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# A NATIONAL TRADE POLICY FOR BOTSWANA: ZERO DRAFT AND CONSULTATIONS

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## **Final Report**

December, 2006

Submitted to:

**Botswana Trade and Poverty Programme**

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**THIS REPORT IS TO BE READ IN CONJUNCTION WITH**

- (1) Botswana's Trade Policy: Zero Draft - Abridged Version**
- (2) Botswana's Trade Agenda of November 2006.**

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# EXECUTIVE SUMMARY

## *1 BACKGROUND*

- 1.1 Trade policy refers to government specific statements, guidelines and pronouncements on trade such as export development, market access, import competition and custom procedures, all of which define how a country will conduct its trade with bilateral, regional and multilateral trading partners (Ikiara et al.2000). Trade policy plays a key role in the flow of goods and services both within and between countries. The evolution of trade policy shows that, following the fall of communism in Russia and socialism in Eastern Europe, the balance that existed between the restrictive mercantilist trade policies and the laissez faire trade policies of the classicals have, over the last few years, tilted in favor of the free trade policies of the neo-classicals. Since then, pro-western International Financial Institutions, namely the World Bank and the IMF, have, through their conditionality, ensured that developing countries toe the line of market economy. Indeed, with the exception of a few countries like Vietnam and North Korea, it can be safely concluded that the whole world is now advocating and experimenting on the market economy in which the dominant trade policy is that advocated by the neo classical economists.
  
- 1.2 Further, due to the process of globalization which has led to the emergence of “borderless” and “networked economies,” and the emergence of regional trading areas (RTAs) intended to minimize the fierce competition unleashed by globalization, the world has witnessed the mushrooming of more bilateral, regional and multilateral free trade arrangements than ever before in human history. Thus, safe in the case of non-members of a RTA, the world is generally shifting towards free trade in which the dominant trade policy is that advocated by the neoclassical economists. Indeed, even the most powerful communist country of the 21<sup>st</sup> century, China, has joined the bandwagon and become a member of the WTO in 2005.

- 1.3 Whereas in the past, the advocacy for free trade was the domain of the World Bank, IMF and WTO, with individual countries focusing on how they can maintain their high tariff and non-tariff barriers to avoid trade liberalization, today trade liberalization episodes have swept across the globe. Because of this, there is now a general consensus that countries have more to gain in free trade than in restricted trade. The only area for decision is now the pace and sequencing of trade reforms. For developing countries, the major issues are how they can be assisted to minimize the cost of liberalization and maximize the benefits of trade in a globalized world.
- 1.4 Because of its general impact on people in the economy, best practice in trade policy formulation now calls for consultation across a broad spectrum of society. Hence the process of trade policy formulation includes government, who sets the broad direction of trade policy and all major stakeholders in the economy – namely, the *private sector* and *parastatal organizations*, who are key implementers of trade policy in a market economy, *civil society*, who are the voice of the poor and the *general public* who are at the receiving end of trade policy.
- 1.5 For the period 1993 to 2004, trends in world trade show that developing countries an average share of world exports is 67 percent. In the remaining 33 percent for, Africa's share is only about 2 percent while the SADC region has an average share of less than 1 percent in world exports. Further, almost all SADC countries, except Mauritius and South Africa, depend on primary exports of minerals and agriculture, with developed countries' markets accounting for more than 75 percent of exports of the region.
- 1.6 Botswana, like most of the SADC countries, is still dependent on primary export products. For the period 1993 to 2002, meat, diamonds and copper/nickel



accounted for an average of well over 80 percent of total exports. This leaves manufactures and services with an average of 20 percent. Globally, Botswana's exports account for less than 1 percent of world exports. Therefore, the proposed trade policy for Botswana will have to address these imbalances in the country's share of world trade.

- 1.7 Botswana's export-led growth strategy is expected to lead to economic growth for poverty reduction. For a Mineral-Based Economies (MBEs) like Botswana, this would require the development of economic linkages between the booming mineral sector and the rest of the economy. There are several types of these linkages through which a booming sector may be linked to the domestic economy. These include the backward linkage in which an incoming firm purchases inputs from domestic firms, the forward linkage in which the output of an incoming firm is used as a productive input in the domestic industry and the fiscal linkage which accrues to government in the form of royalties, taxes and dividends, as well as the public goods linkage which is mainly the use of the proceeds from the mining sector for recurrent and development expenditure in the public sector. It is the role of trade policy to ensure that these linkages are fully developed and that they result in export growth and development for economic growth for poverty reduction.

## ***2. PROPOSED OBJECTIVES OF BOTSWANA'S TRADE POLICY***

- 2.1 It is with this background in mind that the objectives of Botswana trade policy were formulated. Even though the formulation of the objectives was informed by the whole document, the following Chapters were even more important: Botswana's International Trade Policy Obligations (Chapter Three), Botswana's Domestic Policies (Chapter Four), Historical Evolution of Trade Policy (Chapter One), and Economic Overview (Chapter Two). From these it has become apparent that Botswana Trade Policy is significantly influenced by the following factors:

- (i) Botswana's trade policy is highly influenced by the country's chosen export-led strategy that is driven by the private sector with government playing a facilitative role of providing a business conducive environment for the operation of the latter;
- (ii) Botswana has chosen a policy environment in which firms in the country, both domestic and foreign firms will operate under free market conditions. To this end, government development plans emphasize firm competitiveness in the "global village" where there is minimal government intervention;
- (iii) To achieve this private sector friendly environment, Botswana has entered into bilateral, regional and multilateral trade agreements which have had an impact not only in her trade policy but also its environment. Important among these is the SACU which controls the country's common external tariff and tariff revenue, the SADC Trade Protocol which is currently shaping Southern Africa regional trade and, the WTO which is shaping global trade with most favored nation tariffs and non-tariff barriers;
- (iv) The global economic environment has become fiercely competitive because of significant trade liberalization that has occurred in the past few years and inter-continental RTAs that have resulted in both North-South RTAs and South-South RTAs. Botswana's private sector-led economic growth will thus require a private sector that is prepared to operate under such conditions;
- (v) Because of trade liberalization, the benefits from trade, which have in the past focused on tariff revenue, will have to be redefined. Therefore, Botswana's trade policy should look more towards industrial development,

attracting FDI and domestic investment, and less towards inward looking policies;

(vi) On the domestic front, Vision 2016 defines Botswana of 2016 as an industrialized, prosperous and diversified economy that will have achieved full employment, eradicated poverty and participating in the global economy and trade as a proud and prosperous nation. To this end, various policies have been put in place to support the realization of this ideal. Trade policy will require full implementation of these policies in order to achieve the ideals of the Vision;

(vii) Trade policy will have to result in export-led growth with a human face. All Chapters and Sections dealing with trade policy and the environment, linking trade policy to poverty reduction, gender, youth and intellectual property rights, as well as streamlining trade policy into NDPs point to this.

2.2 Given the above background, the proposed Botswana trade policy objectives are divided into two broad categories:

***Category I: Objectives derived from the analysis of Botswana trade and domestic policy environment***

1. Previous and current NDPs and the current one state the two main broad objectives of trade policy for Botswana as (i) Achieving the broadest possible free and reliable access to markets for Botswana's exports of goods and services, especially within the Southern African region, and (ii) enabling producers and consumers to have access to the widest choices of international goods and services on the best possible terms;

2. To achieve industrial development and economic diversification that are premised on the participation of both citizen and foreign owned firms, and assisted by Government as a facilitator in providing a private sector friendly economic environment;
3. To achieve export-led growth with a human face that will result in full employment of labor and other resources and the eradication of poverty according to the aspirations of Vision 2016;
4. Achieving economic integration among regional trading partners as well as non-regional trading partners through the application of trade policy instruments, norms and standards;
5. To achieve export-led growth that is environmentally friendly;
6. To improve food security through trade;

***Category II: Objectives derived from best practice in international trade worldwide.***

7. Advocating for market access abroad through bilateral, regional and multilateral trade agreements to reduce and/or eliminate tariff and non-tariff barriers;
8. Negotiating and putting in place anti-dumping, safeguard and countervailing duty measures to protect domestic producers and consumers;
9. Reducing barriers to trade in goods and services for all bilateral, regional and multilateral trading partners through greater implementation of international trade policy standards, instruments and agreements entered into through trade negotiations;

10. Developing and maintaining effective international trade policy instruments, norms and standards in line with the needs of the ever changing global economy;
11. Promoting the value and effectiveness of trade facilitation instruments and standards in trade and economic development;
12. Facilitating trade policy development through the provision of an open international platform for the exchange of views, particularly for the benefit of regional trading economies such as SACU and SADC.

### **3. *BOTSWANA'S EXTERNAL POLICY OBLIGATIONS AND TRADE POLICY***

The Chapter on Botswana's external trade policy obligations outlines Botswana's trade agreements with bilateral, regional and multilateral trading partners with a view to identify the country's opportunities and challenges as well as obligations that will have a bearing on the country's trade policy. The Section further highlights the major questions that Botswana's trade policy should address, decisions that need to be taken to address the questions as well as the trade –offs for Botswana's trade policy. The Chapter covers the following trade agreements.

### 3.1 The Southern African Customs Union (SACU)

The SACU Agreement was first signed in 1910, between South Africa and Botswana Lesotho and Swaziland (BLS) countries<sup>1</sup>. The agreement provided for a Customs Union in which there is duty free and quota free movement of goods between Members States while maintaining a common external tariff (CET) for non-members. It also provided for free transit of goods consigned for the landlocked BLS Members States together with an 8 year infant industry protection. Most importantly, the agreement had common pool revenue solely administered by South Africa.

Because of its institutional structure and tariff policy, the SACU Agreement of 1910 along with its 1969 revised version had a number of areas with which the BLS countries were dissatisfied. These included the fact that (i) SACU tariffs which were set by South Africa on behalf of other members (Under Article 4) were exploited by South Africa to serve its industrial development policy objectives at the expense of those of the BLNS countries. The common external tariff had *price-raising effects* and *industrial polarization effects*, all of which were detrimental to industrial development and economic diversification in the BLNS countries; (ii) the SACU agreement had no provisions for anti-dumping and left Botswana helpless when her soda ash was being under-cut by the US under-priced Soda exports to South Africa. (iii) The CET of SACU was high, complicated and unstable because of the unusually high influence of South Africa's business community in its setting. This created uncertainty for both domestic and foreign investors in the BLNS and thus discouraged private sector investment. For all these problems, the BLNS were compensated with tariff revenue (even though they were never really satisfied) which involved increasing their tariff revenue share by a 42 percent "compensation factor" and stabilizing their share of pool revenue between the "17 percent lower bound and 23 percent upper bound."

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<sup>1</sup> The BLS have recently been joined by Namibia to become the BLNS.

The democratization of South Africa in 1994 led to the renegotiation of the SACU agreement which resulted in the New SACU Agreement of 10 October, 2002 (SACUA2002). SACUA2002 provides for a radical change in both SACU operational practices and institutions arrangements. From an in-depth analysis of the SACUA2002 emerge the following policy decisions and options that should inform Botswana's new trade policy.

- (i) Botswana will have to make an important decision regarding the purpose and importance of SACU revenue vis-à-vis industrial and agricultural development. This is because for South Africa, the tariff is an instrument of industrial policy to serve the industrialization objective, while for the BLNS countries the CET tariff is a major source of government revenue. *Therefore Botswana will have to make a decision on whether she should continue to emphasize the prominence of tariff revenue benefit in SACU as is currently the case among the BLNS countries or move to emphasise industrial development, economic diversification and employment creation above the tariff revenue benefit as it is currently the case with South Africa.* Further, with trade liberalization, especially in South Africa which has committed herself to liberalize trade in line with her WTO and other trade commitments like the Trade, Development and Cooperation Agreement (TDCA), tariff revenue is likely to decline significantly in the next decade. *Thus, in her new trade policy, Botswana will have to emphasize trade policy benefits such as industrial development, economic diversification and FDI from South Africa and other countries instead of tariff revenue;*
  
- (ii) Because of the differences in the levels of economic development for South Africa on the one side and the BLNS on the other side, the *design, implementation and monitoring of common industrial and agricultural policies will prove a daunting challenge in terms of the required technical expertise and political support. On the economic side, it will require targeted provision of infrastructure, fiscal incentives and the development of an overall regional industrial and*

*agricultural development policies that goes beyond the current infant industry provision. Botswana should make these policy issues the main negotiating agenda in SACU;*

- (iii) *For the BLNS to get the best out of the New SACUA2002, they will need to build technical expertise in both tariff negotiations and management in order to be able to match their South African counterparts who have been at it for a very long time. Further, tough and experienced negotiators, armed with well researched country needs of the BLNS must be at the forefront of the negotiations;*
  
- (iv) South Africa's International Trade Administration Commission (ITAC) was delegated to continue to administer the SACU tariff as it was in the 1969 agreement until new National Bodies have been created to take over. This therefore means that, four years after the SACUA2002 was signed, the negative impact of South Africa's tariff structure on the BLNS countries, namely, the "price raising effect" and the "industrial polarization effect" remain and continue to retard industrialization and economic diversification efforts in the BNLS. *Therefore, Botswana will have to form her National Tariff Body as a matter of priority and assist the other BLNS countries to form theirs as well. To this end, the first task of the National Tariff Bodies should be a substantive review of the SACU tariff structure with a view to finding how it may be restructured to support industrial and agricultural development in the BLNS. The proposed tariff body will administer tariff policy, implement safeguard measures and make investigations of allegations of unfair trade practices and other trade policy malpractices.*

### **3.2 The EU-South Africa Trade, Development and Cooperation Agreement**

The Trade, Development and Cooperation Agreement (TDCA) between the European Union and South Africa was signed to establish a Free Trade Area (FTA) on 12 December, 1999. According to the Agreement, the TDCA is to establish a FTA which will be in conformity with the WTO provisions for FTAs. The FTA is to be established



over a period of 12 years for South Africa and 10 years for the EU. The objectives of the TDCA (see Article 1) are, among others, to (i) promote regional cooperation and economic integration in the Southern Africa Region to contribute to its harmonious and sustainable economic and social development; and (ii) to promote the expansion and reciprocal liberalization of mutual trade in goods, services and capital. The trade policy decisions and options for Botswana under the TDCA are:

