ASSESSING BOTSWANA'S TRADE PERFORMANCE

International Economics

Strategic Analysis For Growth & Development

International Trade and Economics Series

March 2016

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ASSESSING BOTSWANA'S TRADE PERFORMANCE

Paul BAKER[1]

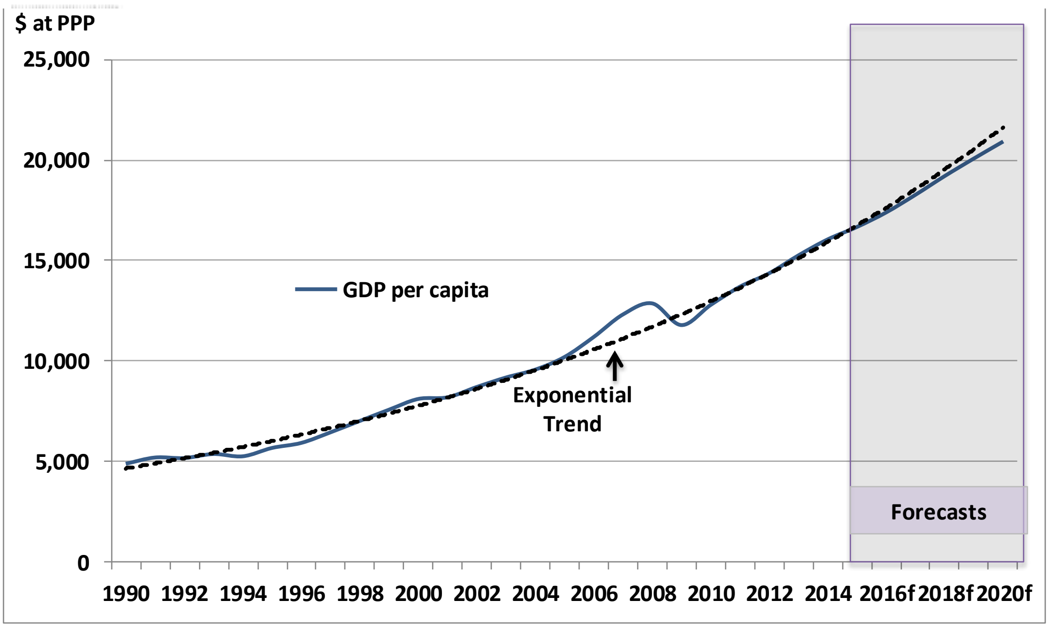
ABSTRACT

While Botswana has enjoyed phenomenal growth rates over the last three decades, this growth has been underpinned by extractive industries and commodities with relatively limited value addition. Botswana's limited market size makes trade a requirement for sustained economic growth. However, trade performance has been weak in non-traditional sectors and markets, with relatively low technology embodiment in exports. Trade policy needs to be supportive of diversified growth and become more proactive, in order to take advantage of markets outside of its immediate neighbourhood. Trade facilitation and logistics, as well as the business enabling environment require further improvements in order to take up the opportunities and be competitive in the world trading system.

ECONOMIC GROWTH PLATEAUS

Botswana has experienced impressive levels of GDP growth in terms of per capita purchasing power parity (PPP), something which is forecasted to continue up to 2020, according to the IMF (Figure 1). Nevertheless, underpinning this rapid growth has been the intensification of exports in primary products, namely diamonds, copper/nickel and beef. Despite a number of initiatives to diversify away from minerals, there appears relatively little actual diversification, especially in terms of GDP composition.

Figure 1. Economic Growth, 1990-2020.

