businesses, mainly small and medium scale, felt that government policy was not sufficiently supportive, and that attitudes to local business people were negative. This may have been because SME's were underrepresented at previous National Business Conferences.

173. A National Conference on Citizen and Economic Empowerment was held in July 1999. It was clear from the Conference that much has been achieved in the provision of education and training to empower individual Batswana. There remains a strong feeling that Botswana relies too heavily on expatriate personnel, and that not enough is being done to enable locally-owned businesses to compete successfully with, or to be protected against,

foreign-owned businesses, so that foreign-owned businesses are excessively dominant. Resolutions of the Conference have not yet been considered by the Botswana Government, as the report of the Conference is forthcoming [Ministry of Finance and Development Planning, forthcoming 2000].

(g) Conclusions on the investment climate

174. Overall, Botswana has achieved much in creating a conducive climate for investment, both domestic and foreign. Much remains to be done in reducing bureaucratic and administrative constraints on investment. In addition, the Botswana Government may have lost some credibility in not implementing, or taking a long time to implement, policies which have been announced. This was true of the abolition of exchange controls, with successive liberalisations merely serving to remind investors of their continued existence, although they were at last abolished in early 1999.

175. It also seems probable that the current evaluation of the Financial Assistance Policy (FAP) will find that it has outlived its usefulness. The structure of Botswana's economy has changed, so that FAP's emphasis on subsidising the employment of unskilled labour, and on manufacturing, is no longer appropriate. The structure of the global economy has also changed, with greater possibilities in the export of services compared to manufactured goods than at the time when FAP was introduced (1982). And the length of time for which FAP has existed has enabled an increasing number of applicants to find ways to get round the regulations, both legally and illegally. It will be essential that the Government act more quickly on the recommendations of this evaluation, than it has done on those of previous major policy evaluations (including those mentioned above).

9. THE IMPACT OF GLOBALISATION ON LABOUR PRODUCTIVITY, POVERTY, WOMEN, INCOME INEQUALITY, AND EMPLOYMENT

(a) Growth

176. The story of Botswana's economic growth is by now well-known and has been told several times. The success story rests in the discovery and exploitation of minerals, particularly diamonds. There is, however, much more to the country's development than the availability of this natural resource. As Rodrik [1998] rightly points out, Botswana's superior performance rests on prudent fiscal and macroeconomic policies and a deliberate policy towards developing human resources. A powerful lesson to be learnt is that natural resources do not by themselves lead to good economic performance. Their management and good economic policies do matter. While heavily dependent on mineral revenue, Botswana did not engage in excessive spending which would have resulted in the appreciation of real exchange rates and hurt both agriculture and non-mining industrial growth. Botswana's participation in SACU limited lobbying for favours in the trade arena

and spared Botswana from some of the rent-seeking and inefficiency that characterised import substitution strategies elsewhere in the region [Freeman and Lindauer, 1999].

177. The growth that Botswana experienced during the 1970s and 1980s with growth of GNP per capita averaging 8.4 percent per annum could not, however, be sustained in the 1990s. GNP per capita experienced slower growth during the early 1990s, averaging 1.7% per annum, which was partly due to earlier excessive growth in government spending and a decline in the productivity of public expenditures. However, in the three most recent years, GDP has been growing at an average of 8 percent per annum (which is quite high by African standards). A major question is whether this growth can be sustainable, since much of it is based on a high rate of growth of government spending. To be sustainable, this means that government will have to cut down on spending drastically, or spend substantially more than planned, which would set a bad precedent.

178. A second major question is whether globalisation has anything to do with the relatively lower growth rates experienced in the last decade. This begs the question of whether greater openness to trade and foreign capital are the key to economic growth. Or is the opposite true, that is, globalisation leading to diminished prospects for further growth? Theoretically, openness has the potential to increase investment, improve resource allocation and facilitate the transmission of new ideas and technology, but some empirical evidence shows that a large part of the variance in cross-country growth rates is not explained by openness but largely by domestic markets and policies [Freeman and Lindauer, 1999]. The Botswana case is again unique with respect to openness in that Botswana has always maintained an open trade policy within SACU as noted above. The most important impact, it could be argued, came through globalisation associated with ideas and not commodity trade. A more reasonable explanation of the slow growth of the economy seems to be that the economy has reached the limit of the benefits from continued increase in the sale of its major commodity. In other words, the diamond market seems to have reached its peak. Part of the explanation of that peak lies with the sluggish growth of the economies where the diamond commodity is sold due in part to the Asian crisis in 1997.

179. There is another part of the globalisation process, which has and does continue to contribute positively to the growth of the economy. A major feature of globalisation has to do with the shrinking of space, time and borders, all of these of being driven mainly by newer technologies. The linkages via Internet, cell phone, computers and other new technologies no doubt brought faster and more efficient communication between economic agents. These new tools are bringing new markets, new deals, new actors and new rules. Even though one cannot easily quantify the benefits of this process in Botswana, there is no doubt that the benefits are there. One of the sectors that should have benefited from this technological revolution is the tourist industry. Tourism involves a lot of interrelated services involving tourist travel, hotels, and so on which can be more easily coordinated by the availability of these newer technologies. This is quite different from for example exports of manufactured goods, which can be done as a single consignment, and arranged by a single phone call or other means of communication. Other sectors could also have benefited from this aspect of globalisation, especially from the cell phone and the Internet. People are now able to make business deals while doing other things away from their work place or between long distances.

(b) *Labour productivity and wages.*

180. Increasing labour productivity and reducing unit labour costs are some of the key issues for competitiveness in the global economy. Theoretically, countries that have improved labour productivity and reduced real wages are more likely to reap the best of the benefits of new opportunities from globalisation, mainly through competitive prices for their commodities and through foreign investment attracted by high productivity and low wages for labour. Using a crude measure of productivity (GDP at constant prices divided by employment) Mandlebe [1997] finds labour productivity to have grown by 1.4% per annum between 1974 and 1994. Most of that productivity growth is due to mining, reflecting the capital-intensive nature of the sector. A number of key sectors, namely, manufacturing, construction, finance and services had negative annual productivity growth rates during the period [ibid]. Some of these sectors are the key ones in the government's effort to diversify the economy away from diamonds. However, some of the fall in *average* productivity could have occurred because of the entry of new firms employing large amounts of unskilled labour with relatively low productivity. For example, this is the case of the textile and clothing export companies which employ large numbers of previously unskilled labour (mostly women) at relatively low wages and productivity.

181. Between 1974 and 1994 real wages were falling for most of the sectors of the economy, by 0.3% per annum on aggregate during this period. The biggest fall was experienced in manufacturing (about 5%) (Mandlebe, 1997). Part of what explains the fall in real wages over time was that government wage policy kept wage increases deliberately at levels below inflation rates. Until 1991, the government set wages through such tripartite bodies as NEMIC and various salaries review commissions. With the establishment of the process of collective bargaining, especially with weak, we are likely to experience a further decline in real wages, and therefore gain in competitiveness in the region.

182. Looking at productivity and wages separately might not reveal much in terms of overall competitiveness of the economy. Declining wages may be accompanied by a bigger fall in productivity implying a loss in total competitiveness on the whole. One other way of looking at the issue of competitiveness is through the trend of the unit labour costs, defined as average real wages divided by average productivity of labour. Using this measure Mandlebe (1997) shows that on average, total unit labour costs declined by 1.4 per annum between 1974/75 and 1993/94. Trends in the movement of unit labour costs for trade and manufacturing sectors were also declining over the same period. What this evidence shows is that Botswana was not losing its competitiveness against other competing countries during the period. The exchange rate also reinforced the need to maintain competitiveness as was revealed by a number of devaluation of the local currency during the 1980s and 1990s.

183. Evidence on productivity has shown that it is declining in some of the key sectors, especially those essential to government's effort to diversify the economy away from diamonds, namely, manufacturing, services and trade. Even though productivity measure might have weaknesses, the figures are indicative of a major problem. One response of the government was to create the Botswana National Productivity Centre (BNPC) which is working to address productivity through seminars and other means. Government has also introduced Work Improvement Teams (WITS) in the civil service, whose main aim is to make workers aware of the need to be efficient, effective and generally to improve the quality of service.

184. Government has recently adopted a privatization policy (see above), which was partly driven by the need to address productivity issues. It is believed that globalisation will lead to higher labour productivity either through the privatisation process or through the actions of all the actors in the economy as they strive to benefit from new opportunities.

(c) *Poverty*

185. It is frequently alleged that liberal economic policies cause the benefits of growth to accrue to relatively few individuals who are able to take up the new opportunities. In most countries where economic liberalisation was put into practice, tendency for poverty to increase and income distribution to worsen has indeed been noticed. One of the major reasons why this happens is that the policies are adopted in an economic environment that already has a lot of price distortion through subsidies and other market interventions. Removing food subsidies, for instance, means that a number of people end up being unable to purchase basic necessities.