- (i) Because of the SACU Agreement, Botswana and the other BNLS countries are *de facto* implementers of the agreement. Thus, just like the firms in South Africa, firms in the BLNS will have to face steep competition from EU imports. This may have a significant impact on firms, as it may lead to restructuring and in some cases closure with the concomitant result of unemployment and increased number of people below the poverty datum line in the country. *Botswana and the other BLNS countries will have to pressurize both South Africa and the EU to recognize and take into account their vulnerabilities as small, landlocked and primary export dependant countries, in the execution of this agreement. To this end, technical assistance, which may be in the form of aid for trade, especially that relating to restructuring adjustment costs, the loss of tariff revenue and employment, will have to be sought for;*
- (ii) *The TDCA requires South Africa to consult with the EU on matters of trade policy before any changes or new trade agreement can be entered into with third parties. The BLNS countries, in particular Botswana, will have to push the EU and South Africa to extend this provision to them as de facto implementers of the agreement;*
- (iii) Even though the TDCA provides for protection of infant industries, this provision was made mainly for the interests of South African firms and may not be adequate for the small, landlocked and vulnerable economies of the BLNS. Since the TDCA requires WTO compatibility which is defined in terms of Article XXIV of GATT 1994, flexibility to cater for the development concerns of the BLNS

countries will be a problem until this WTO provision on RTAs is changed. *Botswana has to support the Africa, Caribbean and Pacific (ACP) countries submission to the WTO to have these provisions included in Article XXIV of GATT 1994.*

### **3.3 The SADC Trade Protocol**

The SADC Trade Protocol was signed in 1996 and ratified in September 2000. The Protocol aims to have a FTA by 2008 and a customs union that is compatible with the provisions of Article XXIV of GATT 1994 by 2010. The main objective of the SADC Trade Protocol is to provide increased intra-SADC free trade by creating conditions that are conducive for free trade between Member States. The trade policy decisions and options under the SADC Trade Protocol include:

- (i) *Tariff Reductions in SADC* - in order to meet the FTA target of 85 percent trade liberalization by 2008 and Customs Union target by 2010, each country has offered a tariff phase-down schedule for its tariff reductions. However, *back-loading of tariff* reductions is common in SADC. This is mainly because countries fear the implications of the Protocol implementation on existing industries ability to survive increased regional competition, the cost of industrial restructuring on employment creation and, perhaps most important, the tariff revenue implications for countries which depend on tariff revenue for a significant proportion of their recurrent and development expenditure (Kalenga, 2004).

Given the importance of SADC as a potential market for Botswana's manufactured exports and the importance this means to Botswana's industrial development and economic diversification, Botswana will have to advocate for the following policies in SADC which will support her new trade policy:

- Fast-tracking of tariff reductions in SADC, especially of less sensitive products in order to speed up implementation;
  - Harmonization of tariff schedules to ensure that the 2010 deadline for a Customs Union is met and a common external tariff that will eliminate problems of “tariff-jumping” or “tariff-deflection” cited above is realized;
  - Avoiding back-loading in SADC tariff reductions as this spells dangers of potential failure to implement tariff reductions at the end of the period which may prolong the realization of the SADC customs union.
- (ii) *Non-Tariff Barriers (NTBs)* – these have been identified as a major impediment to intra-SADC free trade. The most important among these are the Rules of Origin (ROO) (Kalenga, 2004, and 2005). Due to actual/potential problems of dumping from Asian countries and weak SADC countries’ customs administrations that could allow “trade deflection” or “tariff jumping,” SADC ROO have been made *complex, cumbersome and product-specific, and thus very restrictive*. Other very restrictive SADC NTBs include cumbersome customs procedures and documentation; cumbersome import licensing/permits; cumbersome export licensing/permits; import and export quotas and unnecessary import bans/prohibitions (Kalenga, 2004, and 2005). In the agricultural sector, sanitary and phytosanitary (SPS) measures are also used to protect products like wheat, being justified on safety and health reasons. Even though it may be justifiable in some cases like the control of foot and mouth disease, in most cases, these NTBs are used as instruments for protectionism.

*Botswana will have to strengthen her negotiating capacity at the SADC level to advocate for the reduction/eradication of NTBs in order to increase opportunity for the success of her export-led growth strategy. The following are the policies Botswana should advocate for:*

- *SADC to follow the WTO on dealing with NTBs which involves tariffication of NTBs to their tariff equivalents and then following the WTO tariff reduction schedules to reduce and finally eliminate them;*
- *Simplify rules of origin so that they allow more intra-SADC trade flows between Member States*
- *Follow the recommendations of the WCO on trade facilitation which proposes simplification of customs procedures as this would allow more intra-SADC trade flows; and*
- *Remove all non-tariff barriers to trade among SADC Members States in order to achieve the desired FTA by 2008 and Customs Union by 2010.*

(iii) *Membership to Multiplicity of Regional Trading Blocs* – a major challenge in SADC is that SADC countries belong to a multiplicity of regional trading blocs and this has a number of important implications for the realization of the SADC Trade Protocol:

- (a) For a region with limited negotiating capacity like SADC, this creates strain on the already limited financial and human resources for trade negotiation, thus making trade negotiations unduly long and costly;
- (b) Because of availability of easy options, Member States are unlikely to be committed to tariff and NTBs reforms, knowing that they can choose to move to a regional bloc(s) with less onerous conditions. This undermines not only the commitment of Member States to the process of trade liberalization, but also disempowers committed Members when it comes to disciplining non-cooperative members; and
- (c) Further, as may be expected under the above conditions,

implementation record has not been good in SADC, suggesting that more needs to be done to achieve trade liberalization.

*Botswana should spearhead the call for all SADC countries to belong to one regional body that will allow them to have a common external tariff and thus form a customs union, minimize on the limited human and financial resources in the region and optimize the benefits of regional integration by focusing all effort on one viable and sustainable regional integration body.*

### **3.4 Economic Partnership Agreements (EPAs)**

The non-reciprocal trade relationship between the EU and the 77 Africa, Pacific and Caribbean (ACP) countries has, in the past few years, been changed to establish a reciprocal trade relationship that will be WTO compatible in line with the most favored nation (MFN) principle. According to article 20 of the Cotonou Agreement, the main objectives of the EU-ACP development cooperation are (i) to achieve economic development for poverty reduction and (ii) to achieve both regional integration and integration into the global economy.

From the EU perspective, the EPAs have potential benefits for the ACP countries because of the benefits that will come from reciprocity and regional integration (Bilal and Rampa, 2006). On the issue of reciprocity, the EU argues that consumers in the ACP will benefit from low cost imports. Further, there will be increased competition in the ACP that will encourage efficiency and competition according to comparative advantage, increased investment and technological transfer from the EU to the ACP. In addition to these benefits, regional integration is expected to assist the ACP countries to achieve economies of scale in production and thus become competitive which will assist them to become globally competitive.

The ACP perspective on the above issues is cautious optimism. According to the ACP, the benefits of reciprocity and regional integration will not be realized unless adjustment costs for the ACP together with their supply constraints are addressed (Bilal and Rampa, 2006). If this is not done, the adjustment costs to the ACP countries and the foreign exchange earnings losses due to preference margin erosion will exceed the envisaged potential gains.

*The Trade Policy Decisions and Options Under The EPAs* - even though the EU portrays the EPAs as having significant potential benefits for the ACP countries (Bilal and Rampa, 2006), these benefits have significant trade-offs that must be taken into account.

- (i) There will be significant tariff revenue loss due to trade liberalization and the erosion of trade preferences for the ACP countries,
- (ii) The EU free access into the ACP markets may lead to the establishment of core-periphery relationship between the EU and the ACP countries as the more technologically advanced EU firms export their products into the ACP markets, out-competing the latter's less efficient firms, and thus preventing the ACP to develop and establish their own industries as well as resulting in increased unemployment and poverty;
- (iii) The potential industrial polarization implied by the preceding point; and
- (iv) The EPAs bring together the developed and developing countries in a North-South RTA. Because of this, there is need for flexibility to allow for asymmetry in tariff reduction processes in the EPAs to take account of the development concerns of developing countries vis-à-vis the developed EU countries. This is not provided for in Article XXIV of GATT 1994.

Given the above challenges, Botswana's trade policy will have to (i) advocate for assistance (such as the much talked about *aid for trade*) in order for the country to

be able to absorb the adjustments costs of implementing the EPAs, (ii) find more reliable and sustainable alternative sources of income; (iii) advocate for the need for the ACP countries to strengthen their South-South trade, both among themselves and with other developing country regional blocs; and (iv) more importantly, Botswana must support the submission of the ACP countries to the WTO on 28 April 2004, which is pushing hard for the inclusion of flexibilities that will take account of the development concerns of developing countries in Article XXIV of GATT 1994.

### **3.5 Africa Growth and Opportunity Act (AGOA)**

The AGOA is an initiative of the US government which is intended to promote US-Africa trade. AGOA was signed in September, 2000 and allows Sub-Saharan African countries duty free and quota free access to the US market provided they meet certain country and product eligibility criteria. Initially, Sub-Saharan countries with a per capita income of US\$1500 were not eligible. These included Botswana, Gabon, Mauritius, Namibia, Seychelles and South Africa. However, these countries have since negotiated with the US and were given special eligibility up to 2007. The other countries AGOA period was up to 2008, and has since (AGOA Acceleration Act of 2004) been extended to 2015.

Given this, the trade policy decisions and options under AGOA will include:

First, AGOA has up to 6500 product lines which enter duty free into the US market and Botswana has only benefited from exports of textile and apparel. There is therefore a need to explore not only possibilities of accessing the other ranges of benefits, but also diversifying products even within the textile and apparel sectors. Secondly, Botswana should advocate for extension of her LDC status in AGOA so that she may continue to export textiles and apparel to the US market up to 2015.

### 3.6 World Trade Organisation (WTO)

The WTO major objective is to achieve free trade among member countries and the process of globalization entailed in free trade. This involves facilitation of the implementation of WTO obligations by Member Countries, as well as facilitation of administration and operations of the multilateral trade agreements. Further, the WTO provides a forum where these agreements are negotiated in order to achieve mutually beneficial trade based on consensus and the most favored nation (MFN) principles. Botswana became a WTO Signatory in 1995. From the WTO perspective, Botswana's trade policy decisions and options will have to include and take account of the following WTO obligations:

- On NAMA, Member Countries are expected to declare their bound and applied tariffs to the WTO and apply the agreed tariff formula (The simple Swiss formula was chosen to be used even though discussions on modalities have been suspended indefinitely) to eliminate tariff peaks, high tariffs and tariff escalation. *Botswana has declared her common external tariff for SACU along with other members. Non-LDC SACU Members will be expected to apply the simple Swiss formula if it can finally be adopted. Likewise, for the agricultural sector, the agreed formula will have to be applied accordingly;*
- On agriculture, Member countries are expected to improve market access through (i) reduction of subsidies, taking into account the protection of sensitive products through the use of the blended formula for tariff cuts and (ii) reduction/removal of export subsidies, especially in products that are important to developing countries;
- With regard to non-tariff barriers, Botswana and other SACU members are to simplify and make their NTBs transparent. Further, they are to convert their non-tariff barriers to their ad valorem tariff equivalents, and then bind and apply the



agreed tariff reduction formula to reduce them. Discussions on the modalities on this process are also to be agreed at the WTO;

- WTO trade negotiations also cover a wide range of trade issues including trade in services, trade-related aspects of intellectual property rights (TRIPS), trade facilitation, trade and environment, trade and the transfer of technology, and electronic commerce (e-commerce). While not much ground has been covered on these issues because most of them are relatively new in the WTO agenda, advances at the WTO are moving fast and would require that Botswana and other SACU members move fast to cover these issues as part of their WTO obligations. Hence, Botswana's trade policy document will have to cover these issues;
- Even though the WTO Doha Development Agenda provides for Special and Differential Treatment (SDT) of developing countries, this provision is not covered in Article XXIV of GATT 1994, for FTAs or customs unions. The WTO provision states that for a FTA or customs union to be formed, trade liberalization must occur in "substantially all goods," and should be done within a "reasonable length of time" where this is defined as a maximum period of 10 to 12 years. This provision lacks flexibility to accommodate the development concerns of developing countries. Botswana, as a Member of SACU and SADC, will thus have to advocate for the inclusion of SDT in Article XXIV;
- The suspended WTO talks on both agricultural and non-agricultural market access show that the simple Swiss formula has been chosen for tariff cuts, even though the modalities have not been finalized. The use of the simple Swiss formula cuts deeply into tariffs and thus has significant implications for (i) *industrial development* in developing countries where tariff protection is still required for infant industries, (ii) *tariff revenue*, because many developing countries still depend on this for a significant proportion of their recurrent and development expenditure, and (iii) deeper tariff cuts will also result in *significant adjustment costs* in developing countries as firms restructure due to increased competition which may

result in firms closures and increased unemployment. Botswana and her negotiating partners should thus continue to advocate for:

- ❖ gradual liberalization on the part of developing countries in line with the flexibilities provided for in Paragraph 8 of Annex B of the Doha Development Agenda, especially in sensitive agricultural products for developing and least developed countries;
- ❖ non-stringent tariff reduction measures that give developing countries policy space to pursue their industrial development and economic diversification objectives;
- ❖ the developed countries' speedy liberalization of the agricultural sector since this is where products of interest to developing countries have comparative advantage<sup>2</sup>;
- ❖ Explore the possibilities to make full and beneficial use of the provisions for capacity building, including "*Aid for Trade*" which the WTO commits to embark on in order to aid the developing countries' efforts to expand trade.

### **3.8 Bilateral Agreements and On-going Trade Negotiations**

In addition to the multilateral agreements discussed above, Botswana has other agreements covering issues of market access and mutually beneficial trade with bilateral and regional trading partners. Interestingly, most of these countries are either Members

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<sup>2</sup> This point is mainly relevant for developing countries that do not have preferential access to the EU and US market. For most SADC countries, "speedy liberalization" of the agricultural sector would mean greater losses due to erosion of preference margins. However, since the EPAs are already moving the ACP countries in this direction, it would seem that it will be in the best interest of these countries to see more agricultural liberalization in order to take advantage of their comparative advantage. In other words, given the direction of negotiations at the EPAs, the ACP countries are better off supporting the non-ACP countries in calling for more trade liberalization, albeit at a slower pace.

of SADC or WTO or both. These include bilateral agreements with India, Malawi, Zambia and Zimbabwe; as well as the recently concluded SACU-EFTA Free Trade Agreement which was signed between SACU and the EFTA countries, namely Iceland, Liechtenstein, Norway and the Swiss Confederation on 26 August, 2005. The SACU-MERCOSUR free trade agreement which was signed between SACU and the MERCOSUR countries, namely Argentina, Brazil, Paraguay and Uruguay.