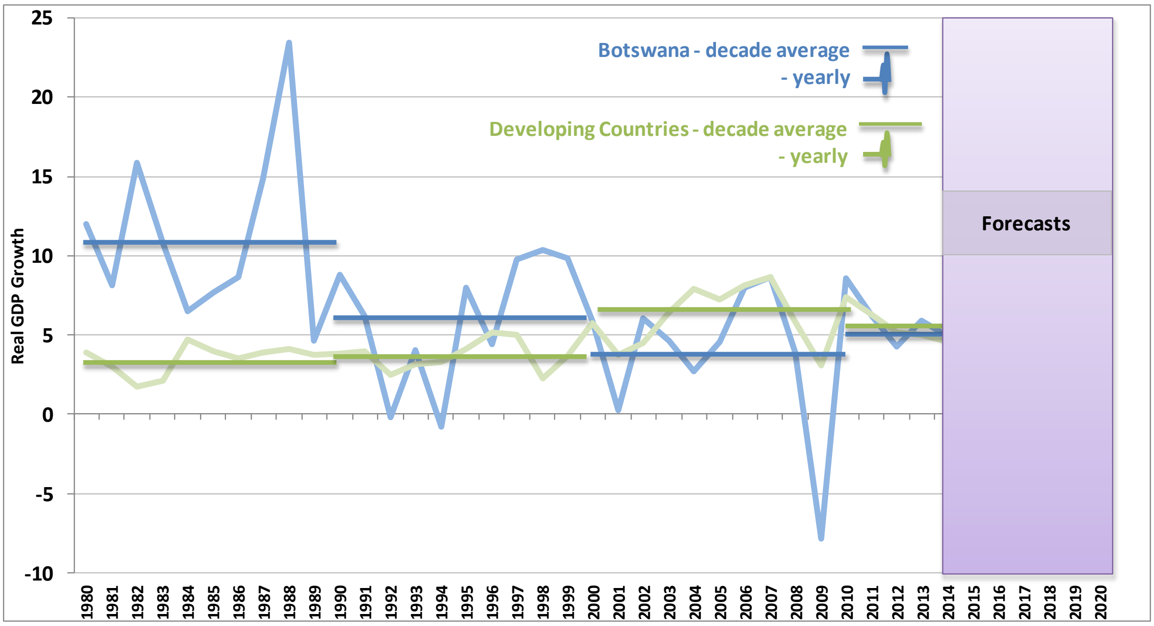


Source: IMF (2015) World Economic Outlook Database, April

1 **Paul Baker** is the **Founder and Chief Executive** of International Economics Ltd, a senior trade economist and a lecturer at the University of Barcelona. He has regularly worked in Botswana, and more recently carried out a review of Botswana's National Trade Policy and formulated its trade policy 2016-2020 under a project financed by UNCTAD.

A closer observation of real economic growth over a longer period of four decades reveals a number of interesting stylised facts. Botswana's GDP growth in each decade was persistently above average for developing countries prior to the Millennium, by around eight percentage points *more* on a yearly basis in the 1980s, and just below three percentage points in the 1990s. This lead over other developing countries ceased to exist, with Botswana growing by close to three percentage points *less* on a yearly basis in the 2000s, and quarter of a point less in the 2010s (Figure 2). The amplitude of growth cycles have been dampened significantly since the 1980s, which has been facilitated by the government's efforts in channelling revenues from windfall earnings from minerals, and the introduction of good governance structures to manage mineral earnings.

Figure 2. GDP Growth in Comparison to Average Developing Countries



Source: Author calculations based on IMF World Economic Outlook, April 2015

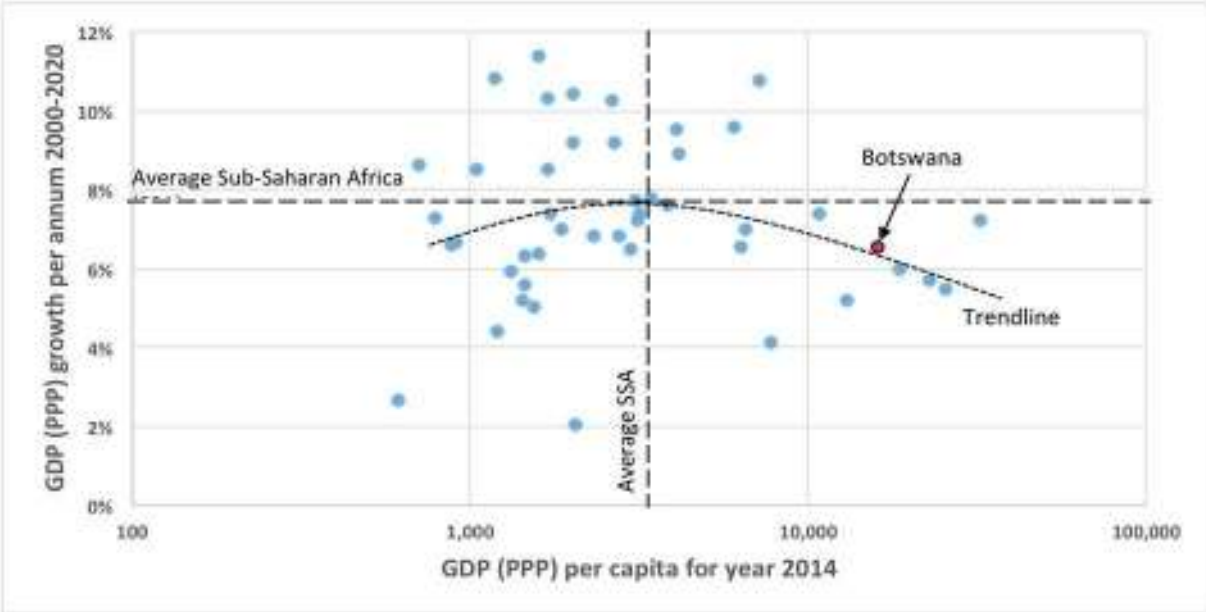
Since 2000, Botswana has experienced slower growth than average for Sub-Saharan Africa (Figure 3). Nevertheless, the GDP per capita is one of the highest in Sub-Saharan Africa, with much of the higher levels of growth experienced in the rest of Sub-Saharan Africa reflective of a convergence of smaller economies.