186. Statistics on poverty in Botswana are quite limited. Those that exist are not very suitable for making a good comparison of changes in poverty over time, because of differences in methodologies adopted and in economic circumstances. The main studies are, the 1974/75 Rural Income Distribution Survey (RIDS), a calculation of the Poverty Datum Line for 1989 using the 1985/86 Household Income and Expenditure Survey (HIES), and lately a BIPDA study using the 1985/86 and 1993/94 HIES data [BIDPA, 1997]. The 1997 BIDPA study is the most comprehensive in that it uses comparable data and methodology for similar periods. It is, therefore, more reliable for making inferences about changes in poverty over time.

187. The BIDPA study shows that the proportion of Botswana living in income poverty fell sharply between 1985/86 and 1993/94. The proportion of poor and very poor persons declined from 59% to 47%, while the proportion of poor households fell from 49% to 38%. Greater poverty reduction was experienced in the urban centres than in the urban villages and rural areas, because of greater formal sector growth in the urban centres than in the other areas. The lowest poverty reduction during the period was experienced by those living in female-headed households. The most important causes of poverty identified are

insufficient formal-sector jobs, low wages for those employed, and lack of alternative income-generating options to supplement wage incomes of those employed. According to Jefferis (1997), a major cause of poverty is structural in the sense that unlike other countries in the region, agriculture does not have the potential to provide adequate incomes to a majority of the population. This is because of the highly adverse climatic conditions in the country. Even though poverty has been falling in general, it is disappointing that such large numbers of people and households in Botswana are still considered poor or very poor, especially when this picture is considered in relation to good economic performance. One needs to note, however, that there are some non-quantifiable benefits in the form of infrastructure developments (for instance, good roads and telecommunications), provision of housing plots, and the universal provision of education and health services, which are not included in the measurement of income poverty.

188. At least poverty has been decreasing over time. This story is corroborated by some of the social indicators shown in Table 14 below. Both primary and secondary education enrolment as a percentage of the relevant age groups have been increasing, rising from 7 percent to 57 percent for secondary and 65 percent to 115 percent for primary education between 1970 and 1995. Adult literacy rates have doubled during the period. A large increase in investment in education has allowed Botswana to enjoy a large supply of trainable labour, which could be an added advantage in attracting foreign investment.

189. On the health aspect, the country has gained from its investment as shown by the improvement in life expectancy at birth, which had increased to 68 by 1995. Infant mortality rates and total fertility rates were also falling as Table 16 shows. But these gains have recently been lost due to AIDS/HIV. For example, the 1999 Human Development Report shows life expectancy to have fallen to 51.7 in 1998 and 47.4 in 1999, which resulted in the country dropping in terms of its HDI rank by about 8 places. This loss in life expectancy is mainly due to HIV/AIDS. Despite the gains from adult literacy and income, the combined depressing effect of the refined methodology on dealing with income and fall in life expectancy saw the country falling by a total of 26 places to position 122 from position 96 in 1998 (UNDP, 1999:166).

190. What has been and is likely to be the impact of globalisation on the extent of poverty in Botswana? As noted earlier, Botswana's globalisation does not have the characteristics of most countries in the region, notably that, the country has not been subjected to IMF/World Bank structural adjustment policies. In countries where liberalization/ globalisation are associated with structural adjustment programmes, poverty may increase because of increases in unemployment from downsizing the civil service, retrenchments from uncompetitive firms closing down, increases in food prices due to removal of food subsidies, devaluation of the local currency, and lastly through inflation mainly due to devaluation. Most of these issues are of less concern to Botswana. Very few firms are closing due to foreign competition and globalisation in general. As mentioned earlier,

Botswana has recently adopted a privatization policy. As is usually the case, privatization will lead to loss of jobs, which will generally lead to an increase in poverty in the short run. This is especially true given that the other sectors of the economy are presently unable to absorb all the labour. The present poverty situation in Botswana has little to do with globalisation, except, perhaps to the extent that Botswana's participation in trade and its trade liberalization policies have produced benefits that left some major sections of the society untouched by that progress. Further liberalization of trade, capital flows and finance, while leading to more growth, will also lead to increases in income poverty, unless government comes up with good safety net policies to circumvent the negative effects of globalisation.

Table 14: Changes in some HDI indicators, 1970-1995.

Indicator/Year	1970	1995	SSA 1995
Secondary School Enrolment Rate	7%	57%	25%
Primary School Enrolment Rate	65%	115%	73%
Infant Mortality Rate	95	56	92
Life Expectancy at Birth	50	68	52
Total fertility Rate	6.9	4.4	5.7
Adult Literacy Rate	35%	70%	57%

Source: Freeman and Lindauer, 1999: 31

(d) *Income distribution*

191. A general belief among economists, especially in the 1960s, was that rapid economic development requires an initial worsening of income distribution, despite economies have been able to grow fast while their growth was equitably distributed. But the general trend is that countries pursuing a market-oriented strategy tend to have a more skewed income distribution. Botswana is no exception in this respect.

192. Income distribution can be examined from two angles: the functional distribution of income and the personal distribution of income. The first looks at the distribution of income between the various factors of production, while the second looks at distribution of income between individual members of society.

193. Table 15 shows the distribution of income between factors of production. Labour is divided between skilled and unskilled labour. Between 1985 and 1993 there was an increase in the share going to skilled labour, while the share going to capital declined. The share going to unskilled labour remained almost the same. Increase in the share going to skilled labour could be explained by the fact that while the country was experiencing rapid economic growth, it had a shortage of skilled manpower, especially in the early period of independence. Botswana inherited a very low human capital base from the colonial

government and therefore had a deliberate policy of attracting expatriates, which required payment of high salaries. A second explanation is that salaries, especially those of skilled labour, ceased to be regulated in 1991 following the Revised Incomes Policy. The outcome of this exercise was an increase in the share of earnings going to skilled labour, especially in the government services.

194. A second frequently used measure of distribution is the personal distribution. The earliest source of information on this aspect was a 1974/75 Rural Income Distribution Survey (RIDS). This was followed by two Household Income and Expenditure Surveys, one in 1985/86 and the last one in 1993/94.

**Table 15: Shares of Factor Payments, 1985/86 and 1992/93
(percentages)**

	1985/86	1992/93
Capital	42.7	38.1
Skilled Labour	36.5	41.7
Unskilled Labour	20.8	20.3

Source: Leith in Salkin *et. al.* (1997).

195. Table 16 shows a comparison of the personal distribution of income for points in time. Data in the Table show that income inequality improved marginally between 1975 and 1986 with the Gini-coefficient falling slightly from 0.52 to 0.48. There was also a slight improvement in income distribution between 1986 and 1994 with the Gini-coefficient falling slightly to 0.556 from 0.537. Unfortunately, analysis of the income distribution trend using data from RIDS and HIES 1985/86 studies is limited by the fact that these studies were undertaken in two completely different periods. The RIDS was done in a year of exceptional rainfall, while HIES 1985/86 was done when the country was in the middle of a drought period [Valentine, 1993].

196. Harvey and Lewis [1990] argue that too much should not be made of these statistical results due to the differences in methodology of the two surveys. They further argue that "not enough detail was available from the 1986 survey to know how much of the changes could be attributed to the different weather conditions in the two years or to government drought relief policy" [Harvey and Lewis, 1990: 280-281]. Moreover, The RIDS study included a wider range of subsistence income sources than the two HIES studies and the structure of the economy had also changed as the economy was basically more rural in 1974/75 than in later periods.

197. As measured by Gini coefficients, it is clear that income inequality decreased only marginally between 1985 and 1994. An acceptable comparison can be made between the two household surveys because they do not differ much in terms of the methodology used and the survey period. What is disappointing is that the change in income distribution is quite marginal despite government-announced intention and concern with equity issues (but the percentage of households and individuals in poverty did fall significantly, as noted above).

198. Cash is more unevenly distributed than total income. Income in kind is more important in rural areas than in urban areas. This explains why the distribution of income changes very significantly once "income in kind" is included for the rural households. Cash earnings make up 81% of gross income for the urban areas, 34% for the rural areas, and 58% of gross income nationally [Botswana Government, 1995].

**Table 16: Personal distribution of income- 1974/75- 1993/94
(Gini-coefficients)**

Region	Disposable Income ^(a)			Cash Income		
	1974/75	1985/86	1993/94	1974/75	1985/86	1993/94
Urban	_____	0.536	0.539	_____	0.563	0.548
Rural	0.52	0.477	0.414	_____	0.674	0.599
National	_____	0.556	0.537	_____	0.703	0.638

Note: (a) Disposable income is cash income plus income in kind

Source: RIDS, HIES 85 and HIES 94

199. From the evidence presented so far it can be argued that the Botswana government's market-oriented policies have been successful in bringing about rapid growth in the economy. What is obvious, however, is that the distributional effects of the policies were only marginally favourable. At least income inequalities have not been widening, even though they are quite high. BIDPA (1997) shows that Botswana's income distribution is among the most skewed of the 24 countries considered in the study, with the lowest 40 per cent receiving only 10 per cent of the income. Some of the main conclusions of that the study are that the country has an unfavourable natural resource base for arable agriculture, which contributes only 5 percent to GDP. Secondly, the country's manufacturing sector has not yet grown to a size that can offer a large-scale source of employment and higher incomes [BIDPA, 1997: 86-7].