On-going negotiations in the SACU include the SACU-US trade negotiations for free trade. These have progressed slower than expected due mainly to negotiating capacity constraints on the side of SACU and divergent views on key issues of the negotiations (The Fifth US Annual Report, 2005). Other negotiations on the pipeline include SACU/India free trade negotiations and SACU/China Free trade negotiations.

*These policy agreements have important implications for Botswana trade policy. Botswana has adopted a trade policy in which she has market access to other countries across the globe while these countries also expect the same. This is reflected in Botswana's domestic policies and should be part of private sector strategy for export competitiveness and penetration of world markets.*

#### **4. BOTSWANA'S DOMESTIC POLICY ENVIRONMENT AND TRADE POLICY**

Botswana has chosen a private sector-led economic development strategy in which government plays a facilitative role by providing a private sector investment friendly environment while the latter plays a leading role in the economy when it comes to the production of goods and services. This study reviewed Botswana's domestic economic policies with a view to indicate how they are supportive (or not supportive) of the country's proposed trade policy in the areas of industrial development, food security and agricultural export development and export competitiveness. From a review of the policies the following findings and conclusions emerge:

- 4.1 **Botswana's National Development Plans** (NDPs) define a broad policy environment for Botswana which is based on the principles of democracy, development, self-reliance and unity. This policy environment has been able to create an economic and political stability rarely found in most parts of Africa. This environment is important for private sector investment decisions which are essential for the success of an export-led growth strategy that Botswana has chosen;
- 4.2 In addition, the NDPs and **Vision 2016** define Botswana of 2016 as an economy that will be industrialized and diversified as well as having achieved full employment of labor and other resources together with the eradication of absolute poverty;
- 4.3 Most important, both NDPs and Vision 2016 envision achieving these ideals in a globalized economic environment in which all firms, whether citizen-owned or foreign-owned, will compete in the domestic environment that will be generally free from government intervention. Botswana's domestic policies are also formulated to support the country's export-oriented development strategy. These policies are discussed next.
- 4.4 *The National Export Strategy* emphasis the importance of export development strategies and penetration of world markets by identifying priority sectors where Botswana has competitive advantage. These include:
- Arts and Crafts
  - Garments and Textiles
  - Hides and Skins
  - Jewellery
  - Leather and Leather products
  - Meat and Meat products.
- 4.5 **Botswana's Industrial Development Policy (BIDP)** emphasizes firm competitiveness in a globalized economic setting in which firms compete on the basis of price, quality and uniqueness of their products as well as the productivity

of their labor. Neither the proposed Botswana trade policy nor the BIDP provide for industrial and agricultural development behind high tariff and non-tariff barriers, save for the infant industry protection under SACU. Further, the BIDP emphasizes export promotion and export support measures such as export insurance coverage and financial assistance in the form of loans;

4.6 ***The Small, Medium and Micro Enterprises (SMME) Policy*** emphasizes export promotion in industries that have vertical and horizontal linkages with Botswana's primary sectors of agriculture, mining and tourism. It also emphasizes citizen entrepreneurship and empowerment. To this end, the SMME Policy shows an important link between trade policy and SMME policy relating to export promotion, economic empowerment and entrepreneurial development.

4.7 ***Foreign Direct Investment Policy*** (FDI) Botswana has always recognized the importance of FDI as a source of managerial, technical and professional skills, appropriate and modern technology and access to and knowledge of export markets. The smallness of the country's domestic markets and the limited local entrepreneurial skills have also made FDI appear important to policy makers in the country. To this end, FDI has always been seen as having potential to achieve Botswana's ambitious objectives of economic diversification and eradication of poverty by 2016. *However, Botswana trade policy will need to consider the importance of a balance between FDI and citizen economic empowerment.* Based on the treatment of non-citizen professionals and foreign firms, foreign investors have appeared to be given preference over citizen investors, thus creating the unwanted ill-feelings of xenophobia and other anti-foreigner sentiments in the country. *Nevertheless, it would appear that reserving certain economic activities for citizens in areas where they have capacity to meet the required quality, time delivery and pricing standards is a desirable policy for a country with a private sector that is still in its growing stage. Given this, it may be necessary for*

*Botswana to come up with a comprehensive economic empowerment policy and law;*

4.8 ***National Master Plan for Arable Agriculture and Dairy Development***

***(NAMPAADD)*** – a major objective of NAMPAADD is to commercialize agriculture and this serves two important trade policy objectives for trade policy. The first would involve *replacing imports where Botswana has comparative advantage* with a view to capture a significant proportion of the market of agricultural fresh produce and dairy products currently imported from South Africa; Secondly, horticulture is currently a lucrative business with a big market in the EU. Therefore in this area, NAMPAADD will serve the export-orientation objective of Botswana trade policy. Therefore, the development of NAMPAADD which will modernize and commercialize agriculture is very important for Botswana's trade policy;

4.9 NAMPAADD is complimentary to the ***National Rural Development***

***Policy and Tourism Policy*** and is also an integral part of the agricultural policy of Botswana which talks about food security and economic diversification. These policies advocate for the development of rural industries and the promotion of private sector activity in rural areas. The policies see potential for the rural economy to generate incomes, create sustainable employment and generate foreign exchange earnings as well as government revenue. Thus, these policies take trade policy implementation to the rural economy;

4.10 ***Privatization Policy*** and the ***Competition Policy and law*** are complimentary. The

former recognizes the importance of the private sector in trade policy formulation and implementation, and thus assumes the existence and potential for the private sector to deliver better goods and services in some sectors where private profit returns are higher than social returns. On the other hand, competition policy recognizes the fact that the benefits of trade policy may not be fully realized unless there is an effective regulatory body to ensure that anti-competitive pricing

behavior, which is often employed by firms where such a regulatory body is non-existent, is outlawed. Botswana's trade policy will require these policies to be more effective and successful.

It is therefore, evident from the above discussions that Botswana's domestic policies are generally supportive of the country's trade policy. The policies emphasize firm competitiveness in a free market economy both in rural and urban areas. Thus, Botswana's trade policy should be structured to transform the economy, so that the country is integrated into the global economy for the benefit of all its citizens.

## **5. *OPPORTUNITIES AND CHALLENGES FOR TRADE POLICY***

Even though Trade policy is important for all countries and is desirable for any country to be successfully integrated into the global economy as both an effective participant and beneficiary, the benefits of trade are not always fully realized because trade policy generally faces challenges relating to the enabling business environment, capacity development, infrastructure development, domestic market demand challenges as well as regional and international trade factors. Below is a brief outline of each of these factors and indication of how important they are for successful trade policy formulation and implementation.

*The enabling business environment* covers issues such as good governance, which is anchored on the principles of democratic practice, human rights, political freedom and the rule of law. Enabling environment also incorporates the macroeconomic environment which must be characterized by appropriate fiscal and monetary policies that are supportive of private sector investment initiative. In addition, an appropriate legal and regulatory framework is also essential for business because it defines the level of protection of businesses as well as individual consumers. An appropriate enabling environment must also have positive economic regulation and competition policy in order to curb and bring under control unfair and uncompetitive pricing practices that often

stifle honest business ventures in many developing countries. However, it is recognized that given the FIAS Report, Government is working towards improving and removing most, if not all, of these impediments.

*Capacity constraints* refers to a situation in which a country is not able to achieve its policy objectives due to shortage or lack of certain fundamentals that must be available for a country to achieve desired levels of output. The formulation of trade policy will thus emphasize the need for capacity development in the area of human skills development, especially in relation to skills in sectors that are deemed to be actual and/or potential engines of growth in the domestic as well as the global economy. Botswana has been found to suffer from job-skills mismatch in areas that are important for trade policy implementation. *Even though the Ministry of Education appears to be addressing these gaps, the dynamic global economic environment suggests that a programme of continuous skills up-grading and on-the job training will be required for the success of Botswana's trade policy. Thus, capacity constraints may be due to technical constraints that require training as discussed above, institutional constraints which calls for capacity building and legal constraints which require recruitment and/or training of legal experts.*

*Private sector development* is important to take advantage of the emerging domestic and global business opportunities that government may identify and provide incentives for their development. The private sector in Botswana is still at a nascent stage and will need more support to grow and develop to the level where the country will have effective multinationals to participate in the global economy. To this end, *institutional capacity building* will also be important for the success of Botswana's trade policy. This will involve, among others, assisting the Ministry of Trade and Industry with financial resources, infrastructural resources and human resources, so that it can effectively discharge its mandate in trade policy formulation and implementation. Capacity building also covers issues of *market demand* in terms of the market size and the ability of businesses, households and individual consumers to purchase the goods and services that are being produced. Because of the smallness of the domestic market, Botswana will



have to target the 230 million people in the SADC market through active and effective participation in the SADC trade protocol.

*Trade Policy Strategy* – the opportunities and challenges of trade policy hinge around the existence of an appropriate policy environment. Because of the dynamic nature of the global economy, Botswana’s trade policy must be accompanied by deliberate efforts to align the country’s economic environment to the changing needs of Botswana’s private sector in the global economy.

## **6. TRADE POLICY INSTRUMENTS**

Trade policy instruments are all the measures that are used to affect imports, exports and the production of goods and services and thus influence the direction and pattern of trade. The outline of trade policy instruments should be informed by a country’s national needs, which include stimulation of domestic production, promotion of exports, protection of consumers and safeguarding domestic industry against dumping practices. Trade policy instruments should be applied in a manner that will ensure compliance with the country’s international trade obligations such as the various WTO agreements. The trade policy instruments include tariffs, taxation, and nontariff measures such as quotas, import licensing and registration, pre-shipment inspection, and customs valuation, state trading operations, government procurement and administrative barriers.

6.1 On issues of *tariffs* the study recommends that Botswana’s new trade policy should exploit the opportunities offered by the democratized SACU to (i) effect the new tariff policy in which tariffs will be proposed and prepared by a tariff tribunal which will be representative of all member countries to ensure equitable industrial distribution in SACU; (ii) review the current SACU tariff structure with a view to identify those that have more adverse effects on the sensitive commodities of high export potential for the BLNS countries and (iii) suggest a review of such tariff structures; and (iv) insist that, even though Botswana is a

- middle income developing country, she should continue to be adequately compensated under the new arrangement;
- 6.2 On *taxation*, the proposed trade policy recommends that Botswana should continue to review and rationalize her tax regime in order to (i) continue to have it support a competitive industrial policy, while simultaneously (ii) contributing positively to sustainable government revenue and (iii) according the country's exports a competitive edge in world markets;
- 6.3 *Non-tariff measures* are used for purposes of protecting the domestic industries. They are imposed by restricting imports into the country and they include quotas, import licensing and registration, pre-shipment inspection, and customs valuation, state trading operations, government procurement and administrative barriers.
- 6.4 The proposed trade policy recommends that Botswana should adopt and advocate, in the context of both regional trading blocs such as SACU and SADC and the domestic trade policy environment, the adoption of the WTO stance on *non-tariff barriers*. This requires the rationalization of non-tariff barriers and their tariffication to their tariff equivalents in order to not only make them transparent and manageable, but also make it possible to cut them using the WTO negotiated tariff formulas. This policy would apply to non-tariff barriers such as import quotas other quantifiable non-tariff barriers;
- 6.5 The policy also recommends that Botswana should continue to pursue *customs policies* that promote transparency, fair and efficient customs valuation procedures. Further, Botswana should advocate for the speedy implementation of the SADC Trade Protocol so that the benefits of effective customs procedures can be realized at the wider regional level;
- 6.6 On *Technical Standards and Regulations*, Botswana, as a member of the WTO, is expected to comply with WTO requirements, including those on technical

standards and regulations. The study found that even though Botswana is able to meet the ever increasingly stringent EU sanitary requirements, the country still needs to work on improving its policies in this area in order to adequately meet the EU standards for the beef and ostrich sectors. Likewise, for phyto-sanitary standards, the study recommends that the country needs to build capacity to deal with plant disease and pest outbreaks as well as their prevention;

- 6.7 The study found that on *import prohibitions*, there are different licensing requirements for importation of different products. The licensing is handled by different Ministries, including the Ministry of Agriculture for the agricultural products, Ministry of Trade and Industry for non-agricultural products and the Ministry of Environment, Wildlife and Tourism for endangered species. Since this has potential to create bureaucratic red tape and coordination problems, the study *recommends that in the interest of effective coordination and implementation, Botswana should build the institutional capacity of the Department of International Trade to coordinate and implement trade policies;*
- 6.8 *Government procurement*, especially in Botswana where Government is one huge spender is a very important component that can impact significantly on the domestic businesses. Government procurement in Botswana pits domestic companies and foreign companies to compete for government demand for goods and services. Because of this government has set aside some reservation schemes within the public procurement processes that are meant to pursue certain economic and social objectives, such as citizen empowerment. In addition, Government has come up with guidelines on the use of locally manufactured goods and services, which require that central and local government institutions and parastatal organizations procure all their goods and services from locally based firms, ‘provided that the goods and services are locally available, competitively priced and meet tender specifications...’ The establishment of the Public Procurement and Asset Disposal Board has contributed to enhancing transparency in government procurement. Given this, trade policy recommends

that, *while it is important, in the interest of fostering competition and efficiency in the delivery of public goods and services, to open up government procurement to both citizen and foreign-owned firms, Government should at the same time continue to maintain reservation schemes that are meant to achieve the objectives of citizen economic empowerment and access to productive economic resources as well as support for citizen entrepreneurial development. However, this policy should encourage competitiveness as the first best choice mode for firms so as to discourage rent-seeking and firms' desire to remain "forever young;"*

6.9 *Trade Defense Measures* are measures with a provisional WTO allowance to be used by countries to protect some production activities that face competition risk if not protected. These include subsidies, safeguard measures, antidumping, and rules of origin. SACU has in place a Tariff Board, which over and above tariff setting functions, deals with issues of unfair trade practices such as anti-dumping, countervailing and safeguard mechanism (Article 11). The extent to which these mechanisms can be put to use is dependent on the capacity of Botswana as a member of SACU to detect and bring to the attention of SACU Secretariat cases of unfair trade practices. Botswana does not provide direct domestic and export subsidies, save in the case of indirect CEDA interest subsidized loans. *To this end, the study recommends that Botswana should build capacity to deal with trade defense matters;*