Whilst GDP has been growing, and mainly as a result of the extractive industries and the re-investment of those rents into other spheres of economic activity, there has been limited transformation of the economy into a more diversified industrial, or service-based economy.

Despite the implementation of a number of policies aiming to broaden the industrial base, such as the National Trade Policy and the National Industrial Policy and Economic Diversification Drive, Botswana has not witnessed any degree of diversification. The composition of the economy appears to indicate a narrowing of the agricultural, industrial and services sectors in favour of mining. Whilst the share of services has shrunk in the last five years, mining has increased its share from 15.3% of GDP in 2009 to 22.9% in 2014.

External imbalances have been relatively contained for Botswana, although there was a period of large current imbalance, which was felt after the global financial crisis of 2008. The significant reversal in the long-term growth in FDI flows affected Botswana, as much as the rest of both the developing and developed world. Nevertheless, there appear important structural weaknesses in the level of the current account balance, particularly in relation to the savings–investment gap.

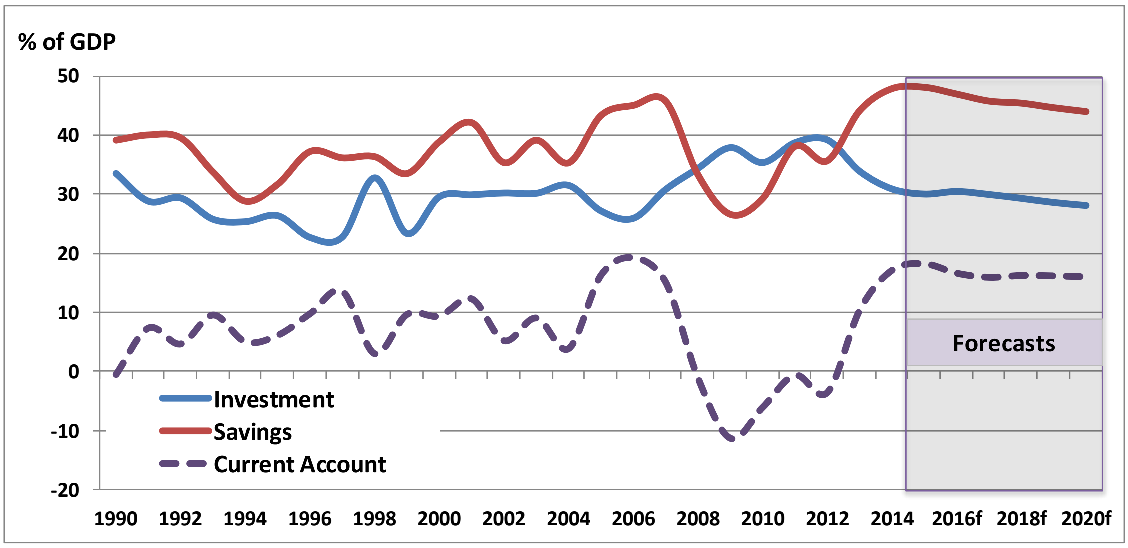
Figure 3. GDP Growth and Per Capita Income



Source: Author; World Bank (2015); IMF (2015)

The level of investment has been consistently driven by the public sector and represents close to 30% of GDP. Moreover, in 2014 for example, only one quarter of the gross fixed capital formation (GFCF) was targeted to machinery and equipment, which has the potential to industrialise Botswana. The vast majority instead went into construction.[2] Overall the savings rates are very high in comparison to investment, and higher levels of investment, particularly from the private sector, are required to build long-term productive capacity (Figure 4). The gap between savings and investment is forecast to increase up to 2020.