200. What is the impact of globalisation on the overall picture of income inequality? Not much direct inequality in income distribution is due to liberalization and globalization. As Hudson and Wright rightly argue, "the various factors that combine to produce the observed income distribution are highly complex" (Hudson and Wright, 1997: 464). One of the main causal factors they mention is the unfavourable climatic conditions particularly the frequent drought. Although it is difficult to isolate the effect of liberalization on income

distribution,

liberalization has no doubt contributed to income inequality in Botswana, even though in an indirect way. The emphasis on a strategy of free enterprise meant that those who had the means to participate meaningfully did benefit quite substantially, while a good number were left out. Liberalisation of trade, finance and capital flows did extend the benefits to those who were able to participate, while these policies further marginalized those who were already worse off. To that extent, globalisation in Botswana can be said to have had some influence on income distribution. Unless the government designs good policies to deal with the side effects of globalisation, it is likely to lead to increases in income inequalities in Botswana. Globalization is facilitated by unequal opportunities for citizens (some are ready to take up the opportunities, while some have no idea about what is going on) as well as the flexibility introduced by the new incomes and labour market policies, especially given the very weak trade unions (see below).

(e) *Employment*

201. One of the major impacts of economic growth was a rapid employment expansion during the 1970s and 1980s. In the 1990s a slowdown resulted from a combination of a slump in the construction industry, drought, and reduced government-sector growth. Agriculture and small and medium enterprises (SMMEs) failed to absorb labour force growth. Consequently, unemployment went up from an estimated 14% of the labour force in 1991 to about 21% in 1997. These figures contrast sharply with the earlier period between 1985 and 1989 during which formal-sector employment grew by 50% (from 117,1000 to 176,300) or 12.4% per annum over the four years [MFDP, NDP 7: 1991: 42]. The leading employment growth sectors were construction (106%), manufacturing (79%), finance (71%) and agriculture (65%). Between 1991 and 1997 (NDP 7 period) the GDP average growth of 4.8% was matched by a modest 1.1% growth in formal-sector employment [MFDP, NDP 8: xxi].

202. Between 1991 and 1994 annual percentage growth in employment was negative in most sectors. These included those that contribute higher shares to employment like manufacturing and construction. In 1995, however, most sectors began to grow fast. Growth in the non-mining sectors was for instance estimated at about 8% in the year to June 1998 [BIDPA, 1999]. During the initial period of economic recovery, employment growth was very low and the strongest increase came from the government sector. This might be a result of firms having hoarded their labour during the downturn, and using their labour more intensively in the recovery period instead of hiring new workers. Since March 1997 employment growth has been on the increase, growing at 3.4 percent between March 1996 and March 1997 and 5.5 percent between March 1997 and March 1998 [Botswana Government, 1999b].

203. Over the years, the share of agriculture in both output and employment has been falling. Table 17 below shows the share of agriculture in employment was falling from 4.2% in 1982 to 1.9% in March 1997. The mining sector has the largest share of output currently (about 36% of nominal GDP), but its contribution to employment has been falling from a share of 7% in 1982 to about 3.5% currently. Manufacturing, Commerce, and Finance and Business increased their shares of employment between the years 1982 and 1997. The share of government in employment remained almost the same. Government generally provides for about 37% of total employment. The private sector share of employment is the largest, 57.2%, and that of parastatals, the lowest at about 5.7% [Botswana Government, 1999c].

204. Table 18 shows the growth of formal sector employment in Botswana, including employment of Botswana in South Africa over the years. Employment of Botswana in the South African mines has been declining in the 1990s, from 8.3 percent of total employment in 1990 to 5 percent in 1998. This decline was largely due to the growth in domestic employment and the new South Africa government policy of curtailing migrant labour from the region in favour of South African citizens. The 1999 Annual Economic Report anticipates that the downward trend will continue [Government of Botswana, 1999a].

Table 17: Share of Formal Employment by Industry- 1982-1997
(percentage shares)

Sector	1982	1993	1994	1995	1996	1997
Agriculture	4.2	2.7	2.3	1.9	1.9	1.9
Mining	7.0	3.3	3.4	3.7	3.6	3.5
Manufacturing	7.2	11.2	9.4	10.0	10.0	10.1
Electricity & Water	2.2	1.1	1.1	1.1	1.1	1.2
Construction	13.6	14.9	11.5	9.6	9.6	9.7
Commerce	16.6	18.0	19.8	19.0	19.5	19.4
Transport & communications	3.7	4.5	3.9	3.9	3.8	3.8
Finance & Business	5.7	7.7	7.6	7.6	7.5	7.5
Commerce & Personal Services	3.9	3.7	4.2	4.4	4.2	4.2
Education	1.6	1.1	1.3	1.6	1.7	1.6
Government	34.4	31.7	35.3	36.8	36.9	37.0

Source: CSO, Statistical Bulletin, December, 1998

Table 18: Formal Sector Employment by sector (selected years)

Economic sector/year	1990	1993	1996	1998
Central Government	51 700	65 800	70 100	81 800
Local Government	11 300	14 900	16 200	18 200
Parastatals	11 300	13 700	13 700	13 600
Private	124 200	131 800	134 100	135 900
Total (all sectors)	198 500	226 200	234 100	239 500
Employment in S.Africa	16 432	12 755	12 831	11 817
Employment in S.A as a % of total	8.3	5.6	5.5	5.0

Source: Botswana Government, Annual Economic Report, 1999

205. As mentioned earlier, employment growth was quite low in the first part of the 1990s and started picking up quite recently. The increase in unemployment from the supply side can be attributed to the entry into the labour market of young school leavers with junior secondary school education. At the same time, as Table 18 indicates, the decline in employment of Botswana in South African mines also aggravated the unemployment problem inside the country. The BIDPA study identifies maldistribution of jobs as a major factor leading to unemployment. It reveals that most jobs are concentrated in the urban areas, which leads to high rates of rural-urban migration [BIDPA, 1997]. Given that the economy is not capable of absorbing the increase in labour supply, the result is increasing urban unemployment. Unlike other African countries, in Botswana the agricultural sector, except for cattle owners, is not a viable option for those who cannot find employment. This is mainly due to the unreliable rainfall and poor soils of the vast part of the country. This, therefore, makes employment creation even more important in Botswana than elsewhere in Africa, where subsistence agriculture is a viable (if low -income) option for survival.

206. The labour force was growing at 3.4 per cent per annum, between 1991 and 1996, while the growth rate of formal-sector employment was lower, at 1 per cent per annum. As a result of this mismatch between supply and demand, unemployment rose in the first half of the 1990s. The 1991 Census reported an unemployment rate of 13.9 per cent. This increased to 21.6 per cent in 1994, where it remained almost stable at 21.5 percent in 1996 [Botswana Government, 1997, 1998]. The 1995/96 Labour Force Survey shows that 182,703 of the total labour force or 34.6 percent were unemployed. Of these unemployed persons, 88,175 or 48 percent were discouraged job seekers. Disregarding those who were not actively looking for a job is what gives an unemployment rate of 21.5 percent. The most affected age groups are the 15-19 and the 20-24, who recorded unemployment rates of 35 per cent and 39 per cent respectively. When discouraged job seekers are included, the estimates are 58 and 50 percent respectively [Botswana Government, 1998]. The youth, that is, those aged between 12 and 34 years of age were reported to be the major proportion of the unemployed, accounting for 69 per cent of the unemployed in 1995/96. The survey

also reveals that 55 per cent of the unemployed were in the rural areas. Among those who were actively seeking employment, 59 per cent of them were in the urban areas, whereas, among the discouraged, 71 per cent were found in the rural areas. What this indicates is that most of those who are unsuccessful in their job search go back to the rural areas, perhaps to engage in agricultural activities.

207. There is also significant underemployment. The 1995/96 Labour Force survey shows that a significant number of those who were employed during the survey period were classified as having been underemployed. Underemployment was defined in the survey as persons who worked for fewer than 35 hours in the reference survey week for an economic reason and who said they were available for more work [Botswana Government 1998b]. The total number of those who were underemployed stood at 28,789 or 8.3 percent of those employed. Amongst these, approximately 60 per cent were female workers. Underemployment was found to be more prevalent among persons in rural areas, who made up 68 per cent of total underemployment. Almost 80 per cent of the underemployed indicated that they were underemployed because they could not find more work [ibid].

208. A major puzzle of the unemployment situation is that, even though the statistics show unemployment to be very serious, it does not seem to be a major social problem compared to other countries. For instance, the informal sector appears to be less developed in Botswana compared to other African countries. Many of the low paid jobs, such as gardeners and maids, are done by illegal migrants from other countries, especially from Zimbabwe. This could be a result of the relative strength of Botswana currency, the Pula, against the Zimbabwean dollar. The fact that Botswana generally maintains high reservation wages despite high unemployment seems to suggest that there must be something missing from the story. One explanation to the puzzle seems to be that those who show themselves as being openly unemployed probably have family support, which allows them to continue looking for a suitable job without revising their reservation wage downwards in the face of unemployment.