6.10 *Trade Development Policy Instruments* are policies that are used for export promotion and the expansion of trade. They address supply side constraints of production. These include investment code and rules, export processing zones, export promotion measures and export facilitation measures. Botswana does not pursue any export processing zones initiatives. The export promotion activities are being handled by the Botswana Export Development and Investment Authority (BEDIA), whose mandate is to attract and nurture both domestic and foreign investors. Even though BEDIA has so far appeared to have performed

well, Botswana should continue to strengthen her policy development instruments in order to effectively exploit emerging opportunities in the global market;

6.11 *International Trade Policy Instruments* are policies that are based on agreements between actual and/or potential trading partners. Their effectiveness is thus positively related to the extent and level of cooperation between trading partners. These include bilateral cooperative initiatives, regional trading arrangements and the WTO agreements. *Therefore, the study recommends that Botswana should continue to effectively participate in bilateral, regional and multilateral trade negotiations and agreements in order to (i) create market access for her export goods and services and (ii) source capital imports for her industries as well as access to diversity of goods and services for her consumers. There is more to gain from trade than from autarky;*

6.12 *The use of the Exchange Rate as an Instrument of Trade Policy* - monetary policy has also been important in counteracting the problems associated with mineral-led economic development, in particular problems associated with the boom-induced exchange rate appreciation that usually results in the adverse effects of the “Dutch Disease.” In Botswana, the exchange rate was first used as an anti-inflationary measure (1976 to 1982) to support consumer’s access to imported food and other necessities at affordable prices. When Botswana chose the export-led strategy in 1982, the use of the exchange rate was changed to that of a competitiveness measure (1982 to the present). *Therefore, the study recommends that Botswana should continue to use the exchange rate to support her export-led strategy until such time that the country is able to compete on the basis of productivity and technological innovation.*

## **7. TRADE POLICY AND PRIORITY SECTORS**

7.1 The study briefly outlined some of the Sectors that are a priority for Botswana’s economic development due to factors such as (i) contribution to economic growth

and development, (ii) contribution to government revenue and export earnings, (iii) contribution to employment creation and (iv) potential for growth in one or all of these attributes. To this end, the study discusses the mineral sector, the agricultural sector, the manufacturing sector and the services sector. Finally, an attempt is made to show how trade policy can and/or should be made to benefit these sectors;

7.2 *Minerals* are important in Botswana because they (especially diamonds) have been a major engine of growth for the country since independence. Minerals affect the domestic economy through three main economic linkages, namely the forward linkage, the backward linkage and the fiscal linkage. For Botswana, it is the latter which has been very important. Because of this the study recommends the following trade policies:

***Policy I:*** Botswana should have in-built in her trade policy the need for all mining companies that are given license to extract minerals in the country to develop both forward and backward linkage industries as this will result in a positive economic growth from mineral wealth and employment creation for poverty reduction. The new concept of beneficiation that is being discussed is a welcome development in this direction and should be reflected in the trade policy.

***Policy II:*** Government policy should continue to be that “.....the proceeds from diamonds and other non-replenishable resources, which the economy can only sell once, be re-invested in other forms of productive, renewable wealth that will continue to diversify the economy and generate income well into the future.” (National Development Plan 7:25).

***Policy III:*** Botswana has achieved a 50 percent share of her diamond proceeds. Effort should be made to increase the value of optional equity shares beyond 20 percent in order to raise the overall share of the country above 50 percent. This

could thus become a standing policy arrangement for all mineral wealth sharing arrangements.

7.3 *Agriculture* is one of the major sectors of the economy because of the contribution of the beef sector in total export earnings and employment creation benefit for the rural areas. Further, commercialization of agriculture under NAMPAADD has actual and/or potential benefits such as replacement of imports in areas where Botswana has comparative advantage as well as export orientation, which can both contribute towards employment creation and economic diversification. *Therefore, the study recommends that agriculture should continue to receive focused support and be modernized, commercialized and made competitive as recommended in NAMPAADD.*

7.4 *Manufacturing as a Priority Sector* - the conventional development path of most countries is usually characterized by the initial strong agricultural sector, which would be followed by the marked growth in the manufacturing sector and ultimately by the growth and development of the services sector. This path of development appears to have been or being followed by all countries in the process of development. Botswana is still in the stage of primary product-led development. Given this, the study recommends that the following policy strategies should be pursued in the process of manufacturing for export:

- ***Beneficiation*** involving the use of natural resources to produce finished and semi-finished products for export. This is especially important for diamonds and beef, which have hitherto been exported in raw form even though there is evidence that value creation will bring more benefits;
- ***Promotion of the growth and expansion*** of the production of existing manufactures such as clothing and apparel;

- ***Exploring for new products*** for development and promotion such as glass and glass-related products.

7.5 *Services*<sup>3</sup> have been identified as a priority sector for Botswana because of their potential and actual benefits. Services are important because of their significant contribution to economic growth, employment creation and a vital input into the production of goods and services. Services include tourism, financial services, business services, communications, transport, construction, recreation, environmental services, distribution services, health and education services. The study covered these sectors in various sections and Chapters of the Report. However, for priority sectors, the study covered only three of the services, namely tourism, financial services and education, while technological infrastructure is captured in Annex I. *The study recommends that, because these three sectors have been found to be viable and growing, and accessible to both citizen and foreign investors, trade policy should therefore continue to support their growth and development because they hold potential for income generation, employment creation and significant contribution to economic diversification.*

## 8. ***TRADE POLICY AND CROSS-CUTTING ISSUES***

8.1 This Study discussed cross-cutting issues that should be taken into account in trade policy formulation. These include trade policy and the environment, trade policy and poverty reduction, trade policy and equitable industrial development as well as trade policy and intellectual property rights.

8.2 ***Trade Policy and the Environment*** - the issue of trade policy and the environment is anchored on the concept of sustainable development. According to the Brundland Commission, sustainable development is defined as the *“development that meets the needs of the present [generation] without*

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<sup>3</sup> See ODI and BTPP/BIDPA Study on Botswana’s Services Sector for more details.



*compromising the ability of future generations to meet their own needs.*” Failure to use the environment in a sustainable way, which may be due to agricultural, mining and tourism activities may compromise sustainable development in export-led economic growth. Thus trade policy should address issues relating to the environment.

8.3 *Mining*, whether it is large scale regulated mining or small scale unregulated mining, can have adverse impact on the environment. If there is no rehabilitation policy for mining companies, land may be left exposed and degraded, unsuitable for farming or any other activity. When the mining is carried out on hilly areas and slopes, severe erosion takes place and flooding results. Water collected and stagnated in the dug-out areas contribute to health hazards, potentially increasing the incidence of malaria and other water borne diseases. Likewise, copper mining emits dangerous gasses like sulphur dioxide which is dangerous for both human beings and vegetation. Given this, the study recommends the following policies for mining:

- There is need to enforce the New Minerals Policy Act to deal with environmental degradation resulting from small mining operations, such as, sand and gravel mining;
- Botswana government has constructed a laboratory to analyse environmental pollutants and air pollution monitoring, to ensure that harmful gas emissions are within internationally acceptable levels. This should be strengthened and the law enforced to ensure that companies comply with environmental standards;
- The newly introduced Environmental Impact Assessment Act should be capacitated to prevent, control and periodically monitor mining activities harm to the environment; and

- There is need to encourage new foreign investment in the mining sector to adopt the latest environmental friendly technology in equipment, processes and management.

8.4 The negative impact of *tourism* on the environment occurs when the level of visitors is greater than the environment's handling capability. Further, tourism may affect the environment by causing depletion of natural resources, pollution, littering, land degradation through construction of housing, routes and leisure places, as well as loss of biological diversity. The following trade policy is recommended for tourism.

- Policies that enable communities to co-exists with natural resources to benefit from tourism receipts. To this end, the currently implemented Community Based Natural Resource Management Strategy should be resourced to benefit a large population of communities that live with wild animals. This will help these communities to conserve natural resources for future generations;
- Waste disposal is a major problem in highly visited areas. Some tourists on expeditions leave behind cans, trash, and toilet paper; which are not only unattractive, but also unhealthy to humans and animals. The relevant ministry should device a clear strategy on the disposal of waste in tourist areas; and
- The increased visits to tourist attraction areas were found to accelerate the degradation of the environment. The negative impact occurs when the level of visitors is greater that the environment's handling capability. The national strategy should aim for a high cost and low volume to avoid excessive negative impact on the environment.

8.5 For the *agricultural sector*, soil degradation processes such as desertification, erosion, decline in soil organic matter, soil contamination (e.g. by heavy metals), soil sealing, soil compaction, decline in soil biodiversity and salinisation can cause soil to lose its capacity to carry out its main functions. Such degradation

processes can result from inappropriate farming practices such as unbalanced fertilisation, overabstraction of groundwater for irrigation, improper use of pesticides, use of heavy machinery, and in the case of Botswana overgrazing. Agriculture is vital for the livelihood of the rural population in Botswana, and for it to continue as the source of livelihood for the current and future generations the following policies are suggested.

- There is an urgent need to define land property rights in Botswana, as a means of avoiding overgrazing due to dual grazing rights;
- There is need for the sector to improve farm management practices to avoid overstocking. This should be part of a strategy that encourages the build-up of soil organic matter, the enhancement of soil biodiversity, the reduction of soil erosion, contamination and compaction;
- There ought to be plans to deal with greenhouse gas (GHG) problems in agriculture and also how agriculture could make a positive impact to solving these problems;
- There is need for monitoring of water quality in relation to agriculture; designation of nitrate vulnerable zones; establishment of (voluntary) codes of good agricultural practice and of (obligatory) measures to be implemented in action programmes for the nitrate vulnerable zones;
- To minimize the detrimental environmental impact of pesticides there is need for strategies that informs the public about their use and any residue issues. There is a need for periodic assessment, monitoring and management of all surface waters and groundwater based on their ecological and chemical status. Furthermore measures have to be taken to reduce or eliminate emissions, discharges and losses of hazardous substances, for the protection of surface waters.

8.6 ***The Link Between Trade Policy and Poverty Reduction*** - discussions on the link between trade policy and poverty reduction are motivated by the fact that the assumption that trade policy that leads to positive economic growth would automatically lead to poverty reduction has been found to produce mixed results.

This is mainly because, while many developed countries have benefited and stand to benefit from increased free trade, for developing countries, increased free trade has benefited large developing countries (for example China and India) that have been able to adjust their economies to effectively participate in the global economy. On the other hand, developing and least developed countries (LDCs), especially those in the Sub-Saharan region and Central Asia have found themselves “left out” and “marginalised” by the world trading system. As a result, for these countries, international trade has resulted in increased poverty and income inequalities both within and between countries. *For this reason Botswana trade policy should encourage export-led growth with a human face. That is, Botswana’s new trade policy should be accompanied by deliberate policy efforts to have an inclusive economic growth that will be able to achieve Botswana’s Vision 2016 goal of eradicating absolute poverty by 2016.*

- 8.7 ***Trade Policy and Equitable Industrial Development*** - Because of the enclave nature of mining, mineral-based economies have been found to be prone to skewed development in favour of the areas with more developed infrastructure, financial resources, large market base and a developed transport system. Botswana’s booming diamond sector has not escaped this problem. Indeed, the diamond mine imports almost all of its input requirements and the selling of diamonds is handled by the de Beers Central Selling Organisation in London, United Kingdom. There is however, an exception in the case of Botswana because government has been able to secure a 50-50 percent share with De Beers mining company. This has given Government enough financial resources to provide infrastructure in most parts of the country, even though this has not been adequate to overcome the problem of skewed development.

*Botswana should therefore strengthen the provision of infrastructure and economic incentives to encourage the business community and households to locate their export businesses in rural areas. Further, Botswana should*

*strengthen the implementation of the Revised National Policy for Rural Development as a means of combating the problem of skewed development.*

8.8 ***Trade Policy and Gender (and Youth)*** - the debate on trade policy and gender (and youth) is premised on ideas of equality. While it is often assumed that both male and female have equal access to the benefits of trade, experience globally has shown that this is not generally the case. Because of this, there is a global call that, all people, whether male or female, should have equal opportunity of access to education and skills for business entrepreneurship, employment, access to economic resources such as land, finance and other business services as well as economic empowerment to participate in business decision making as equal partners with their male counterparts. To this end, trade policy should be crafted in such a way that it supports and complements the efforts made towards the repeal of laws discriminating against women by:

*(i) ensuring that decisions on trade and trade-related investments are jointly made by both men and women (where applicable), as well as ensuring that the benefits of trade are equally shared between both sexes; (ii) Both men and women have equal right and opportunity of access to productive and investment resources for trade and trade-related investments; (iii) Both have equal access and control over the benefits of trade investment returns. These benefits should also apply to the youth.*

8.9 ***Trade Policy and Intellectual Property Protection*** - this Study discussed Botswana's intellectual property rights relating to international trade. Intellectual property protection is the protection of industrial property (patents, industrial designs, trademarks, integrated circuits, plant varieties, etc) and literary and artistic property (copyrights and rights of performers, etc). It rewards creators and innovators for their creations and provides incentives for further creativity and innovation, and therefore generates greater opportunities for economic, social and cultural progress. Intellectual property protection contributes to the economic

enrichment of countries by encouraging innovation and technology transfer. It reduces the risk of imitation and piracy, hence, when strong intellectual property rights exist in a country it signals to inventors to invest in R&D for the development of new technologies. With the expectation of turning legal rights into commercial profit innovative countries then export their inventions to other countries through three main interdependent channels of technology transfer namely; international trade in goods and services, foreign direct investment, and contractual licensing of technologies and trademarks.