Figure 4. Savings and investment gaps and the current account balance



Source: IMF (2015) World Economic Outlook Database, April

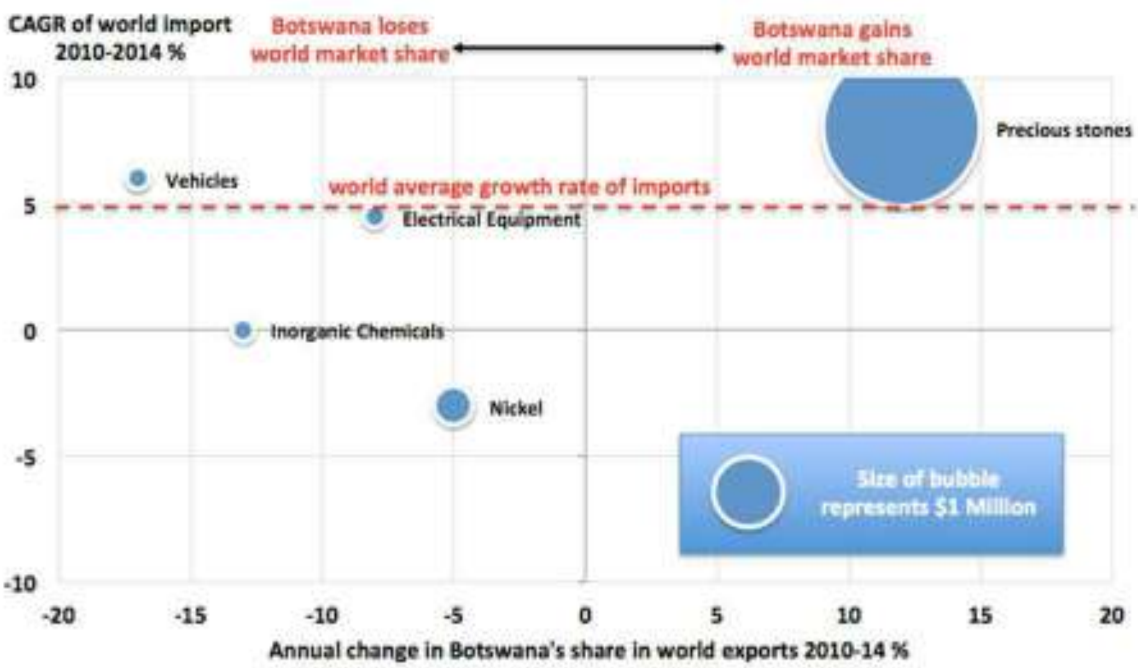
[2] Bank of Botswana (2015) Annual Report 2014.

BOTSWANA'S TRADE PERFORMANCE

Over the last decade there has been a notable increase in exports from just over USD 4 billion in 2005, to close to USD 8 billion in 2014. Imports have realised a much larger increase over the same period, moving from around USD 3 billion in 2005, to USD 8 billion in 2014. Since 2008, the trade surplus turned into a deficit, reaching a record USD 2 billion in 2012, before becoming balanced in 2014. The trade balance is expected to remain neutral in the medium term.

In terms of the product positioning of Botswana, with the exception of diamonds, most of its products have been revealed to be in slow growth segments of international trade, with only a few products experiencing strong growth in international markets, such as beef. Precious metals, nickel and ores have all experienced levels of growth below the world average for all goods. Whilst Botswana managed to increase its world market share in diamonds and ores, it lost market share in beef, nickel and precious metals (Figure 5).

Figure 5. Botswana's Export Portfolio Performance, 2010-14



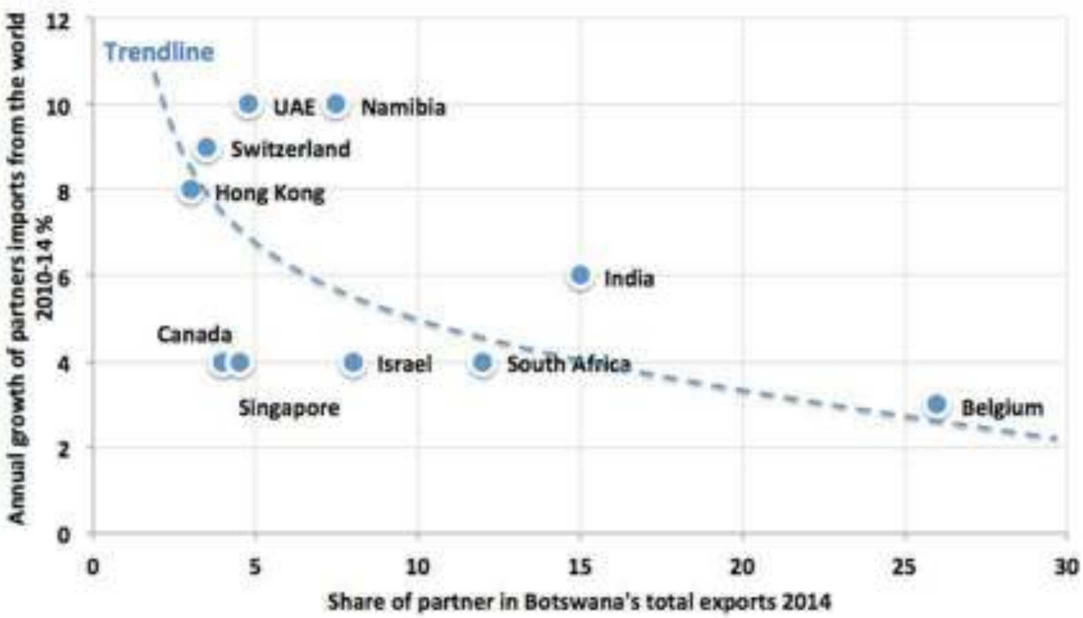
Source: Author; ITC Trade Map.