209. What is the likely impact of liberalization and shift to tradables as a result of globalisation, and especially as a result of EU-SAFTA? Estimates from IDS/BIDPA, 1998, show that the introduction of EU-SAFTA will have positive effects on both domestic output and employment. Employment is estimated to increase by 586 persons or 1.2 percent change in total number of persons employed as a result. The biggest increase in employment is to be experienced in the textile and clothing sector, which is highly labour intensive. The other sectors (except meat and meat products, which will be negatively affected because of unsuccessful competition against South African products) are expected to have marginal positive changes in employment, as their employment intensities are quite low (IDS/BIPDA, 1998: 62-63). In general, therefore, a shift to tradables will increase employment quite marginally. Botswana has recently adopted a privatization policy, which is part of its public reform policy. In the short run, we expect privatization to result in job losses. To the extent that government is a major employer, the public sector retrenchments will significantly lead to general unemployment. This is especially true given that the other sectors of the economy are presently unable to absorb all the labour force.

(f) *Institutional aspects of the labour market: trade unions*

210. One interesting aspect of the labour market in Botswana is that worker's representation is very weak as compared to other countries in the region. Part of the weakness of trade unions has its origin in the economic history of the country and part of it comes from legislation by the state. Another important aspect could be that the economy has been doing quite well, therefore, there has been relatively little room for conflict over wages. The weaknesses of the labour unions in the presence of globalisation could be quite serious. If globalisation results in massive retrenchment, weak labour representation might mean unfair dismissal of workers, firms might fail to meet the minimum ILO labour standards and firms could therefore exploit labour. An important point is whether minimum wages and ILO minimum standards do make sense under globalisation. This is because following a legal minimum wage, especially if it is above the market wage, could lead to loss of employment and competitiveness.

211. The one major advantage of having weak labour unions in Botswana, as compared to South Africa, for instance, is that there are few industrial strikes. A major implication from the business point of view is that Botswana is very attractive for foreign investment. Having weak and fragmented unions may also mean that wages can be kept very low, and thus lead to lower costs of production and lower product prices, which may enhance Botswana's competitiveness in the global market.

212. Until 1991 there was very little flexibility in terms of wage setting. From 1972 until the beginning of the 1990s, Botswana had a strongly controlled labour market policy, based on a 1972 Incomes Policy. This policy stated that basic local wages in the private sector and parastatal sector should generally conform to, and on no account exceed, those paid by government to comparable grades of the public sector. A major reason for such a policy was to avoid different sectors competing for scarce skilled labour, which could have led to a general increase in the wages of skilled labour. The government undertook to review regularly the wages and salaries of its employees, and the private sector was cautioned against anticipating the outcome of such reviews by awarding premature increases [Mogalakwe 1997]. In order to ensure that the new wages policy was enforced according to Government's intentions, a monitoring structure, called *National Economic, Manpower and Income council* (NEMIC) was created.

213. The 1990 Revised Incomes Policy provides among other things that wages in the private sector be market determined. It is no exaggeration that the flexibility provided under the new income policy was partly a response to globalisation. The flexibility is, however, not complete as government still maintains minimum wages in the formal sector. Though well meant, there are risks of job losses due to global market competition or of substitution of capital of unskilled labour. The whole question of maintaining minimum wages boils down to the issue of whether wages should be maintained above a minimum average living standard with a significant number being unemployed as a result, or whether everyone should be employed at wages determined by market forces, which may at the end lead to a creation of a large pool of the working poor.

(g) *Gender and liberalisation*

214. In many developing countries, globalisation has been associated with greater participation of women in the labour force. In a majority of cases, however, women's participation is also associated with increasing feminisation of poverty and unemployment as women occupy lower paying jobs or none at all. For instance, they are the major participants in the informal sector of most third world countries. While the market for skilled workers and their mobility is being enhanced by availability of technology, unskilled labour is facing shrinking labour markets and borders are becoming more closed for them. The result is an acceleration of poverty and unemployment of women. In this section, we present a picture of gender inequalities in Botswana.

215. According to the *UNDP Human Development Report of 1999*, Botswana ranked 102 out of the 143 countries recorded in 1997 in terms of the Gender-related Development Index (GDI) with a value of 0.606. The GDI rank minus the HDI rank was a positive 1, indicating that the country did better in terms of the GDI rank than the HDI rank [UNDP, 1999]. This is supported by other gender related success measures. For instance, both the life expectancy at birth and adult literacy rates are higher for female than for male Botswana. On the basis of the gender empowerment measure (GEM) from UNDP [1999] Botswana ranks 51 out of the 102 countries for which data are available. In terms of the region, Botswana came second after South Africa with a GEM value of 0.418 [UNDP/SADC/SAPES, 1998]. But looking at the seats held by women in parliament (8.5%) and percentage of female administrators and managers (26 %), Botswana has a long way to go in terms of gender empowerment.

216. One major characteristic of Botswana's labour market is that women are on average paid less than men. A majority of them are found in jobs that are much lower paying than those occupied by men. Apart from dominating in occupations that provide relatively less well paid jobs, women are also the most hit by unemployment. According to recent estimates, the greater proportion of the unemployed are women. They make up 55 percent of the total unemployment. It is also shown that about 42% of the unemployed females have only completed primary education [Botswana Government, 1998b], although this should improve now that all children get junior secondary school education. The proportion of women in the informal sector of the labour market is larger than men. They represent 66% of the informal sector employees. Excluding the private households, women's share of employment in informal sector is reduced to about 56%. The informal sector is known to pay relatively less than the formal sector even for the same human capital. People employed in this sector are therefore relatively disadvantaged compared with those in the formal sector. The implication of this picture in relation to globalisation is that to the extent that globalisation will lead to loss of jobs and unemployment, women will be more hard hit since they are already a vulnerable group. Therefore globalisation will entrench the feminisation of poverty and the growth of the informal sector, which is mainly a women activity meant for survival.

217. Botswana still has a long way to go in terms of gender equality, even though the country has nonetheless done very well within the region as shown by the Gender Empowerment Index. The good results are partly due to the globalization of ideas. Women NGOs have been very instrumental in spreading the gender equality message since independence. Some of the major ones are; The Botswana Council of Women (formed in 1965); The Young Women's Christian Association (formed in 1962); Methaetsile Information Centre; Women Against Rape (WAR), and Emang Basadi (formed in the 1980s. Emang Basadi in particular focuses on educating women about their legal rights and participation in politics [Botswana Government/UNDP, 1997]. It was due to the emergence of a strong women's lobby in the 1980s, and the firm establishment of gender equality as a major political and socio-economic issue in the 1990s, that we have seen major moves on the part of government to adopt policies on women in development. After the 1995 Beijing Conference on Women, Parliament adopted the National Policy on Women in Development. Government also acceded to the Convention on the Elimination of all forms of Discrimination against Women in 1996.

218. Despite the existence of progressive laws and policies geared towards gender equality, breaking down inequalities is a major task since in large part involves breaking down gender stereotypes. There are general beliefs for instance that men are better at making decisions and that women lack the character to perform such roles. The existing women's NGOs are often perceived to be the preserve of a handful of self-seeking middle-class women in Gaborone, who exaggerate the plight of women [Botswana Government/UNDP, 1997].

(h) Impact of globalisation on small enterprise development

219. Globalisation might have both positive and negative effects on the development of SMEs. On the one hand, the opening of new opportunities will mean that more SMEs will be attracted to the market and old ones will expand, resulting in increased employment creation. A more likely impact of globalisation is that the government may in the future be required to reduce or remove completely its direct subsidies for manufacturing firms. This may be necessary in order to conform to GATT and WTO to which Botswana is a signatory member. Since many of the SMEs have depended substantially upon subsidies and incentives from FAP, the rate of creation of new SMEs may slow down substantially. Foreign investment is not relevant to SMEs in Botswana, and very few export (the definition of small scale for FAP is capital investment of up to P75,000 only).

220. A new policy on small and medium enterprises (SMEs) was introduced during 1998 in response to the report of a Task Force. Its main components were: a new institutional framework (Small Business Act, Small Business Council, and Small Business Promotion Agency); a micro-credit scheme, and a scheme to guarantee credit from the commercial banks; reform of legislation and regulations; improved education and training for business, in schools and in post-school institutions. However, the Government did not go as far as

recommended by the Task Force. For example, it was recommended that the Government should no longer provide training directly, but contract it out to NGOs and the private sector, because of the Government's poor record in providing such training itself. A similar opportunity was missed in insisting that the Government would itself provide the new Business Assistance Centres recommended by the Task Force. The Government also rejected most of the recommendations that would have reduced the burden of regulations on SMEs, and a relaxation of the policy that reserves certain businesses to citizens. This relaxation would have allowed more capital and expertise into the sector, and encouraged its development by making it easier for entrepreneurs to sell their successful businesses [BIDPA, 1998b; Ministry of Commerce and Industry, 1998; Ministry of Commerce and Industry, 1999b].