*Botswana's new trade policy should include the protection of intellectual property such as public access to medicine and educational material, protection of traditional knowledge and folklore, genetic resources and biodiversity. In addition, regulatory measures affecting these issues, such as those relating to the approval and registration of medicines and documentation of indigenous knowledge, should be incorporated in order to develop a consistent legal framework that enhances access and protection. In addition, intellectual property policy should be developed in line with the country's developmental objectives in areas such as industrial development, public health, food security and education. Further, intellectual property protection should be addressed at a regional level through SACU and SADC in order to strengthen its enforcement.*

## **9. TRADE POLICY IMPLEMENTATION FRAMEWORK**

It has become a stylized fact that, a well articulated trade policy comes to nothing unless it is accompanied by a clearly defined implementation framework that has consensus and buy-in from major stakeholders in an economy. Because of this, Chapter 9 provides an integrated view of trade policy which defines the content of trade policy as well as a wide spectrum of Policymakers and Stakeholders involved in the trade policy formulation and implementation. Further the Chapter details an action matrix that should guide policymakers in the implementation of the trade policy as well as its monitoring and

evaluation. Along with this, the implementation would involve trade policy decision with major possible trade-offs as indicated in Table 9.1E below.

**Table 9.1E Major Trade Policy Decisions and Possible Trade-offs**

<b>Current Trade Policy</b>	<b>Gap(s)</b>	<b>Required Decision/Action</b>	<b>Possible Trade-off(s)[gain/loss]</b>
Import Bans on Agricultural Fresh Produce	WTO and SACU/SADC Incompatible	Liberalization of the sector	Possible loss of market share by producers but gain of lower cost imports by consumers
BMC Monopoly	WTO and SACU/SADC Incompatible	Liberalization of the beef sector and abolish BMC monopoly	Possible gain of price increase by producers; but government may lose revenue while consumers may lose quality beef to the export market.
SACU revenue is main reason for Union Membership	Sacrifices industrial development and economic diversification	Make industrial development, economic diversification and employment creation major reasons for SACU membership	Possible reduction/total loss of tariff revenue
South Africa's ITAC is sole tariff management body	The BLNS needs not well represented in SACU tariff management	Expedite the process of making national bodies in the BLNS	Possible development and recurrent cost of setting up the bodies and administering them
Botswana is a de facto implementer of the TDCA	But does not participate in decision making	Lobby for participation in decision making	Gain influence in decisions that affect the country
SADC multiple membership to RTAs	Incompatible with Customs Union formation set for 2010	Push SADC to opt for a single viable and sustainable regional trading bloc	Possible split of current SADC Membership
Botswana enjoys preferential market access for beef to the EU	The trade is nonreciprocal and WTO incompatible	Make the trade relationship reciprocal and WTO compatible	Erosion of preferential margins with possible loss in revenue for beef producers and government. May also lead to agricultural and industrial restructuring and possible job losses.
Botswana has up to 6500 product lines to export to the US market under AGOA	Botswana not taking full advantage of AGOA offer	Identify niche products in the AGOA product list	Increased market access to the US



<b>Current Trade Policy</b>	<b>Gap(s)</b>	<b>Required Decision/Action</b>	<b>Possible Trade-off(s)[gain/loss]</b>
Implement WTO agricultural and non-agricultural trade agreements	As a developing country Botswana needs special and differential treatment (SDT) to achieve this	Lobby for SDT at WTO	Longer implementation periods and lower tariff cuts
Both citizen and foreign owned firms given most favoured nation status in investment incentives	Unfair trade practice generally practiced on citizen-owned firms	Formulate and implement a strong citizen economic empowerment programme	Successful development of citizen-owned firms and entrepreneurs.
Government procurement open to both citizen and foreign-owned firms	Less established citizen-owned firms often out-competed	Strengthen and implement government reservation policy where citizen have capacity to deliver quality goods on time.	Successful development of citizen-owned firms and entrepreneurs.
No requirement for incoming firms to have backward and forward linkages with local firms	Local firms denied benefit from lucrative investments by incoming firms	Make the creation of backward and forward linkages a requirement for all investors	Local investors will have a fair share of the country's growing investments
Beneficiation of primary products has just started to be encouraged	Botswana primary products exported in raw form	Encourage and educate the business community and public on the benefits of beneficiation	Increased processing of locally produced primary products.
Trade and poverty reduction through a trickle down process	Trade marginalises the poor	Make deliberate effort to have inclusive trade-driven economic growth	Reduction in poverty and income inequality

# **CHAPTER ONE**

## **BACKGROUND**

### **1. Introduction**

Trade policy plays a key role in the flow of goods and services both within and between countries. The former is called domestic trade while the latter is called international trade. The focus of this study will be on international trade. Countries rarely put in place policies that permit perfectly free international trade, in particular, the rules of trade that govern the movement of goods and services between countries. Instead, each country has a mixture of both restrictive trade policies and free trade policies, where a country's dominant trade policy will be defined by the bias towards any of these two trajectories. This introductory chapter will focus on four areas of trade policy. First, the Chapter discusses the evolution of trade policy from the Mercantilist period to the present. This will set a stage for an understanding of trade policy as it is currently practiced. Second, the Chapter discusses the context of trade policy, covering issues of bilateral, regional and multilateral trade. Third, the Chapter discusses the process of trade policy formulation as it is currently practiced. This is important as it identifies the best practice policy formulation and implementation that are potentially deemed to have better results for a country's trade-driven growth strategy. Finally, the Chapter goes on to define trade policy and come up with relevant trade policy objectives that have emerged over time.

#### **1.1. Historical Evolution of Trade Policy**

Even though trade policy has been there in one form or the other throughout the history of mankind's trade relations, organised trade policy rules appear to have emerged during the Mercantilist period (16th and 17th centuries). The Mercantilists were merchants and business people who believed that trade is a "zero-sum-game" in which one country can only benefit at the expense of the other. Consequently they advocated for restricted trade in which exports are promoted through subsidies and imports restricted through tariffs. The Mercantilist school of thought came under heavy attack during the 18th Century,

when Classical economists led by Adam Smith and David Ricardo came with a counter argument that said that if all countries were to pursue free trade policies that follow the models of absolute advantage and comparative advantage, free trade would actually be mutually beneficial to all trading partners. Therefore, the policy prescription of Classical economists differed fundamentally from those espoused by the Mercantilists because the former advocated for free trade as a standard trade policy. However, it is important to note that, due to various prevailing economic conditions in all countries, in general, no country has ever practised pure mercantilist trade policy or pure free trade policy of the classical economists. All countries have generally practised both of these policies, the difference being in the degree that each trade policy dominated.

Despite the situation described in the preceding paragraph, for many years trade policy followed the dichotomy established by the Mercantilists and the Classical economists, especially during the cold war when communist countries upheld the mercantilist trade policies and the western capitalist countries generally upheld the classical policies of free trade. This went on until the collapse of communism in Russia and Eastern Europe in the early 1980s. Since then, there is a global shift towards the classical trade policy based on the principle of free trade. To this end, even the most obstinate remaining socialist giant, China, has in 2005 joined the bandwagon. This process of trade policy formulation is driven by:

- Pro-western International Financial Institutions, namely the World Bank and the IMF, who through their conditionality, have ensured that developing countries world-wide, toe the line of free market trade policy prescription;
- The mushrooming of regional trading blocs which have emerged due to globalisation and the challenges of competition in the new economic era;
- Bilateral trade agreements which have increased as countries seek market access for their products in an ever increasingly competitive global economy;

- Multilateral trade agreements under the world Trade Organisation (WTO) which have ensured that there is a global programme towards free trade for all member countries.

As it is apparent from the preceding discussion, trade policy today is underpinned by the process of globalisation. The process of globalisation is itself driven by powerful forces such as the revolution in road, air and sea transport, the revolution in information and communication technology, and the growth and dominance of multinational corporations in the world economy. These factors are creating what is now called “networked” or “borderless” economies. In this type of economies, trade barriers are not only being dismantled under bilateral, regional and multilateral trade agreements, but are becoming obsolete as the world economy takes the form of a “global village.” This development means that a new form of trade policy that takes these factors into account is required for every country today.

## **1.2. The Context of Trade Policy Formulation**

Trade policy formulation has become diverse and complex than any other time of the history of mankind. This outcome is a result of the developments in trade policy formulation in the world economy. First, there is global effort to achieve free trade in line with WTO 149 member countries agreements. Second, there is also a general move-away from non-reciprocal trade relations between developed and developing countries to reciprocal trade relations based on the “scratch my back and I will scratch your back” principle. Third, there is also the South-South trade agreements which bring developing countries under regional trading blocs. This section explores these developments and their actual and potential impact on trade policy formulation and implementation.

### *1.2.1. The World Trade Organisation*

The post world war II period has been characterised by many bilateral and multilateral trade negotiations affecting both developed and developing countries. The most important of these were the Generalised Agreement on Tariffs and Trade (GATT), which

culminated in the formation of the World Trade Organization (WTO) in 1995. Since then, the world multilateral trade negotiations are held under the auspices of the WTO. However, even though, the WTO is in principle, a democratic institution in which all member states are free to participate, there has been concern over the years that most developing countries, and in particular, the Southern African Development Community (SADC) countries, have had limited participation. From both economic literature and interviews with multilateral trade negotiators and capital-based trade policy makers, one of the reasons for this developing country limited participation at the WTO is that the ‘WTO processes’ have become more diverse and complex over the years. The processes require participation in designing the rules of the multilateral trading system; effective participation in multilateral trade negotiations; implementation of member country’s obligations to the WTO; and, using the rules and institutions of the system to ensure that a country’s trading partners respect its rights. To this end, countries’ also have to defend their interests on issues relating to (i) the development agenda included in the Doha Round, especially those dealing with Special and Differential Treatment of developing countries; (ii) Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade (TBT); (iii) Anti-Dumping; (iv) Trade Related Aspects of Intellectual Property (TRIPS); (v) Trade Related Investment Measures (TRIMs) and (vi) Rules of Origin

The preceding paragraph implies that when a country embarks on trade policy formulation, as it is now the case with Botswana, it must take on board the diverse and complex issues covered under its WTO mandate. This requirement is in spite of the fact that most developing countries are hampered by lack of adequate financial, institutional and technical capacities to handle WTO issues.

### *1.2.2. Beyond the WTO: Multiple Layers of Bilateral, Regional and Multilateral Trade Agreements*

The world of trade negotiations and agreements has become more diverse and complex. The context in which developing country trade policy formulation is occurring is characterised by multiple layers of agreements, frameworks, regimes and institutions, all competing for a “trade space” where mutually beneficial trade may occur.

On the regional arena, the post World War II (WW II) era has witnessed a proliferation of regional trading blocs (RTBs) across the globe which was sparked by, among others, the process of globalisation and its erosion of the individual country's ability to compete in the "global village." While the major early RTBs (like the EEC) were between countries at a fairly similar level of advanced economic development, more recent RTBs have involved relatively less developed countries entering into trade agreement with more developed countries. For example, the proliferation of regional free trade agreements such as the North American Free Trade Agreement (NAFTA), involve a developing country (Mexico) liberalising trade and deepening links with developed countries (the United States and Canada). The expansion of the European Union (EU) to include, first, countries such as Spain, Portugal and Ireland, and second, Central European countries, similarly expands links between developing and developed Countries.

The preceding paragraph indicates cases in which regional trading blocs are made between developed countries and developing countries of the same region or continent. This trend has now moved on to include the formation of intercontinental trading blocs. For instance South Africa has signed a trade agreement with the European Union (EU) while negotiations are on-going to have Economic Partnership Agreements (EPAs) between the Africa, Caribbean and Pacific countries and the EU. Negotiations are also ongoing between SACU and the US for free trade agreement. In addition, in 2000 the US came up with the Africa, Growth and Opportunity Act (AGOA) in which the US pledged to liberalise trade for 38 designated African countries for a period of eight years provided they meet the predetermined criteria of progress made towards the market-based economy, respect for the rule of law, the embracement of general democratic principles and human rights.

Trade agreements among developing countries, what is called the South-South trade are also currently on-going. RTBs in the South include the Asia Pacific Rim, the Central American Common Market and for Africa; ECOWAS, the North African Arab Maghereb Union; the Southern African Development Community (SADC) and the

Southern African Customs Union (SACU) (Testas, 1999, Rodas-Martin, 1998; Hardy 1992).

In addition to the above, there is an umbrella institution which covers all African countries, namely, the New Partnership for Africa's Development (NEPAD). NEPAD aims to strengthen Africa as a trading bloc, use trade-driven economic growth for poverty reduction, place African countries, individually and collectively, on the path of sustainable growth and development, halt Africa's marginalisation in the globalisation process and enhance the full and beneficial integration of Africa into the global economy.

The preceding discussion means that, in addition to what happens at the WTO, trade policy formulation in any developing country will be affected and influenced by the processes around the Cotonou agreement, regional trading blocs, NEPAD and AGOA. Hence, country's choices will be molded not only by domestic politics and priorities, but by a diverse and complex trade-related issues emanating from these various trade agreements. Further, broad cooperation between developed and developing countries are often couched around aid and trade, thus constraining the negotiating power of aid-dependant countries.

### *1.2.3. The Process of Trade Policy Formulation*

The quality of trade policy and the extent of their implementation to produce intended trade policy outcomes is a product of institutional capacity, financial and human resource capacity and political will. For developed countries, these institutions are already established and trade policy making and implementation are far better than in developing countries where there is generally, capacity deficit. This section outlines the process of trade policy formulation that has to be followed if trade policy is to achieve intended trade policy outcomes as well as a general buy-in from stakeholders.

#### *1.2.3.1. Models of Trade Policy*

Trade policy refers to government specific statements, guidelines and pronouncements on trade such as export development, market access, import competition and custom procedures, all of which define how a country will conduct its trade with bilateral, regional and multilateral trading partners (Ikiara et al. 2000). Trade policy formulation may follow the Rational Comprehensive Model which assumes that trade policy decisions involve the identification of a problem, examination of the various alternatives for dealing with the problem and selection of the best policy package, given the costs and benefits of the policies. The alternative model, called the Disjointed Incremental Model assumes that trade policies are not made by following radical departures from existing policies, but rather by improving them incrementally. That is, trade policy is seen as a continuous process of improvement of existing trade policies. The third trade policy model, called the Mixed Scanning Model, is a hybrid of the two. Therefore, trade policy formulation is influenced to a large degree by these theoretical underpinnings. It is important to note that, where capacity in trade policy formulation and implementation is a major constraint, as it is the case for most developing countries, the Disjointed Incremental Model is generally commonly followed.

#### *1.2.3.2. The Role of Government in Trade Policy*

There is considerable diversity in the process of trade policy formulation and implementation regarding the involvement of various government ministries, various private sector stakeholder, civil society and non-governmental organisations as well as research institutions and the academia. From the review of the literature, the process of trade policy formulation involves both Government Structures and Non-official Actors.