The markets to which Botswana mainly exports to are low growth markets, such as Belgium, which accounts for over one quarter of its exports but grew by only 3% annually (Figure 6). Meanwhile markets, which represent a small share of its exports, appear more dynamic.

Botswana's exports are highly concentrated on primary products, especially diamonds, gold and copper/nickel, and to a lesser extent meat and meat products, textiles and clothing. Botswana enjoys a very narrow range of products which have a revealed comparative advantage (RCA). Stones (diamonds) have the highest degree of RCA, followed by metals (copper ores and nickel), minerals (coal, petroleum oils), and animal products (meat).

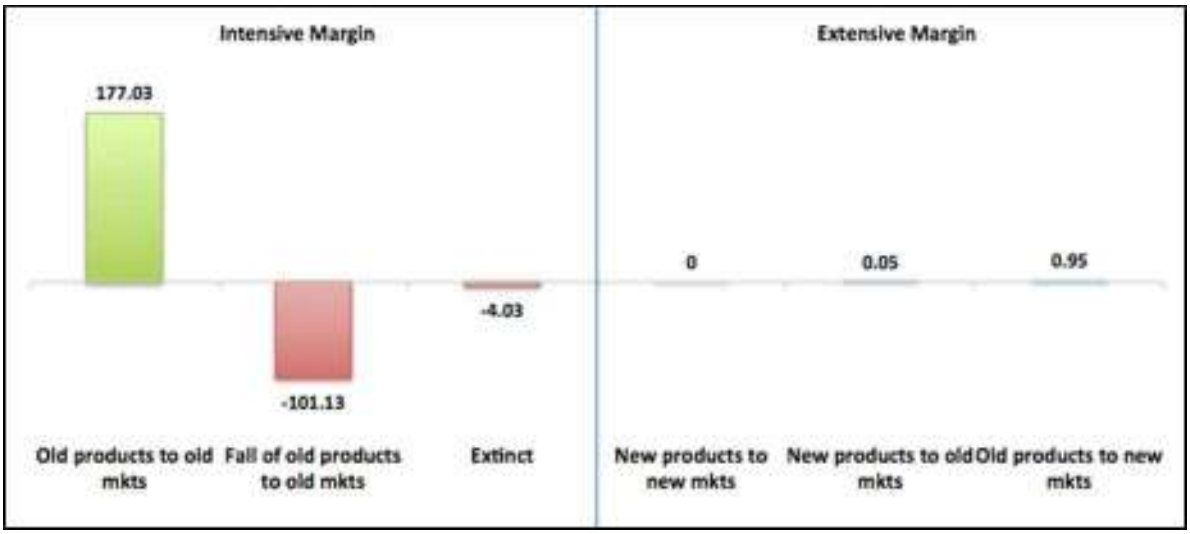
Identifying the sources of export growth is important, not only to recognise innovation taking place in a country's export basket, but it also gives an indication of the degree of diversification taking place in terms of moving into new markets and/or into new products. The data analysis performed for the period since the implementation of the national trade policy reveals that the growth has originated from the increasing intensity of traditional products to traditional markets. In other words, growth has not come from market diversification, nor from innovating into new products. As a matter of fact, new products represented just 0.05% of the growth in exports, and these new products were exported to traditional markets. Less than 1% of the growth was contributed from exporting traditional products to new markets (Figure 7).

Figure 6. Export Portfolio Performance in Terms of Markets, 2010-14



Source: Author; ITC Trade Map.