221. Government has introduced various financial schemes in support of SMEs. One is the Financial Assistance Policy (FAP) set up in 1982 to finance new and old businesses (mainly manufacturers) wishing to expand. However, as we discussed in chapter 8, FAP may have outlived its usefulness in changed circumstances in Botswana and elsewhere. The scheme is currently being evaluated.

222. A majority of Botswana's micro enterprises are in the informal sector. As is characteristic of these enterprises elsewhere, they are dominated by single-ownership operations with very few employing any hired labour. Data on informal activities is quite limited. A number of studies done on the sector, for instance, Rempel, et al. (1993) show that more than 60 percent of these activities are in the trade sector, doing retail work, and there is very few manufacturing. Most of them reported that they were having problems of finance, marketing, they face high cost of utilities, etc. Most of them were therefore supplying only the domestic economy and could not compete effectively with products from South Africa. With privatization of some of the government departments and the likely retrenchments resulting thereafter, the informal sector is likely to grow in both quality and quantity terms. There is likely to be a move to more manufacturing as trade has already become almost saturated. It is worth noting that Botswana's micro enterprises have always been thriving under conditions of stiff competition from the relatively highly developed products from the South African market. Most of them are able to survive mainly because they complement rather than try to compete with the South African goods. They for instance offer the same products at even higher prices but in very convenient places and packaging for the consumers. Given the increase in openness, most of these enterprises may close down due to customers preferring cheaper products from elsewhere, especially from East Asia. This is especially true with regard to the clothing industry, where a lot of imitations from the Republic of Korea, Taiwan are already flooded in the market.

10. THE IMPACT OF GLOBALISATION ON SUSTAINABLE DEVELOPMENT

223. We discussed above how globalization and liberalization are likely to affect poverty, income inequality and unemployment in Botswana. These issues are closely related to environment and the use of natural resources, which are the focus of this section. These issues become vivid when considering the relationship between the industrial and developing countries in terms of globalisation and the environment. Generally, improved trade and investment conditions carry economic benefits for both the developed and developing countries. The same does not, however, necessarily hold true for environmental benefits which are obscured by a time factor because these benefits tend to be long-term rather than immediate. For this reason, it is important to consider cases where globalisation has resulted in adverse environmental consequences.

(a) *Property rights*

224. Most of the land in Botswana is held under communal tenure systems which contribute to environmental degradation (Perrings, 1996). Part of the reason for this is that the communal tenure system does not confer exclusive rights to users. The land cannot be sold, bought or used as collateral to raise credit. Therefore, the communal tenure system as currently defined does not easily lend itself to free operation of market forces, which presupposes efficient resource allocation and access to production resources. Because the land resource under communal tenure is not commoditized, its access through the market is limited. Allocation of land resources in tribal areas is, therefore, largely based on citizenship, tribal groups or district of origin. In other words, acquisition of land is easier for citizens than for non-citizens, although the latter own most of the capital.

225. The immediate effect of the communal land tenure system is that the market forces are not left free to allocate land resources. This situation may not be favourable for investment because foreign investment may be curtailed by this restricted access to the land resource. Given that most of the investment is foreign, this may affect the rate of development or industrialization. The problem could perhaps be solved if land was made available to investors through the market. In the case of a developing country like Botswana, two issues become relevant when one considers land allocation, namely, security of life for the majority of the population and their wellbeing.

226. Land allocation through the market may encourage investment, but it may not necessarily ensure the security of access to land for the majority of the rural inhabitants, who lack resources to acquire it through the market, yet are dependent on it for a living. Land will only become accessible to those who can obtain it through the market because of their wealth or creditworthiness. Therefore, liberalization is more likely to increase the security of tenure for the rich but severely weaken it for the poor. Neither will land commoditisation and related investment necessarily improve the wellbeing of the rural

people. Instead, by denying the majority of the people access to land, which forms the basis

for their sustenance, the latter are likely to be further impoverished. The scenario described here can only be changed if investment helps to create income opportunities for the rural people. That not being the case, land commoditisation will only accelerate its alienation. Concomitant to this will be the marginalization of the rural income-generating activities based on land exploitation.

227. In contrast to land commoditisation and allocation through the market, the traditional land tenure system ensures the security of tenure for the rural majority because use rights acquired under this system are inheritable. The system also ensures that a large portion of the national land asset remains in the hands of citizens rather than their foreign counterparts. Although the wellbeing of the population has improved rather slowly over the years, allocation of land through the market may worsen the wellbeing of the rural people.

228. Lack of access to land may lead to other activities such as deforestation due to fuel wood harvesting, already a common feature along highways in northern Botswana. Perrings (1996) suggested that there is a strong relationship between income and the rate at which people discount future costs and benefits of present decisions. He concluded that in meeting the present needs, the poor ignore future consequences of their action. This often results in resource degradation.

(a) *Price Incentives*

229. Generally, price liberalization of agricultural produce will raise producer prices. In turn this is expected to increase agricultural output and thus lead to resource conservation. But price increase could also undermine conservation if it leads to overexploitation of resources. This has been the case with grazing for beef in Botswana, where high beef prices encouraged wide ownership of cattle among the population leading to rangeland degradation (see below). At any rate, although liberalization may bring about efficiency, long-term positive impact on producer prices cannot be guaranteed (Perrings, 1996).

230. Where local costs are perceived as likely to exceed benefits or where outsiders are likely to derive the most benefit from an activity, such activity deserves to be rejected, as was the case of the abortive Southern Okavango Integrated Water Development Project. The project which aimed at dredging part of the Okavango Delta, was abandoned following pressure from the local community and international organisations. International pressure mounted to protect the Okavango because it was seen as befitting both the Convention on the Protection of the World Cultural and Natural Heritage and the Ramsar Convention on Wetlands and Bio-diversity. On their part, the local communities were concerned that the dredging of the Okavango Delta would destroy it and deny them a means of livelihood that they have depended on for many years (e.g. fish, wildlife, transport, water).

(c) *Human Sustainability and the ACP-EU Beef Protocol*

231. Two issues of human sustainability are at stake due to the effect of the ACP-EU beef protocol. First is the continued overstocking and overgrazing which causes range degradation, and increased long-term vulnerability to drought. For example, the increased loss of agricultural productivity resulting from the 1980s drought (compared to earlier droughts) is indicative of the increasing human vulnerability to droughts, and reduced prospects of sustainable human development. At stake here is how long the natural system can continue to withstand grazing pressure. Given that human sustainability is dependent on functioning natural systems, tampering with the latter through overgrazing of the range puts the former at great risk.

232. The second issue relates to the effect of the elephant populations that have evidently outgrown their range. The human-elephant conflict that has ensued, the impact of the large concentrations of elephants on the range, and the human-elephant interaction, undermine sustainable development. The destruction of the habitat by the increased elephant population has far-reaching repercussions for both the elephant populations and other animals. Given that wildlife and wilderness are the most important tourist attractions in Botswana, their destruction may have adverse consequences for the growing tourist industry (see below).

233. Human-elephant conflict arises because of the proximity of human activities and wildlife areas. While in general the contact of human activities and the wildlife range resulted from human expansion into wildlife areas, the post CITES elephant statistics (Table 21) indicate that the elephants are also expanding into human territory. The results are injuries or loss of life on both sides, and property on the human side. Sustainable human development is thereby threatened. It is for this reason that community-based natural resource management is being encouraged in Botswana and Zimbabwe, and indeed in the SADC region, as a basis for sustainable human development. In Botswana efforts are underway to promote natural resource monitoring and community-based resource management along the same lines as the CAMPFIRE programme in Zimbabwe. The main aim of this approach is to give communities living near wildlife areas a stake in the management of wildlife by ensuring that they benefit from wildlife conservation. The desire to continue receiving income benefits from animals, it is hoped, would encourage them to ensure wildlife conservation. If this is not done, wildlife would continue to be seen as a menace to the economic efforts of local communities, and the need to destroy wildlife will remain prominent.

234. As a cattle-raising country Botswana has had access provided under the Lome Convention to the EU beef market, in which prices are higher than world prices [Fidzani,

Table 19: EU Beef Market Quota for Selected African Countries

Country	Beef Quota (tonnes)
Botswana	18,916
Kenya	142
Madagascar	7,579
Namibia	13,000
Swaziland	3,363
Zimbabwe	9,100

Source: Commonwealth Secretariat 1997.

235. Makepe and Tlhalefang, 1996]. In the 1990s, Botswana had a beef quota of 18,916 tonnes per year [Commonwealth Secretariat 1997; ACP-EU 1996]. African countries including Botswana were offered a 90% abatement of the variable import levy on the quota. As shown in Table 19, Botswana enjoys a higher beef quota than other countries in the region. However, Botswana, like many ACP countries, has had difficulties in filling the tariff quota as illustrated in Table 20. There is a clear recent trend of increasing inability to meet the quota between 1992 and 1996. This was partly due to stringent veterinary and public health checks imposed by the EU, e.g. controls involving foot and mouth disease, and partly due to natural forces such as drought which reduces the national herd. It could also be due to low off take as cattlepost. Farmers generally only sell to meet their immediate needs, which is not consistent with the requirement of the Botswana Meat Commission (BMC) to fully utilize the beef quota.