On the side of Government Structures, the Ministry of Finance and Development Planning, which is charged with overall national planning, plays a leading role in the initiation of trade policies and establishing the broad policy framework, objectives, strategies and targets which are subsequently pursued and implemented by the Ministry of Trade and Industry. Thus the Ministry of Finance and Development Planning establishes the broad trade policy framework.



The Ministry of Trade and Industry, through the Department of International Trade, plays a key role in trade policy formulation and implementation. Under the department of International Trade, there may be several divisions which are important for trade policy formulation and implementation. For instance, in South Africa (Draper, 2006), the International Trade and Economic Division handles trade negotiations; the International Trade Administration Commission administers trade policy while the Trade and Investment division takes care of export and investment promotion.

Other government organs that deal with trade policy include the Ministry of International Cooperation and Foreign Affairs which in some countries plays an advisory role on diplomatic issues affecting trade policy negotiations, while in other countries, it plays a leading role in trade negotiations. The Department of Justice takes care of the legal aspect of trade policy to ensure that trade agreements do not deviate from constitutional and other legally binding agreements that a country may have entered into.

The role of Office of the President is diverse depending on the country and the political system that each country follows. Generally, parliament and the Office of the President are there to ratify laws and policies of the country, including trade policy. For countries where most powers have been transferred from parliament to the president, as in the case of Kenya (Ikiara et al 2000), there have been a stifling of trade policy formulation and implementation because Trade Ministers and their Permanent Secretaries have had very little power to influence trade policy formulation and implementation.

#### *1.2.3.3. The Role of Non-Government Actors in Trade Policy*

Though not exhaustive, the preceding discussion shows that trade policy formulation and implementation in government involves various players whose ability to influence policy depends on the administration structure of the particular country and the political set-up. These structures also affect the way non-government players like the private sector, the labor movement and civil society participate in trade policy formulation and

implementation. For countries which started with a strong Import-Substitution Industrialisation like the Latin American countries, participation in trade policy formulation by the private sector has been very strong. For instance in Mexico's the "room next door" model there is a union between government and the private sector in trade policy formulation and negotiations. However, for countries where the role of the private sector and other non-government actors has been minimal, the process of consultation and participation in the general trade policy formulation has been small, amounting to mere government reporting on what has been done in trade policy. However, as pointed out earlier, trade policy has become more diverse and complex and has, as such touched many areas that were not previously its domain. Consequently, there is now a general consciousness by the private sector to participate in trade policy formulation and implementation in order to protect their business interests while the civil society has moved in to protect the interests of their own constituencies. These efforts are complemented by the activities of multilateral trade institutions like the WTO who provide resources and technical assistance to assist these non-state trade policy actors to participate in trade policy formulation and implementation.

### **1.3. Definition and Objectives of Trade Policy**

As noted earlier, trade policy refers to government specific statements, guidelines and pronouncements on trade such as export development, market access, import competition and custom procedures, all of which define how a country will conduct its trade with bilateral, regional and multilateral trading partners (Ikiara et al.2000). This definition of trade policy has developed and been influenced by the historical evolution of trade policy discussed in this Chapter. During the early stages of trade policy development, the definition of trade policy was mainly focused on "border measures" impacting on trade flows, mainly tariffs and non-tariff barriers. Beyond these, trade policy focused on trade remedies such as anti-dumping, safeguard and countervailing duty measures. In recent years, especially since the Uruguay Round, trade policy has widened to include, among others, regulatory "behind-the-border" issues such as intellectual property rights, investment, services, government procurement, standards and customs administration.

This expansion of the definition of trade policy has brought challenges affecting economic players in the domestic economy, namely, the business community who are generally becoming conscious of the need to participate in policy formulation in order to protect their business interests, and the civil society who are concerned that their exclusion in trade policy formulation will result in export-led growth without a human face. As a result, there would be increased unemployment, poverty and environmental degradation, all of which will hurt people in their constituencies. Politically, these issues mean that electorates today call on their representatives from time to time to defend their case in government position for trade policy negotiations, thus calling for transparency and participatory trade policy formulation.

The development of trade policy has affected the objectives of trade policy that a country may pursue. Through trade policy, a country would generally pursue the following objectives:

- Opening market access abroad through bilateral, regional and multilateral trade agreements to reduce and/or eliminate tariff and non-tariff barriers;
- Negotiating and putting in place anti-dumping, safeguard and countervailing duty measures to protect domestic producers and consumers;
- Reducing barriers to trade in goods and services for all bilateral, regional and multilateral trading partners through greater implementation of international trade policy standards, instruments and agreements entered into through trade negotiations;
- Developing and maintaining effective international trade policy instruments, norms and standards in line with the needs of the ever changing global economy;

- Promoting the value and effectiveness of trade facilitation instruments and standards in trade and economic development;
- Achieving economic integration among regional trading partners as well as non-regional trading partners through the application of trade policy instruments, norms and standards;
- Achieving an export-led economic growth through the application of trade policy;
- Facilitating trade policy development through the provision of an open international platform for the exchange of views, particularly for the benefit of regional trading economies such as SACU and SADC.

#### **1.4. Conclusion**

This introductory Chapter focused on four issues that affect trade policy formulation. First, the Chapter traced the development of trade policy and shows that whereas in earlier periods, there was dichotomy between Mercantilism and free market classical trade theories, there is now a global shift towards the latter. This has now given the process of globalisation an upper hand and with it the growth of regional trading blocs and multilateral trade agreements. These developments have moved trade to cover not only areas of international commerce, but also other issues affecting the general domestic business environment and with it social and political issues. Consequently, trade policy formulation now involves a whole spectrum of actors – ranging from government ministries and departments and the private sector, all the way to the civil society. Because of this, the objectives of trade policy have not only become numerous but complex as well.

## **CHAPTER TWO**

### **ECONOMIC OVERVIEW**

#### **2. Introduction**

The objective of this Chapter is to briefly outline the trends in trade both regionally and internationally over the last decade. This will indicate the context in which Botswana's trade policy is being formulated and the extent the country is to define its trade policy to increase its share in world trade.

#### **2.1. Trends in World Trade and the Place of SADC Countries**

The analysis of this Section is based on Table 2.1. The Table shows that world exports were US\$3767.7 billion in 1993 and double to US\$7469 billion by 2003. The shares of industrial countries export in world exports were, for the same period, approximately 69 percent and 61 percent, respectively. For developing countries as a whole the shares were 31 percent in 1993 and by 2003, it had risen to about 39 percent. Africa's share remained at about 2 percent over the period, with SADC countries accounting for less than 1 percent. East Asian countries share was highest among developing countries, accounting for an average of 18 percent over the sample period while Latin American countries accounted for an average of about 5 percent. This means that the share of African countries in world exports is very small, including SADC to which Botswana belongs.

Most important, studies have indicated that SADC trade with the rest of the world is mainly based on primary exports, which consist mainly of minerals and

**Table 2.1: Trends in World Trade (Billions of US Dollars)**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>World</b>	<b>3767.7</b>	<b>4289.9</b>	<b>5130.3</b>	<b>5350.2</b>	<b>5539.3</b>	<b>5451.4</b>	<b>5645</b>	<b>6377</b>	<b>6130</b>	<b>6428.6</b>	<b>7469</b>	<b>9053</b>
<b>Industrial</b>	<b>2597.1</b>	<b>2917.1</b>	<b>3473.4</b>	<b>3565.6</b>	<b>3644.9</b>	<b>3673.9</b>	<b>3740</b>	<b>4004</b>	<b>3872</b>	<b>3990.6</b>	<b>4569</b>	<b>5364</b>
<b>% of Total</b>	<b>68.93</b>	<b>68.00</b>	<b>67.70</b>	<b>66.64</b>	<b>65.80</b>	<b>67.39</b>	<b>66.25</b>	<b>62.79</b>	<b>63.16</b>	<b>62.08</b>	<b>61.18</b>	<b>59.26</b>
United States	465	513	585	625	689	682	696	782	729	693	725	819
% of Total	12.34	11.96	11.40	11.68	12.44	12.51	12.33	12.26	11.89	10.78	9.71	9.05
Japan	362	397	443	411	421	388	419	479	403	417	472	566
% of Total	9.61	9.25	8.63	7.68	7.60	7.12	7.42	7.51	6.57	6.49	6.32	6.25
Norway	31.8	34.7	42	49.6	48.5	40.4	45.5	60.1	59.2	59.7	67.5	81.8
% of Total	0.84	0.81	0.82	0.93	0.88	0.74	0.81	0.94	0.97	0.93	0.90	0.90
United Kingdom	181	204	242	262	281	272	268	282	267	276	304	382
% of Total	4.80	4.76	4.72	4.90	5.07	4.99	4.75	4.42	4.36	4.29	4.07	4.22
<b>Developing Countries</b>	<b>1170.6</b>	<b>1372.79</b>	<b>1656.9</b>	<b>1784.6</b>	<b>1894.4</b>	<b>1777.5</b>	<b>1905</b>	<b>2373</b>	<b>2258</b>	<b>2438</b>	<b>2900</b>	<b>3688</b>
% of Total	31.07	32.00	32.30	33.36	34.20	32.61	33.75	37.21	36.84	37.92	38.82	40.74
<b>Africa</b>	<b>74.86</b>	<b>79.56</b>	<b>94.52</b>	<b>107.04</b>	<b>108.56</b>	<b>92.03</b>	<b>100</b>	<b>123.8</b>	<b>116.8</b>	<b>120.67</b>	<b>150.1</b>	<b>196.7</b>
% of Total	1.99	1.85	1.84	2.00	1.96	1.69	1.77	1.94	1.90	1.88	2.01	2.17
<b>SADC Countries</b>	<b>35.37</b>	<b>37.41</b>	<b>41.96</b>	<b>45.82</b>	<b>47.53</b>	<b>39.89</b>	<b>39.3</b>	<b>47.8</b>	<b>44.31</b>	<b>44.64</b>	<b>56.9</b>	<b>66.54</b>
% of Total	0.94	0.87	0.82	0.86	0.86	0.73	0.70	0.75	0.72	0.69	0.76	0.74
Angola	2.9	3	3.7	5.1	5	3.5	5.4	7.7	6.4	7.5	9.2	13
Botswana	1.76	1.85	2.14	2.54	2.84	1.95	....	2.68	2.31	2.32	3.02	....
Lesotho	0.13	0.14	0.16	0.19	0.2	0.19	...	..	...	...	...	...
Malawi	0.32	0.34	0.41	0.48	0.54	0.43	0.45	0.38	0.45	0.41	0.53	0.48
Mauritius	1.3	1.35	1.54	1.8	1.59	1.65	1.59	1.56	1.63	1.8	1.9	2
Namibia	1.24	1.31	1.41	1.42	1.34	1.23	1.23	1.32	1.18	1.07	1.26	1.83
South Africa	24.2	25.3	27.9	29.2	31	26.4	26.7	30	29.3	29.7	36.5	46
Swaziland	0.68	0.79	0.87	0.86	0.96	0.97	0.94	0.91	1.05	0.94	...	...
Tanzania	0.45	0.52	0.68	0.78	0.75	0.59	0.54	0.66	0.78	0.9	1.13	1.34
Zambia	0.012	0.012	0.013	0.015	0.014	0.011	0.010	0.010	0.013	0.014	0.015	0.015
Zimbabwe	1.56	1.88	2.11	2.41	2.39	1.96	1.93	1.83	1.21	...	3.36	1.89
<b>Asia</b>	<b>646.25</b>	<b>768.58</b>	<b>932.78</b>	<b>973.16</b>	<b>1041.9</b>	<b>987.75</b>	<b>1054</b>	<b>1270</b>	<b>1183</b>	<b>1300</b>	<b>1539</b>	<b>1935</b>
% of Total	17.15	17.92	18.18	18.19	18.81	18.12	18.68	19.92	19.31	20.22	20.60	21.37
Indonesia	36.8	40.1	45.4	49.8	56.3	50.4	51.2	65.4	57.4	60.2	64.1	71.3
Korea	82	96	125	130	136	132	144	172	150	<b>World</b>	194	254
Malaysia	47.1	58.8	73.9	78.3	78.7	73.3	84.6	98.2	88	93.3	99.4	125.7
Singapore	74	96.8	118.3	125	125	109.9	114.7	137.8	121.8	125.2	144.2	179.6
<b>Europe</b>	<b>157.66</b>	<b>201.96</b>	<b>255.05</b>	<b>276.29</b>	<b>285.98</b>	<b>280.57</b>	<b>279.3</b>	<b>340.8</b>	<b>359.3</b>	<b>396.55</b>	<b>510.3</b>	<b>686.3</b>
% of Total	4.18	4.71	4.97	5.16	5.16	5.15	4.95	5.34	5.86	6.17	6.83	7.58
<b>Middle East</b>	<b>135.33</b>	<b>142.99</b>	<b>157.75</b>	<b>183.87</b>	<b>185.92</b>	<b>148.57</b>	<b>183.4</b>	<b>289.8</b>	<b>266.5</b>	<b>286.4</b>	<b>342.2</b>	<b>433.2</b>
% of Total	3.59	3.33	3.07	3.44	3.36	2.73	3.25	4.54	4.35	4.46	4.58	4.79
<b>Western Hemisphere</b>	<b>158.11</b>	<b>183.14</b>	<b>221.95</b>	<b>249.81</b>	<b>277.22</b>	<b>274.39</b>	<b>292.7</b>	<b>353.3</b>	<b>339.3</b>	<b>342.54</b>	<b>372.1</b>	<b>458.5</b>
% of Total	4.20	4.27	4.33	4.67	5.00	5.03	5.19	5.54	5.53	5.33	4.98	5.07
Argentina	13	16	21	24	26	26	23	26	27	26	30	34
Brazil	39	44	47	48	53	51	48	55	58	60	73	96
Chile	9.2	11.6	16	15.7	17.9	16.3	17.2	19.2	18.3	18.2	21.5	32
Mexico	52	61	80	96	110	117	136	166	159	161	165	189

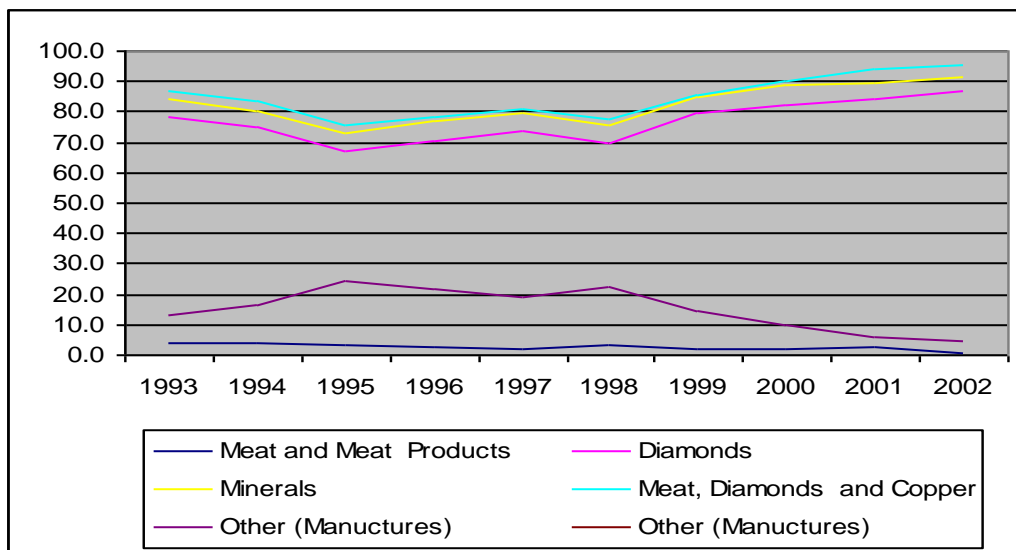
Source: (EX IMF International Financial Statistics Year Book 2005)

agricultural cash crops. These have major disadvantages in today's fast changing world – namely, deterioration in the terms of trade, high volatility in world exports markets and low employment benefits compared to manufactured products and services. Thus the low share in Africa and SADC's exports, at a time when the world is becoming globalised at the fastest rate in human history and preferential agreements are being replaced by trade agreements based on reciprocal trade policy, is a major challenge for trade policy makers in the region and in particular, in Botswana and the rest of SADC.