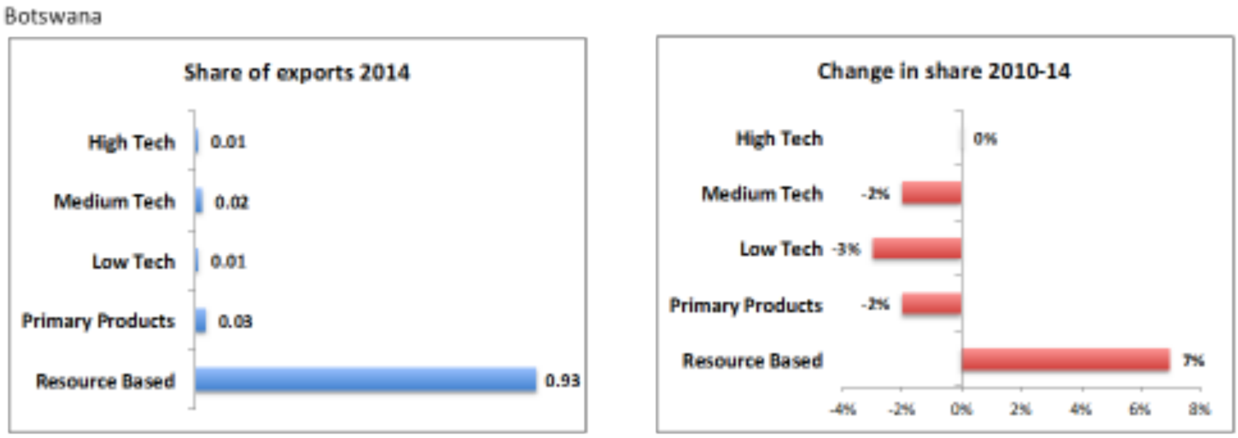
Figure 7. Export Growth Decomposition



Source: Author calculations; UNSD; World Bank

An assessment of the growth experienced in exports, categorised by the technological level of products is presented in Figure 8. A comparison is made between Botswana and some of its peers, namely Mauritius and South Africa. The structure of exports, according to the degree of technological embodiment is presented in the left-hand graphic, and the growth rates according to the same classification is presented on the right-hand side. The case of Botswana differs from others not only in terms of the massive share of resource-based materials, but also in terms of the low-level of growth of exports with some degree of technology embodiment. A country like Mauritius, has managed to move into higher levels of manufacturing for high precision instruments, such as medical devices, which have been absent from Botswana's export basket. Research and development, protection of intellectual property rights, the business environment and FDI are important triggers for moving into higher levels of manufacturing value addition.

Figure 8. Growth According to the Technological Classification of Exports



Source: Author calculations; World Bank WITS

The share of exports from Botswana to the EU, which in 2013 reached 62.6% of Botswana's total exports, fell to just 28.1% in 2014. In 2014, the UK accounted for 0.9% of Botswana's total exports, down from a 49% share in 2013 and a 60.7% share in 2012. Part of the UK's exports were diverted towards Belgium, with a 25.8% share in 2014, up from 12.9% in 2013 and 4.3% in 2012; and to India, which accounted for 14.9% of exports in 2014, up from 3.8% in 2013. The Southern Africa Customs Union (SACU) has gained some importance for Botswana's exports, in particular as a result of an increase in exports to Namibia.

A strong correlation exists between the logistics performance of a country and the time to export. This relationship is illustrated in Figure 9. There is a downward sloping relationship between the time it takes to export and the logistics performance index (LPI). Botswana is positioned above the trend line, indicating longer times to export than would be expected given its LPI, suggesting other underlying factors for the poor performance.

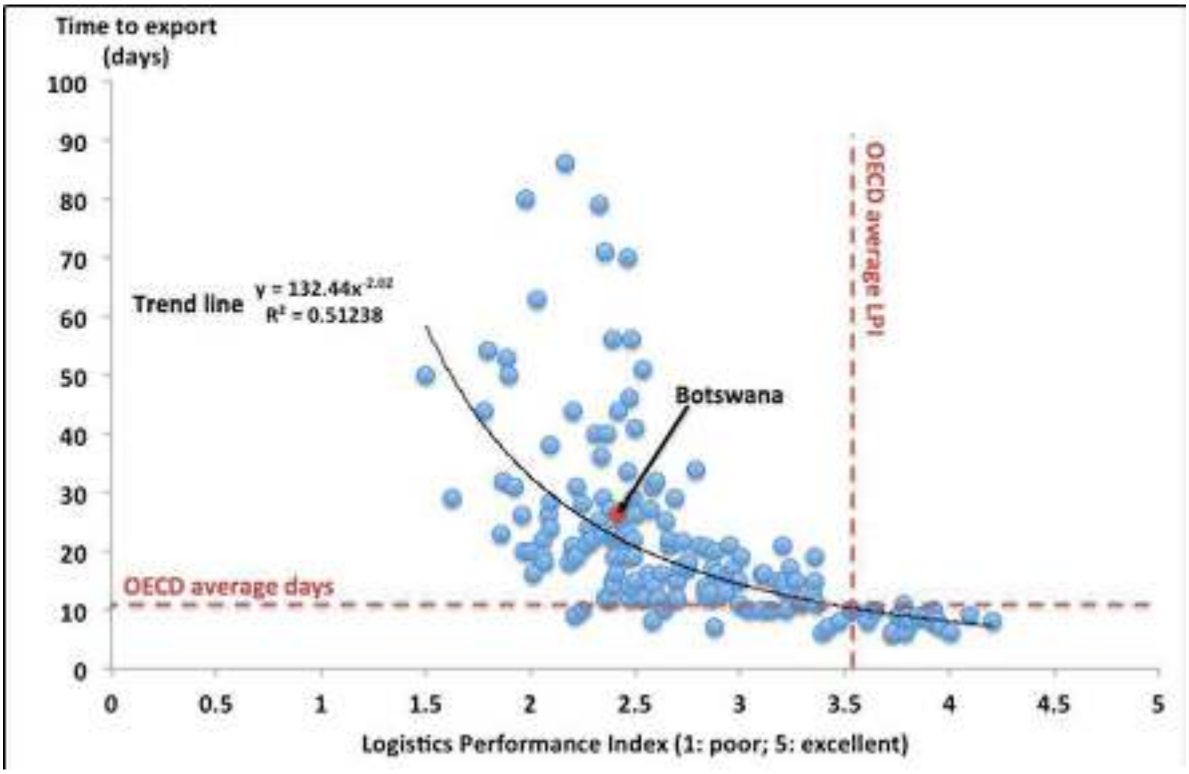
Landlockedness poses additional costs and explains why Botswana is positioned above the trend line in terms of being relatively expensive, given the performance of its logistics sector. Subsidies for freight costs have been implemented by a number of countries in order to help the private sector overcome natural barriers to trade, such as those experienced by Botswana.