236. The Botswana Meat Commission passes the benefit obtained from the tax abatement to the producers. As a result, the producers receive beef prices that are above world market prices. This situation, together with a larger quota than the country has so far been able to satisfy, facilitates further expansion of the livestock sector. Together, these two factors provide an incentive for the farmers to raise more cattle and subsequently earn more revenue through their cattle sales to the BMC. Direct socio-economic benefits of this policy are realised through increased revenues to producers, as well as informal employment creation in rural areas, which provides means of sustenance for at least some of the rural population.

**Table 20: Botswana's Utilisation of Beef Quota 1992-1996
(Tonnes)**

	1992	1993	1994	1995	1996
Quota	18,916	18,916	18,916	18,916	18,916
Utilised	15,915	14,650**	12,425**	13,771	11,511
Unused	3,001	3,266	5,491	5,145	7,405
Unused as % of Quota	16	17	29	27	39

Note: ** 1000 tonnes transferred from the previous year's quota

Source: European Commission 1997.

237. Although access to the EU beef market provided under the Lome Convention has had and still has a positive effect on the Botswana economy, its effect on the environment is not equally positive. Increased cattle losses during drought are increasingly attributed to perceived range deterioration, associated with overstocking and overgrazing [Segosebe 1987]. Farmers are encouraged by the attractive beef market offered by the BMC to raise large numbers of cattle, which leads to environmental degradation. The fact that Botswana fails to meet the EU beef quota while at the same time growing livestock population poses problems of range degradation may seem rather paradoxical. But this may be indicative of the fragile nature of the rangeland in Botswana. Therefore, if liberalization leads to even higher prices for beef, livestock population may increase leading to further rangeland deterioration.

238. At the beginning of the 1980s, the government started implementing its largest and most publicised land reform policy, the Tribal Grazing Land Policy, (TGLP). The TGLP allocated part of the communal grazing areas for commercial use as leased ranches. Environmental problems associated with the development of the livestock sector began to emerge with the implementation of pilot projects that were a precursor to the introduction of the TGLP ranches [Odell, 1986]. Problems of sustainability ranged from overstocking and overgrazing, through the decimation of large herds of wildebeest trapped by ranch fences, to the transmission of disease (particularly malignant catarrh) from wildebeests to cattle. These together with the competition that ensued between wild animals and cattle for grazing in the ranches and the subsequent destruction of fences by the former [ibid], is destructive to the environment.

239. Contrary to the initial official projections that the ranches would reach their planned carrying capacity in 13 years, the carrying capacity was reached in about a quarter of the time [ibid], leading to overgrazing of the communal grazing areas. Overgrazing problems were also reported in the TGLP ranches. Unfortunately, there is no institutional mechanism that prevents TGLP ranchers from moving their cattle back to the communal areas. TGLP ranches therefore serve as breeding grounds for increasing cattle holdings that are allowed to spill back into the communal areas, which in turn aggravates the grazing pressure in the latter. Consequently, the high beef price paid by the EU, and by extension the BMC, provided an economic incentive that overwhelmed any possibility for environmental considerations. The result has been overgrazing and range deterioration.

240. Although cattle numbers normally decrease during drought and recover in the post drought situation, as reflected in the livestock population following the 1960s drought, the increase in the number of cattle lost in the 1980s drought depicts a worrisome trend. For example while in the pre-drought period (1982) cattle populations were close to three million head, the drought of the eighties reduced them to about 2.3 million in 1985 [United Nations Office of Emergency Operations in Africa, 1985]. It is suggested in the literature that the 1980s drought in Botswana was the most severe on record and may indicate a trend of droughts being more severe in the 1980s than hitherto experienced, as well as of changing environmental conditions due to repeated overgrazing. It may be that the successive vegetation resulting from repeated overgrazing every year is not of the same quality.

241. The implications of this change for both the environment and the livestock may be negative in the long-term [Segosebe 1997]. In other words, it places the concept of sustainability in question. This happens in two ways. First, high beef prices that lead to continued overstocking and overgrazing may not be sustainable from the point of view of the EU. The BSE (mad cow disease) crisis in Europe is said to have affected meat consumption in the European Community countries. According to the Commonwealth Secretariat [1997], the likelihood of continued, let alone, increased beef demand is rather low. Second and more importantly, it is not known how long the natural range can be subjected to the cumulative grazing pressure before drastic changes occur affecting the livestock industry in a lasting manner.

242. The impact of the beef price can also be seen in the light of the devastation of wildlife population following the 1980s drought. During drought, wildlife range far and wide in search of grazing and water. In a country where the range is subdivided by livestock disease control fences and ranches, wildlife often find themselves having to survive on constricted rangelands. The buffalo fence in the Northwest District was erected to deny buffalo access to cattle pastures in order to prevent the spread of foot and mouth disease to cattle. Pearce [1993] reports on the devastation caused to wildlife population during the drought of the 1980s. The main cause is said to be ranches and veterinary cordon fences that block the natural migration routes of wildlife. During the wet season when water is abundant, wildlife tend to range widely over the Kgalagadi, while during the dry season they tend to converge on the Okavango. Animals are forced to travel long distances to reach water and pasture and may die on the way because fences are often erected across migration routes [Pearce, 1993]. Therefore, researchers blame the decline of wildlife on the livestock expansion and its encroachment into wildlife areas [Metroeconomica 1996].

(d) *International conventions*

243. The impact of globalisation on the Botswana environment may also be assessed by determining to what extent the Botswana Government has ratified international conventions dealing with natural resource use that are of global significance. Although the act of signing international conventions on its own does not necessarily mean that any

country immediately implements the convention requirements, it does express a government's

intentions to operate in accordance with global environmental requirements. It may lead to a change in attitude and a shift in emphasis regarding natural resource policy. Governments that sign these treaties recognize the importance of guarding the interest of neighbouring states with regard to the use of common resources.

244. In recognition of the regional and global significance of natural resource utilisation, the Botswana Government has ratified a number of international treaties and is also a signatory to a number of regional agreements. At the international level, among the following conventions that have been ratified are: the Helsinki Convention, the Convention on the Law of the Non-Navigational Uses of the International Watercourses, the World Heritage Convention, the Convention to Combat Desertification, the Biodiversity Convention, the Ramsar Convention, the Climate Change Convention, and the Convention on International Trade in Endangered Species (CITES). We do not intend to give full details of each of these conventions. Suffice it to mention that a central message that links most of them is the need for states to recognize the interests of neighbours, the need to protect and conserve natural resources, and to understand the operation of natural systems.

245. By signing these international agreements, Botswana demonstrates its willingness to work with other nations at the regional level. It signifies a change of previous attitude, arising from the globalisation of environmental ideas. It is a significant shift from resource appropriation activities driven by nationalistic interests, toward globally and regionally determined goals. With respect to the utilisation of watercourses, globalisation can be said to have had a positive impact as far as environmental resource policy is concerned. It has raised national policy awareness to global issues. If followed and properly implemented, these conventions should promote conservation locally. They will harmonise national interests with global goals. The change in attitude is reflected in the formation of the Permanent Okavango River Basin Water Commission (member states are Angola, Botswana, and Namibia). This arrangement helped to delay Namibia's desire to use the Okavango water for urban development.

246. Below we discuss the implications of the CITES Convention for Botswana's environment.

The CITES Convention

247. Before the implementation of the ban on elephant hunting, the elephant population in Botswana was estimated at about 60,000 to 70,000. This figure was already in excess of the 54,000 head regarded as the sustainable elephant population on the Botswana rangelands. Following the recovery of the elephant population the government was going to allow hunting to maintain elephant populations at 54,600. This was not to happen, however, because outside Botswana, countries like Kenya were experiencing a devastation of their elephant population due to poaching and were lobbying the international community to ban the sale of ivory. Consequently, the African elephant was lifted from Article II to Article I of CITES, which banned the sale of ivory products in 1989. Much as

this was a welcome move at the global level, in terms of protecting the African elephant, it caused environmental destruction in Botswana and other Southern African countries which had large and unthreatened elephant populations. Table 21 illustrates the rapid growth of elephants between 1989 and 1999, nearly doubling in nine years.

**Table 21: Elephant population: 1989 to 1999
(Estimates)**

Year	Elephant population	Year	Elephant population
1989	59,896	1994	78,304
1990	55,834	1996	100,538
1991	68,771	1999	106,494
1993	73,033		

Note: data not available for the missing years.

Source: Department of Wildlife and National Parks

248. Although the environmental damage due to increased elephant population has not been fully assessed, the signs are that the convention has had an adverse impact on the Botswana environment.