## 2.2. Trends in Botswana's Export Structure

The objective of this sub-section is to indicate the trends in the country's export structure. This will indicate where the Botswana economy is in terms of its exports – whether the country is mainly dependent on primary exports or manufactured exports. The analysis is based on Figures 2.1.

**Figure 2.1:** Trends in Botswana's Exports Structure: 1993 to 2002



**Source:** Central Statistics Office, 1999 and 2002

Looking at Figure 2.1, we note that meat and meat products, which contributed about 3.5 percent to total export earnings at the beginning of the sample period, declined to about 2.3 percent by the end of the sample period. Conversely, diamonds contribution, which was slightly below 80 percent in 1993, declined to below 70 percent for the period 1995 to 1998, before increasing its share again to levels above 80 percent. Overall, the

contribution of primary products of meat, diamonds and copper/nickel to total exports has remained well above 80 percent, indicating the fact that Botswana export structure is not diversified. Most importantly, this shows that Botswana trade in primary exports in world markets. This has a major disadvantage in that commodity exports are generally susceptible to deterioration in the terms of trade, price volatility and low income returns compared to manufactures. The objective of trade policy will be to reverse this situation so that Botswana will, over the medium to long-term, export products with high value added.

The undiversified structure of the economy of Botswana is visible even in the case of export markets. As can be seen in Table 2.2, Botswana is highly dependant on imports from the common customs area which is defined by the Southern African Customs Union (SACU). A large proportion of these imports (about 80) actually come from South Africa.

**Table 2.2: Botswana Direction of Imports: 1993 to 2002 (%)**

	Common Customs Area	Zimbabwe	Other Africa	UK	Other Europe	South Korea	USA	All Other
1993	82.6	4.6	0.4	2.6	4.5	-	3.3	2
1994	78	5.9	0.5	2.5	5.9	2.1	1.9	3.3
1995	74.0	5.5	0.3	2.5	6.0	7.1	2	2.5
1996	78.0	5.7	0.4	2.6	4.2	4.4	1.3	3.4
1997	72.5	4.5	0.5	2.0	7.0	9.5	1.1	3
1998	74.8	3.9	0.6	3.4	6.8	4.8	1.4	4.4
1999	76.6	3.9	0.3	2.7	6.5	2.6	1.8	5.6
2000	73.9	3.5	0.3	4.2	12.3	0.2	1.6	4
2001	77.6	3.2	0.3	4.4	7.9	0.2	1.8	4.5
2002	77.0	2.6	0.3	4.3	9.5	0.1	1.7	4.5

**Source:** Central Statistics Office, 1999 and 2002

Table 2.3 shows direction of exports for Botswana. The Table shows that Botswana exports go mainly to developed country markets, mainly the UK and other European countries which are major importers of Botswana beef and diamonds. Thus Botswana trade more with extra-regional markets than with regional markets. The exception to this is in the area of manufactured goods, which mainly go to South Africa. Overall, Botswana's trade with regional countries is less than 25 percent of total exports.



**Table 2.3: Botswana Direction of Exports: 1993 to 2002 (%)**

Year	Common Customs Area	Zimbabwe	Other Africa	UK	Other Europe	US	All Other
1993							
1994	13.9	2.7	1.0	25.1	56.4	0.7	0.2
1995	21.5	3.1	0.8	37.4	36.1	0.9	0.2
1996	18.3	3.1	0.6	54.3	2.5	1.0	0.3
1997	14.3	3.7	1.1	56.2	23.5	1.0	0.2
1998	17.2	2.9	1.3	55.5	21.5	1.0	0.6
1999	10.4	2.4	1.1	66.5	18.2	0.7	0.7
2000	6.7	3.9	0.9	69.7	17.5	0.6	0.7
2001	6.5	2.6	0.8	85.9	3.2	0.2	0.9
2002	6.6	2.9	0.6	85.5	3.2	0.3	0.9

**Source:** Central Statistics Office, 1999 and 2002

### **2.3 Botswana's Export Sector and its Linkage to the Rest of the Economy**

Botswana's export-led growth strategy is expected to lead to economic growth for poverty reduction. For a Mineral-Based Economies (MBEs) like Botswana, this would require the development of economic linkages between the booming mineral sector and the rest of the economy. There are several types of these linkages through which a booming sector may be linked to the domestic economy. These include the backward linkage in which an incoming firm purchases inputs from domestic firms, the forward linkage in which the output of an incoming firm is used as a productive input in the domestic industry and the fiscal linkage which accrues to government in the form of royalties, taxes and dividends, as well as the public goods linkage which is mainly the use of the proceeds from the mining sector for recurrent and development expenditure in the public sector. It is the role of trade policy to ensure that these linkages are fully developed and that they result in export growth and development for economic growth for poverty reduction.

### **2.4 Conclusions**

The preceding Sections show Botswana's trading capacity globally and regionally. It is evident from the analysis that the share of SADC and, in particular, Botswana, in world trade is very small. Botswana trade mainly in primary exports (with industrialized

countries) while she imports manufactures mainly from South Africa. Consequently Botswana has a huge trade deficit with South Africa. A major challenge for the country's trade policy is to diversify not only her export products but also her export markets. This is the challenge of the Ministry of Trade and Industry which is responsible for the country's industrial development.

## **2.5 The Process of Trade Policy Making in Botswana**

### *2.5.1 Introduction*

As we have seen in Chapter One, Trade Policy Making has become an important process in recent years, encompassing Governments, Parastatals, Private Sector and Non-Governmental Organizations (NGOs). Further, whereas in the past Non-Government Actor's participation was not consultation in the real sense of the word, but reporting of what government has been doing, today's trade policy formulation involve their actual participation in the decision making process. This section outlines the process of trade policy making in Botswana that should take the country to achieve the ideal of Vision 2016 namely, participating the global economy as a proud, productive and prosperous country.

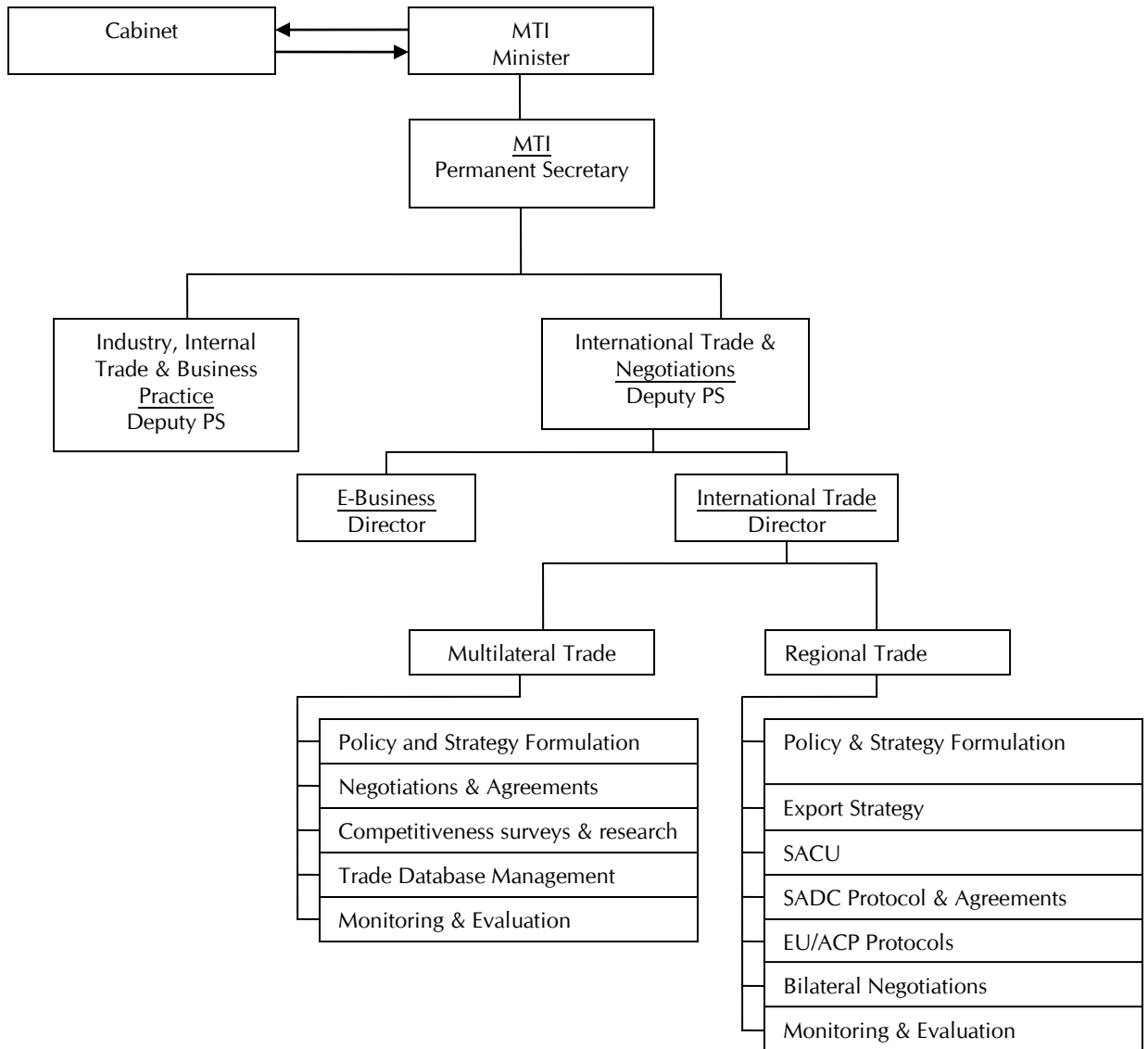
### *2.5.2 The Trade Policy Making Process*

In Botswana, the broad policy framework is set by the Ministry of Finance and Development Planning (MFDP). This broad policy frame work is then implemented by the Ministry of Trade and Industry which is responsible for all trade policy matters. The broad trade policy objective, as set out by the MFDP in NDP 8 states that the two main objectives of trade policy for Botswana are (i) Achieving the broadest possible free and reliable access to markets for Botswana's exports of goods and services, especially within the Southern African region, and (ii) enabling producers and consumers to have access to the widest choices of international goods and services on the best possible terms.

To achieve these objectives, the Ministry of Trade and Industry (MTI) plays the leading role in trade matters relating to policy formulation and implementation, policy coordination and trade policy negotiations at bilateral, regional and multilateral levels. At

the policy formulation and implementation level, the Ministry of Trade and Industry has undergone restructuring in 2003 in which two Departments of the Ministry were created. These are the Departments of Industry, Internal trade and Business Practice and the Department of International Trade and Negotiations (See Figure 2.2). Each department is headed by a Deputy Permanent secretary. The Department of International

**Figure 2.2:** Part of the Functional Structure of the Ministry of Trade



*See Maiketso, 2006*

Trade has two Units, the Multilateral Trade Unit, which handles, among others, policy and strategy formulation, and negotiations and agreements; and the Regional Trade Unit,

which handles export strategy and all bilateral and regional trade agreements. In this regard, the Ministry has been capacitated to formulate and negotiate trade agreements. However, since these changes are very recent, the Ministry still suffers in terms of adequate technical expertise and general manpower shortage.

In addition to the above functions, the Ministry of Trade and Industry coordinates the activities of several Ministries which handle trade policy matters and administer various trade agreements for Botswana. These include the Ministry of Environment, Wildlife and Tourism which handles the tourism export sector and the Botswana Export Development Investment Authority (BEDIA) which handles export Promotion, MFDP which handles the management of SACU tariff revenue and the SADC Protocol. In all these the Ministry should also involve the Private sector, NGOs and parastatals in the trade policy making processes of the country and its implementation. Because of this, the Ministry of Trade and Industry has, with assistance of the Joint Integrated Assistance Programme (JITAP), established a National Committee on Trade Policy and Negotiations (NCTPN) (Maiketso, 2006) whose main objective is to facilitate the participation of non-government actors in trade policy formulation and implementation. The specific terms of reference for the NCTPN are as follows:

1. To bring together all relevant stakeholders to promote dialogue and identify trade negotiation objectives and principles;
2. To coordinate national trade policy and facilitate the development of appropriate policy options in the context of the multilateral and regional trading systems;
3. To promote the effective implementation and enforcement of WTO rules, including those on new disciplines;
4. To analyse in a more comprehensive way, trade issues and their impact on the economy, formulate appropriate positions for negotiations and submit recommendations to Cabinet for approval;
5. To prepare and submit annual reports on specific trade matters and/or policy issues to Cabinet highlighting achievements and constraints;

6. To meet quarterly and at any time when there are urgent issues to be discussed; and
7. To establish sectoral subcommittees and co-opt other stakeholders into the committee as deemed appropriate.