The revealed factor intensities of different products are approximates of the mix of labour and capital required for the production of those products. Some products, such as textiles and garments would have a high revealed factor intensity in labour, whilst other products such as semiconductors would have a high revealed factor intensity in capital.

The analysis conducted for Botswana and presented in Figure 10, reveals the constellation of points representing each product in the HS system according to the factors of production employed, using worldwide surveys. The size of each point represents the proportion of that product in Botswana's basket, with the smaller points representing a zero share.

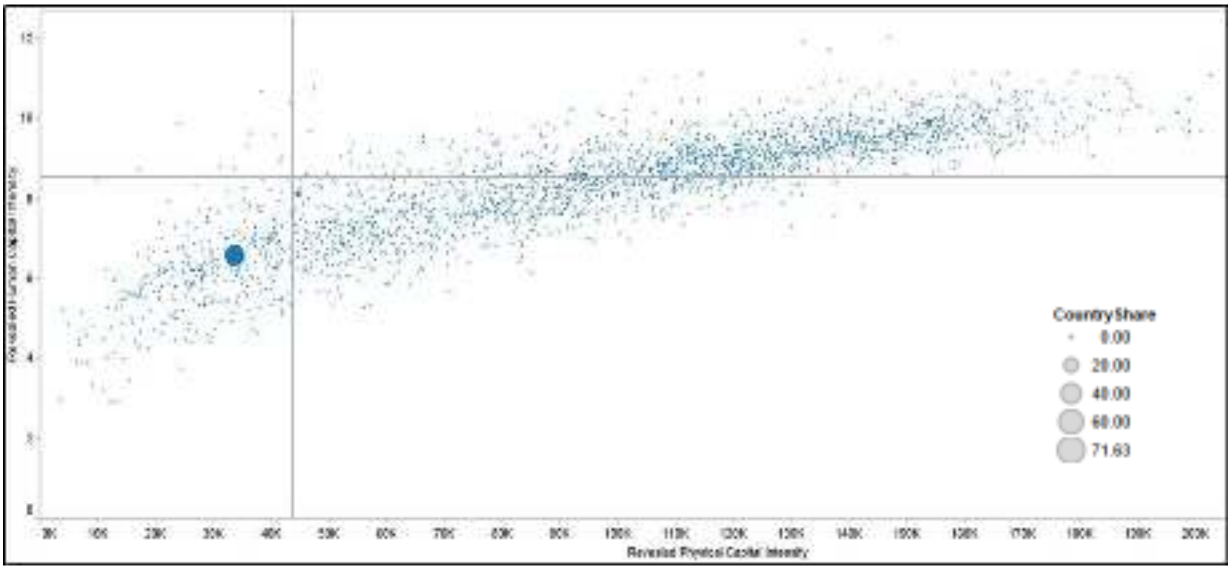
A first observation relates to how few products are incorporated into its export basket. A second observation is that Botswana exports relatively low levels of factor intensities in the production of its exports. In particular, one would expect it to specialise in the production of goods, which are aligned to its factor endowments in capital and labour (where the vertical and horizontal lines meet). According to the most recent data, Botswana's endowment in labour and capital have increased, but it continues to export products which are less intensive in factors of production, than would be expected. This raises questions regarding the effectiveness of its industrial policy to facilitate the utilisation of its resources and specialise in products with higher revealed factor intensities.

Figure 9. Cost of Exporting and Logistics Performance Index



Source: Author; World Bank World Development Indicators

Figure 10. Revealed Factor Intensities, 2013



Source: UNCTAD; World Bank (2015)

POLICY IMPLICATIONS

A number of key messages emerge from the diagnostic review of Botswana's trade performance, including:

- **Botswana has experienced difficulties in achieving the level of diversification expected from the various trade-related policies adopted**. The economy continues to be driven by the mining sector in general, and the extraction of diamonds in particular. A key challenge facing the authorities will be moving away from a mineral-based economy. Special Economic Zones (SEZs) will play a critical role in achieving this objective.