249. Overgrown elephant population has adverse effects on the environment. In Ngamiland (North West District) it is estimated that elephants destroy about 20,000 hectares of crops in any particular year [Molapo 1999]. Observation reports also indicate the destruction of vegetation in national parks such as the Chobe National Park and the Moremi Game Reserve, especially riverine vegetation which elephants have transformed by concentrating in them during the dry season. Vegetation destruction is to be expected when these mammoth creatures concentrate in any one place because they consume large quantities of vegetation, up to 70 kilograms per day [Ministry of Commerce and Industry, 1999a]. Elephants not only consume large quantities of vegetable material, they also fell large numbers of trees. The effect of the latter can be observed along the Maun-Francistown road where fully-grown palm trees have been felled. In response to this destruction, the Botswana parliament in 1991 approved an elephant management plan (Conservation and Management of Elephants in Botswana), which recommended, *inter alia*, the provision of water points in isolated locations in a bid to spread elephant concentrations. It also recommended culling of elephant herds to keep elephant populations at the sustainable level of 54,000.

250. Consequent to the destruction of the elephant range would be the destruction of the elephant populations themselves. This would defeat the very purpose for which the CITES was established, i.e. the protection of endangered species such as the African elephant. The concentration of elephant populations also spells adverse consequences for other species, through the transformation of forest areas. This would promote the increase of grassland species to the disadvantage of species that prefer forests for a habitat (e.g. tree-nesting birds). This also affects bio-diversity as called for in the convention on bio-diversity. Elephants also have the ability and tendency to dominate water holes during the dry season, thus denying other species access to water [Ministry of Commerce and Industry, 1999a]. If alternative water sources are not available nearby, the animals denied access to the natural pools of water may be doomed. Many of them, already weakened by the dry season, may never reach distant water sources.

251. On the positive side, Table 22 shows that the number of people arrested for illegal hunting declined between 1989 and 1995. The Ministry of Commerce and Industry [1999a] attributes the decline to the government's anti-poaching measures. These include the establishment of a highly trained, well equipped and adequately staffed Anti-Poaching Unit (APU). The APU efforts are augmented by the BDF and the Police, which patrol the elephant range, and provide intelligence. The government also trains customs and immigration staff about which animal trophies require an export/import permit and which ones do not. The effect of government's effort is not in doubt. But the success may also be partially attributed to CITES, in making it difficult for the poacher to market elephant trophies internationally. CITES could therefore be seen as a double-edged knife that obstructs both poaching and conservation. Poaching is hindered by the lack of a readily available market for elephant trophies, while conservation is deterred by elephant populations that have been allowed to overgrow the carrying capacity of their range, leading to its degradation. Nevertheless, Botswana and other Southern African countries lobbied successfully for a partial lifting of the ban on the ivory trade [Ministry of Commerce and Industry, 1999a].

252. Human-elephant conflict was reported to have increased in most of the countries where elephant issues were investigated [Dublin et. al., undated]. The conflict manifests itself in several ways. In Tanzania it is evident in the increase in requests to destroy troublesome animals and in actual numbers removed [ibid.]. Other indicators include increasing stockpiles of elephant trophies in these countries. The destruction of crops by elephants and increased deaths of both animals and people is also reported to be on the increase. Budgetary and staff problems are some of the reasons cited for the decline in the surveillance of law enforcement officials, leading to increase in illegal hunting of elephants.

253. In order to compensate for the conflict, governments are reported to have agreed to assist rural communities with revenues from elephant utilisation as is the case with the CAMPFIRE programme of Zimbabwe. Dublin et al [n.d.] conclude that the international ban on ivory trade did not halt the illegal offtake of elephants. This failure is largely attributed to the inability of the range states to protect elephants. Also cited is the fact that structural adjustment programmes in Africa have led to retrenchments and shortages of staff and law enforcement officials, thus undermining the ability of the range states to enforce the law. By undermining the very mechanism that the ban relied upon for its enforcement, the ban was bound to be ineffective.

Table 22 The Number of People Arrested for Illegal Hunting 1989-1995

Year	No of People Arrested	Year	No of People Arrested
1989	92	1993	20
1990	48	1994	10
1991	23	1995	16
1992	21		

Source: Department of Wildlife and National Parks, 1999.

(e) *Tourism*

254. A notable positive result of globalisation is the development of the tourist industry. Tourism appears to be one of the most sustainable foreign currency-earning industries. Indications are that tourism is a growing industry in Botswana with great potential for foreign currency earnings. Globalisation has great potential to further increase benefits from the tourist industry because the number of tourists visiting Botswana is likely to increase. The extra effort by the Botswana government to prevent poaching could be seen in the light of this growing potential for economic benefit from the tourist industry. By bringing foreign exchange into the country, tourists would make Botswana a viable partner in international conservation efforts (see also Section 3 above).

255. Tourism also has its negative sides in that it can also introduce cultural habits that conflict with local cultural practices. It can also escalate prices for local goods and services and make them inaccessible to local communities. For example, Botswana's low-volume high-cost tourism policy can reduce visits to the game parks by local people due to high fees charged.

256. Tourism currently stands out as one of the most sustainable economic undertakings in Botswana. Failure to protect the resources that are fundamental to the tourist industry in Botswana puts economic sustainability and by implication human sustainability at risk.

11. LESSONS FOR OTHER AFRICAN COUNTRIES

257. While most countries in the region have performed badly over the years, Botswana has done exceptionally well in terms of both growth and human development. Poverty, skewed income distribution and unemployment are however still some of the major problems which the country has to tackle. Some of the factors responsible for Botswana's success are: prudent fiscal and macroeconomic policies; the existence of multiparty democracy with regular elections considered generally to be free and fair; existence of natural resources, especially diamonds; relatively well developed human resources; and a low level of corruption [Rodrik, 1998; Freeman and Lindauer, 1999]. A major factor improving the quality of economic policy, and keeping down the level of corruption, has been the development of a free press, which can bring issues to the public without fear of being suppressed by the government.

258. To what extent can lessons from Botswana's achievements be applied to other African economies? Most of the lessons are not applicable to the rest of Africa given Botswana's unique features. Some of these features are the existence of a participatory democracy with roots in the traditional set-up in the form of a kgotla (the traditional village meeting place at which all men could speak freely); and a small population with relatively few tribal differences so that the country is relatively peaceful and stable. Botswana's case is therefore not easy to replicate. But there are certain areas where the other African countries could benefit from following Botswana's way of going about things. One of the major ones is prudent economic management. A number of African countries have had an abundance of resources. Most of them have managed those economic resources badly. They chose to engage in excessive spending of export windfalls, whereas Botswana chose to spend wisely, avoided the Dutch Disease and financed very few "white elephants". Government spending of the diamond windfall has been deliberately constrained within the limits set by skilled manpower availability, and ability to finance future recurrent costs. The lesson for the rest of Africa, therefore, is that financial resources alone do not necessarily lead to success. Success is achieved by effectively managing those resources.

259. A second major lesson for Africa is that democracy is perhaps necessary for success. Most of the African countries were led by authoritarian governments, while Botswana was led by a relatively democratic government. Even though there has never been a change of government from the election process, the existence of a strong opposition has kept government in check most of the time. Newspapers that are relatively free to write and criticise government policies provided another check. Such is not the case for most of the countries in Africa. The media in most of these countries are highly controlled by the state. The lesson from the Botswana case is that governments should let the media do its job.

260. Another lesson could be that countries should strive to achieve a reasonable amount of peace and security. This goal is however very difficult to emulate since each country has its own peculiar circumstances that have been historically shaped over time. Tribalism for instance creates problems in achieving peace and security in many African countries.

12. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

(a) Macroeconomic and development issues

261. The most important development priority in Botswana is to diversify the economy in general, and to diversify production for export in particular. The diversification of exports should include services as well as manufactured goods. Economic diversification is necessary for future economic growth, and this in turn is necessary for the growth of employment. Because of the difficulty of earning even a subsistence income in Botswana from non-cattle agriculture, and because the agricultural sector provides less than 2% of formal sector employment, the growth of non-agricultural employment is the single most important way of creating sustainable human development.

262. The Botswana Government is thoroughly aware of this priority. Successive National Development Plans have repeated the Government's commitment to its planning objectives of Sustained Development, Rapid Economic Growth, Economic Independence and Social Justice. These objectives were repeated in the most recent Plan [Botswana Government, 1997a]. It went on to state that the broad policy issues to be addressed were "economic diversification, employment creation, poverty reduction, policy reform in the public sector, provision of infrastructure and cost recovery, human resource development, rural development, and environment and land use policy" [ibid: 89].

263. Employment opportunities will not reach all of those in the labour force for some years, and in particular will not reach many of those in rural areas. For this reason, *it is recommended that* labour-intensive relief projects should be undertaken continuously, and not just in drought areas and drought years [BIDPA, 1997].

264. Economic growth and diversification are necessary but not sufficient. Supplementary measures are needed to alleviate poverty for those households not capable of supplying labour to the job market, for example households where the only adults are elderly, child-headed households, and female-headed households where the household head is fully occupied in the care of young children. The number of such households is expected to increase because of HIV/AIDS. The Government is in the process of implementing a child allowance to be paid to all those taking care of orphans, whether AIDS orphans or those orphaned for other reasons.