- **The institutional framework and regulatory environment needs to be strengthened**. Whether a trade policy fails or succeeds depends to a large extent on the institutions dealing with the formulation, implementation, and evaluation of the policy. The institutions in Botswana dealing with trade-related matters are numerous and complex, with overlapping functions and responsibilities. Botswana needs to rationalise and reinforce its institutional mechanisms to ensure successful and timely implementation of the adopted policy.

- **Botswana enjoys enviable preferential market access provisions to the world's main markets**. Botswana benefits from preferential market access to the EU, through the recently concluded Economic Partnership Agreement (EPA), and to the United States, through the African Growth and Opportunity Act (AGOA). It also ratified Regional Trade Agreements (RTAs) with MERCOSUR and EFTA. Botswana also enjoys preferential market access to Southern Africa's markets through SACU and SADC. However, traders are facing major constraints, with importers subject to a series of conditions and non-tariff barriers. A general concern is that some products may be unable to qualify as originating under the individual Rules of Origin (RoO), and therefore unable to benefit from preferential access.

- **Monitoring agreements and trade flows is essential in a proactive trade policy**. There is currently very little monitoring of regional integration indicators or trade flows, in order to gauge the success of agreements and to seek new opportunities. Equally, trade defence instruments are difficult to introduce in the absence of such monitoring to identify surges.

ABBREVIATIONS

AGOA	African Growth and Opportunity Act	**MTNs**	Multilateral Trade Negotiations
EFTA	European Free Trade Association	**NTP**	National Trade Policy
EPA	Economic Partnership Agreement	**PPP**	Purchasing Power Parity
EU	European Union	**RCA**	Revealed Comparative Advantage
FDI	Foreign Direct Investment	**RoO**	Rules of Origin
GDP	Gross Domestic Product	**RTA**	Regional Trade Agreement
GFCF	Gross Fixed Capital Formation	**SACU**	Southern African Customs Union
LLDCs	Landlocked Developing Countries	**SADC**	Southern African Development Community
LPI	Logistics Performance Index	**SEZ**	Special Economic Zones
MERCOSUR	Mercado Comun del Sur	**WTO**	World Trade Organisation

HOW CAN WE HELP?

Support C-level executives and boards to prepare for different challenges

International Economics can help facilitate internal discussions on strategy by providing technical insights, developing dashboards of key performance measurements, and giving advice to executive boards on building resilience to possible disruptions related to exogenous trade shocks, such as Brexit or Donald Trump's Presidency. We work closely with our clients to brainstorm and identify challenges and opportunities based on our professional experience.

Map market access

In order to quantify the potential costs to your business in engaging in trade, including tariffs, standards, and customs procedures, among many others, we (i) undertake a mapping of which terms are most at risk of changing and by how much, depending on the type of agreements; and (ii) quantify and forecast the potential effect on your business using predictive analytics to generate insights into future outcomes.

Navigate through trade and investment agreements

With more than 400 trade agreements and 2,400 investment agreements already in place, *International Economics'* team is able to navigate through them, guiding and identifying which specific agreement will better suit the interests of our client. Additionally, we have developed optimization techniques, through the use of sophisticated rules and algorithms, to analyse the Free Trade Agreements (FTAs), which are growing in space, depth and complexity, in order to offer insights into investment and trade decisions. With increasing fragmentation of global production networks and the need for careful evaluation of supply chain risks, the tools developed by *International Economics* offer a solid foundation for the adoption of critical decisions by businesses.

Prepare briefings and strategic papers

Our clients need to prepare strategic position papers to assess the issues and prepare responses, whether it be internal restructuring, supply chain re-engineering or addressing policy risks. We assist our clients with short, impactful, and relevant position papers, including setting out the possible impacts of risks at different business levels (policy, financial, structural, etc.) and provide the latest thinking on the issues to date, based on a holistic economic framework.

Undertake a full economic and legal review of the trade and investment exposures to worldwide events

We conduct independent and objective reviews of the impact of different worldwide events on your business and industry. We use deep learning tools, large multi-country macro models and the latest unstructured data to offer insights into the risks, exposure assessments and likelihood of disruptions to supply chain. These provide our clients with a competitive advantage as they prepare mitigation strategies and leverage identified opportunities. We work with our clients to develop the right strategies and make breakthrough decisions.

Brexit: Help the private sector position itself during the UK's trade negotiations

Brexit will affect our clients' business strategies, supply chains, funding, tax positions, regulations, growth and opportunities. *International Economics* works with public affairs companies and specialized firms to offer the full range of trade-related technical support and advice to help companies position themselves and ensure that their interests are addressed in the negotiations.

Contact Us:

Kerry O´Donoghue (Brussels)
Senior Manager
o.donoghue@tradeeconomics.com

Natalie Donikian (Mauritius)
Public Affairs Manager
donikian@tradeeconomics.com

@TradeEconomics
InternationalEconomicsLtd
trade-economics