265. The importance of non-traditional exports raises the question as to whether Botswana should concentrate on regional markets, or on global markets. Both are vulnerable. The SACU market is currently protected, but that protection is being reduced, so that producers dependent on the SACU market must be able to become more competitive over time as import competition increases. Export to global markets is mostly possible because of quota restrictions on major producers in Asia, and this man-made advantage could also disappear. *It is recommended that* Botswana should not concentrate on one or the other market, but spread its risks as far as possible by developing non-traditional exports both regionally and

globally.

266. Some of the benefits of relatively open borders within SACU have been lost because of divergent developments in indirect taxation in Botswana and South Africa. The proposed introduction of VAT in 2001 is therefore a valuable step towards the harmonisation of indirect taxation within SACU. *It is recommended that* further harmonisation of indirect taxes should be a priority if a SADC free trade area is established. Meanwhile, *it is recommended that* the Botswana Government should appeal to the WTO to prevent South Africa from violating international trading rules by imposing VAT on goods imported from Botswana and the other members of SACU [Mbekeani and Kaboyakgosi, 1999].

267. In order to take full advantage of the European Union/South Africa Free Trade Agreement, *it is recommended that* the Botswana Government should assist producers, especially smaller scale producers, in obtaining information about potentially cheaper sources of imported inputs from the European Union. *It is also recommended that* a larger sample of firms likely to be affected by the new European Union/South Africa Free Trade Agreement should be surveyed, to establish whether the existing survey was representative, and to establish what assistance producers will need to remain competitive with imports. *It is recommended that* donors be approached for assistance with this process.

268. If a SADC free trade area is established, *it is recommended that* donors should be approached to provide investment incentives for South African companies to invest in the non-SACU members of SADC, in order that they can export to the newly opened South African market, and thereby gain benefits from the new free trade area. It has been argued that otherwise a SADC free trade area will not be sustainable. More generally, *the Botswana Government should endeavour* to get SADC countries to consider why previous regional integration schemes in Africa have failed, and to get SADC to consider ways of preventing such a failure of the SADC free trade area.

269. Most of the policies necessary to achieve economic diversification are already in place, although implementation is not always satisfactory.

- Exchange rate policy is directed to maintaining a competitive real exchange rate against the South African rand.
- Rates of direct tax are relatively low, which is probably the single most effective incentive for private sector investment.
- The Government has invested in making serviced industrial and commercial plots available, although the system of allocation of these plots is flawed.
- The main subsidies provided by FAP are directed at employment creation and training.
- The Government recently created BEDIA to promote inward investment and exports.
- Two major reviews of tourism are currently in process, which have given considerable emphasis to diversification of tourism away from its current concentration on the Okavango and the major game reserves.

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- The Government is trying to establish an International Financial Services Centre (IFSC), for which most of the necessary legislation was passed during 1999. Some further legislation is required: a new Act for captive insurance and reinsurance companies, and amendments to the Proceeds of Serious Crime Act. These are expected to be passed during 2000.

270. Some applications have already been received, although the relevant unit in Botswana Development Corporation (BDC) has not yet been active in promoting the Centre. The first application, from a merchant bank in Zimbabwe to set up its regional operations in Botswana, is awaiting a banking licence from the Bank of Botswana. Three further applications are expected to be approved, but are still at the stage of requiring additional information. One of these would involve shifting into the Centre the existing international activity of an existing Botswana bank; this would not involve any increase in employment, but would enable the bank to take advantage of the 15% corporate tax rate on that part of its operations established in the IFSC.

271. Plans for promoting the Centre are well advanced. The brochure has been prepared, and presentations are planned for Johannesburg and Cape Town during May 2000. Seminars will be presented to between 15 and 20 interested institutions in each city, and will be followed up by one-to-one meetings as necessary.

(b) Sectoral issues: the environment

272. *It is recommended that* the current efforts to promote community-based resource monitoring and management should be supported. By ensuring that the community owns wildlife conservation and is part of it, the human-elephant conflict is likely to be reduced and would facilitate conservation efforts and sustainable development.

273. The successful reduction of the illegal killing of elephants is largely a function of government ability to sponsor effective patrol of borders through the mobilisation of law enforcement forces. The example of budgetary problems in other African countries shows that if the economy were to start weakening it would be difficult for Botswana to maintain massive law enforcement to protect elephants. *Community-based management of wildlife is a necessity*, therefore, not only to resolve the elephant-human conflict, but also to ensure sustainability of natural resource monitoring.

274. An important recipe for conservation is an understanding of why it is important for the environment. Economic incentives alone are not a panacea. In the event that benefits are denied to allow natural resource stocks to recuperate, the community would lose its incentive to preserve wildlife. In order to prevent this from happening, the community needs also to be educated on environmental issues. The best candidates to carry out this exercise, it seems, are environmental NGOs. Therefore, current efforts to develop a policy for NGO-government partnership by BOCONGO are a welcome move. Such a policy seeks recognition from government on the role of NGOs in development and would allow and

assist the latter to continue with the process of educating local communities on the importance of conservation. It is therefore recommended that NGOs must be given the opportunity and assisted to implement some educational development projects.

(c) Potential needs for technical assistance: international trade negotiations

275. The two most important international trading arrangements affecting Botswana are currently being renegotiated: the Southern African Customs Union, and the Lomé Convention. Both of these trading arrangements have been in place, substantially unchanged, for more than 20 years. The current renegotiations are therefore something for which the Botswana Government has had little experience. Indeed, it could be said that Botswana has in one sense not had an international trade policy, because all the decisions concerning SACU have been made by South Africa.

276. The Government's responsibility for international trading negotiations is further increased at present by the proposals to create a SADC free trade area, the United States Africa Growth and Opportunity Act currently before the United States Congress, and the current round of negotiations of the WTO which began badly in Seattle. Botswana must also cope with the effects of the European Union/South Africa Free Trade Agreement. In these circumstances, the Botswana Government is short of analytical and negotiating expertise and experience.

277. There is a clear case, therefore, for Botswana needing technical assistance on these issues. To a limited extent, this has been started, in the form of an UNCTAD workshop in November 1999, conducted in Gaborone. However, it seems likely that a great deal more assistance will be needed.

(d) Potential needs for technical assistance: environmental policy

278. Technical assistance is required to train ENGO staff in the techniques of environmental investigation and education, to help them to apply for government contracts to perform services for government for a fee. ENGOs also require assistance to implement some community-based programmes.

279. Although policy development is ongoing regarding government-NGO partnership, the lack of investigative skills may explain government reluctance to fully embrace the ENGOs programmes beyond expression of desire to do so. NGOs need support to demonstrate their capability and accountability before government can endorse them as reliable development partners. *Technical assistance is required* for building a sustainable ENGO movement.

280. Community-based resource monitoring and management requires basic accounting and management skills. It is hard to imagine how the communities that are engaged in resource management can manage without these skills. If they are not developed, the communities will depend on outsiders. This obviously raises the question of the sustainability of such an exercise. There is, therefore, a need to develop very basic forms of management and bookkeeping that local communities can operate.

(e) Potential needs for technical assistance: institutions of civil society

281. One of the groups which could be empowered by technical expertise is the trade union movement. Most of their leaders lack technical expertise and therefore sometimes cannot bargain effectively with the employers and government. Equipping the trade union leaders with expertise on collective bargaining may be necessary for effective negotiation, especially in the light of the trend to have market-determined wages and salaries. Removing government from the scene means that trade unions have to become more knowledgeable in the collective bargaining process. Workers are more likely to find themselves earning wages that do not afford them a reasonable living standard, especially in the private sector. A contrary argument could be that strengthening trade unions might result in more industrial strikes and make Botswana less attractive for foreign investment. This however, need not necessarily be the case, as better information and analysis could enable trade unions to act in the national interest as well as in their own interest. Moreover, trade unions do not only bargain for wages, but also have other responsibilities such as monitoring the health and safety of workers, and provision for their care when sick. *Trade unions need technical assistance* in the performance of these functions.

282. On the employers' side, although the series of private sector/government conferences have achieved a great deal, *the day-to-day dialogue between the private sector and government would be more effective if the private sector representatives (notably BOCCIM) were to receive technical assistance*. In Uganda, for example, technical assistance of this type had a very positive effect [Harvey and Robinson, 1996]. *Women's organisations could also use both technical and financial assistance*. More generally, the withdrawal of most bilateral aid donors from Botswana has created a problem for many of the institutions of civil society, which had received finance from bilateral aid donors. In the long run, they must depend increasingly on (non-government) sources of finance from within Botswana. Until this is achieved, *other institutions of civil society need technical assistance* to help build up sustainable local sources of finance.

283. The way forward in creating greater gender equality lies in the education and training of women. *Assistance from international organisations should be directed to enabling women to obtain meaningful education and training*.

284. *International assistance could also be directed to women's NGOs, to continue their education of society, and their influence on the government, about gender equality issues.*

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