The Committee is composed of Permanent Secretaries and/or Deputy Permanent Secretaries from various Ministries of Government as well as Heads of Parastatal Organizations and Private Sector Institutions. The Committee is composed of 50 percent Government and 50 percent Non-State Actors in order to have a significant representation of the latter. Even though the effectiveness and impact of the Committee is yet to be seen, it is important to note that a structure that is meant to participate effectively in trade policy formulation is in place.

In addition to the NCPTN, there are two other important National Committees involved in trade policy. These are the *Botswana Economic Advisory Committee (BEAC)* which is a committee of experts and business representatives who have been carefully selected to advise His Excellency the President and Cabinet on the developments in both the domestic and global economy and what strategic position the country needs to take in order to achieve its development objectives; and the *Parliamentary Committee on Trade and Security (PCTS)* which is composed of four Members of Parliament who follow and contribute closely to issues of trade and development as well as security and brief Parliament on the same.

It is notable from the above that Botswana is moving in the right direction on issues of trade policy formulation and negotiations as well as implementation. However, it is important to point out a few areas of concern that will need to be attended/considered in Botswana's trade policy process:

Botswana is a Member of SACU and Article 31 of the SACU binds all Members to consult and agree with other Member Countries on any matters relating to trade policy formulation. Therefore, this means that Botswana's trade policy structures are limited by

the SACU provisions and other trade agreements like the SADC Trade Protocol and WTO obligations;

Botswana's trade policy is still handled by various Ministries as seen above. Notable among these is the MFDP which handles the SACU tariff matters and SADC Trade Protocol. It appears that while, this may have been useful in the past when the Ministry of Trade and Industry was not well capacitated in terms of manpower, the time has come for government to consider giving these responsibilities to the rightful Ministry. This will strengthen planning, implementation and coordination of these trade policy issues;

It will appear that even if the suggest of bullet 2 is accepted, MTI will still have to strengthen its coordination and implementation capacity because its functions and activities will continue to be undertaken by other ministries. These include, among others, tourism trade, sanitary and phytosanitary measures under the Ministry for Agriculture and trade facilitation which is handled by MFDP and Ministry of Home Affairs through Customs and Immigration.

### *2.5.3 Objectives of Botswana Trade Policy*

The main objective of this Section is to outline the objectives of Botswana trade policy. This will also involve a brief discussion of the factors that have resulted in the choice of the objectives and their relation to trade policy.

It has now become apparent from the discussions on Botswana's International Trade Policy Obligations (Chapter Three), Botswana's Domestic Policies (Chapter Four), Historical Evolution of Trade Policy (Chapter One), and the current Chapter that Botswana Trade Policy may be said to be shaped by the following attributes:

2.5.3.1 Botswana trade policy is highly influenced by the country's chosen export-led strategy that is driven by the private sector with government playing a facilitative role of providing a business conducive environment for the operation of the latter;

2.5.3.2 Botswana has chosen a policy environment in which firms in the country, both domestic and foreign firms will operate under free market conditions. To this end, government development plans emphasize firm competitiveness in the “global village” where there is minimal government intervention;

2.5.3.3 To achieve this private sector friendly environment, Botswana has entered into bilateral, regional and multilateral trade agreements which have had an impact not only in her trade policy but also her trade policy environment. Important among these is the SACU which controls the country’s common external tariff and tariff revenue, the SADC trade protocol which is currently shaping Southern Africa regional trade and, the WTO which is shaping global trade with most favoured nation tariffs and non-tariff barriers;

2.5.3.4 The global economic environment has become fiercely competitive because of significant trade liberalization that has occurred in the past few years and inter-continental RTAs that has resulted in both North-South RTAs and South-South RTAs. Botswana’s private sector-led economic growth will thus require a private sector that is prepared to operate under such conditions;

2.5.3.5 Because of trade liberalization, the benefits from trade, which have in the past focused on tariff revenue, will have to be redefined. Therefore, Botswana trade policy should look more towards industrial development, attracting FDI and domestic investment, and less towards inward looking policies;

2.5.3.6 On the domestic front, Vision 2016 defines Botswana of 2016 as a industrialized, prosperous and diversified economy that will have achieved full employment, eradicated poverty and participating in the global economy and trade as a proud and prosperous nation. To this end various policies have been put in place to support the realization of this ideal. Trade policy will require full implementation of these policies in order to achieve the ideals of the Vision;

2.5.3.7 Trade policy will have to result in export-led growth with a human face. All Chapters and sections dealing with trade policy and the environment, linking trade policy to poverty reduction, gender, youth and intellectual property rights, as well as streamlining trade policy into NDPs point to this.

#### *2.5.4 Objectives of Botswana Trade Policy*

##### *2.5.4.1 Objectives of Trade Policy*

Trade policy refers to government specific statements, guidelines and pronouncements on trade such as export development, market access, import competition and custom procedures, all of which define how a country will conduct its trade with bilateral, regional and multilateral trading partners. For Botswana to fulfill all the elements of this all-encompassing trade policy, she will need to pursue trade policy objectives that take account of the points discussed above. The proposed Botswana trade policy objectives are divided into two categories:

#### ***Category I: Objectives derived from the Analysis of Botswana Trade and Domestic policy environment***

1. NDP 8 states the two main broad objectives of trade policy for Botswana as (i) Achieving the broadest possible free and reliable access to markets for Botswana's exports of goods and services, especially within the Southern African region, and (ii) enabling producers and consumers to have access to the widest choices of international goods and services on the best possible terms;
2. To achieve industrial development and economic diversification that are premised on the participation of both citizen and foreign owned firms, and assisted by Government as a facilitator in providing a private sector friendly economic environment;
3. To achieve export-led growth with a human face that will result in full employment of labor and other resources and the eradication of poverty according to the aspirations of Vision 2016;



4. Achieving economic Integration among regional trading partners as well as non-regional trading partners through the application of trade policy instruments, norms and standards;

***Category II: Objectives derived from best practice in international trade worldwide.***

5. Opening market access abroad through bilateral, regional and multilateral trade agreements to reduce and/or eliminate tariff and non-tariff barriers;
6. Negotiating and putting in place anti-dumping, safeguard and countervailing duty measures to protect domestic producers and consumers;
7. Reducing barriers to trade in goods and services for all bilateral, regional and multilateral trading partners through greater implementation of international trade policy standards, instruments and agreements entered into through trade negotiations;
8. Developing and maintaining effective international trade policy instruments, norms and standards in line with the needs of the ever changing global economy;
9. Promoting the value and effectiveness of trade facilitation instruments and standards in trade and economic development;
10. Facilitating trade policy development through the provision of an open international platform for the exchange of views, particularly for the benefit of regional trading economies such as SACU and SADC.

*2.4.5. Conclusion*

Both policies, the Vision and Botswana's trade policy face a challenge in the attainment of their objectives with regard to developing a diversified economy that can sustain economic growth in the future. The Vision highlights that the challenge for Botswana involves diversifying its exports in order to reduce its vulnerability to unpredictable fluctuations in the international or regional markets, which is also a challenge on the trade policy front. Botswana's national trade policy objectives should result in the attainment of the Vision policy objectives and targets and be consistent with the broad national development policy priorities.

## **CHAPTER THREE**

### **BOTSWANA'S INTERNATIONAL TRADE OBLIGATIONS**

#### **3. Introduction**

The main objective of this Chapter is to briefly outline Botswana's trade agreements with bilateral, regional and multilateral trading partners in order to identify the country's opportunities and challenges as well as obligations that will have a bearing on the country's trade policy. This will involve a discussion of the provisions of each of the agreements and an indication of their major influence on Botswana's trade policy.

In this way, the exercise will assist to highlight the major questions that Botswana's trade policy should address, decisions that need to be taken to address the questions as well as assisting to define trade policy objectives that should characterize Botswana's trade policy.

To this end, the Chapter will discuss the Southern African Customs Union (SACU), which has had a profound influence on the practice of trade policy in Botswana. Other trade arrangements with significant influence on the country include the SADC trade Protocol, The EU-South Africa Trade Development and Cooperation Agreement (TDCA), The Economic Partnership Agreement (EPAs) between the EU and ACP countries, the Africa Growth and Opportunity Act (AGOA), the SACU-MERCOSOR Trade Agreement, and the World Trade Organization. Finally, the Chapter will discuss some of Botswana's bilateral trade agreements such as the trade agreements with India, Malawi and Zimbabwe, and conclude with a note on the on-going free trade negotiations between SACU/India and SACU/China.

## 3.2. The Southern African Customs Union

### 3.2.1. The Provisions of the 1910 SACU Agreement

The SACU agreement was first signed in 1910, between South Africa and Botswana Lesotho and Swaziland (BLS) countries<sup>4</sup>. The agreement provided for a customs union in which there is duty free and quota free movement of goods between Members States while maintaining a common external tariff (CET) for non-members. It also provided for free transit of goods consigned for the landlocked BLS Members States together with an 8 year infant industry protection. Most important, the agreement had common pool revenue solely administered by South Africa. Because of its institutional structure and tariff policy, the SACU agreement of 1910 along with its 1969 revised version had a number of areas with which the BLS countries were dissatisfied. These include:

- (i) The SACU tariffs were set by South Africa and thus served its industrial development policy objectives at the expense of those of the BLS countries;
- (ii) The high SACU common external tariff (CET) had a *price raising effect* on the exports of the BLS countries because it increases the cost of imported inputs, thus making exports uncompetitive in world markets and perpetuating the undiversified structure of the BLNS economies and their continued dependence on primary export products. Further, the high CET had adverse effects on consumer welfare in the BLNS countries because it reduced consumer purchasing power and thus denied them access to a variety of imported goods from non-SACU countries;
- (iii) Because of South Africa's tariff structure and the fact that it was the most developed country in the region, SACU experienced *industrial polarization* in favour of the more developed South Africa. This was generally exacerbated by the fact that South Africa was in some cases

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<sup>4</sup> The BLS have recently been joined by Namibia to become the BLNS.

reluctant to provide market access for Botswana exports. For instance, in the case of motor vehicle assembly plants located in Botswana, South Africa changed the original tariff, rebates, excise duty and definitional rules relating to local content at the time of investment, thus making the plants unviable and forcing them to close, which effectively meant relocating to South Africa (Stoneham, 1994).

- (iv) In some cases, South Africa used the CET to accommodate a large trading partner outside the SACU at the expense of Botswana (obcit). For instance in the case of Soda Ash, South Africa kept a tariff of 10 percent which allowed the US to export Soda Ash into its market, which was under priced to undercut Botswana Soda Ash and move it out of the market. This dumping was a problem for Botswana as neither the SACU agreement nor the GATT had anti-dumping provisions to deal issues of third countries dumping into customs unions.
- (v) The CET of SACU was high, complicated and unstable because of the unusually high influence of South Africa's business community in its setting. South Africa's Board of Tariffs and Trade (BTT) was a private sector organization established by law to advice government on tariff changes and protection. The BTT thus served the interests of the South African business community at the expense of the BLNS countries. Further, because of this the CET was changed frequently in response to the demands of South Africa's private sector which enjoyed the country's high tariff shelters that supported the inward looking import substitution development strategy during the apartheid era. This created uncertainty for both domestic and foreign investors in the BLNS and thus discouraged private sector investment.
- (vi) The above define area as of dissatisfaction of the BLNS countries with the SACU arrangement. To compensate for these losses, the 1969 agreement

provided for a 42 percent “compensation factor” which increased the BLS pool revenue share by 42 percent and the 1971 “stabilization factor” which stabilized the BLS share of pool revenue between the “17 percent lower bound and 23 percent upper bound” of their SACU pool revenue share. Nevertheless, the BLS countries still felt that SACU was undemocratic and that the benefits to South Africa far exceeded those accruing to them as a group.

The democratization of South Africa in 1994 led to the renegotiation of the SACU agreement which resulted in the New SACU agreement of 10 October, 2002 (SACUA2002). SACUA2002 provides for a radical change in both SACU operational practices and Institutions arrangements.

### *3.2.2. The Provisions of SACUA2002*

#### *3.2.2.1. The Objectives of SACUA2002*

Section 3.2.1 outlined the provisions of the 1910 SACU agreement along with its revised 1969 version. The Section indicated that there were significant operational and institutional problems inherent in the agreement. In a way the objectives of SACUA2002 implicitly point to how these problems will be addressed. The objectives, as stated in Article 2 of SACUA2002, include:

- (a) to facilitate the cross-border movement of goods between the territories of Member States;
- (b) to create effective, transparent and democratic institutions which will ensure equitable trade benefits to Member States;
- (c) to promote conditions of fair competition in the Common Customs Area;
- (d) to substantially increase investment opportunities in the Common Customs Area;
- (e) to enhance the economic development, diversification, industrialization and competitiveness of Member States;

- (f) to promote the integration of the Member States into the global economy through enhanced trade and investment;
- (g) to promote the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States; and
- (h) to facilitate the development of common policies and strategies

The discussions that follow indicate how SACU is addressing these objectives.

#### *3.2.2.2. Institutional arrangements*

One of the major problems cited in the discussions of the 1910 SACU agreement is the fact that SACU was an undemocratic institution in which South Africa made unilateral decisions in all areas pertaining to the CET and day to day decisions on the running of SACU. The SACUA2002 addressed this problem in its institutional setting. The Agreement provides for:

- The Council of Ministers (Article 8) which comprises of Ministers of Trade from Member Countries as the decision making body of SACU;
- The Customs Union Commission (Article 9) which supervises the Secretariat and is responsible for the SACU pool revenue;
- The Secretariat (Article 10) which is responsible for the day to day administration of the SACU;
- The Tariff Board (Article 11) which is responsible for tariff policy;
- Four Technical Liaison Committees on agriculture, customs, trade and industry, and transport (Article 12); and
- An ad hoc tribunal (Article 13)

In addition to the above bodies, each Member State is to establish a *National Body* (Article 14) which will be responsible for receiving and investigating requests for tariff changes and other changes required in SACU. In the interim period, the South African International Trade Administration Commission (ITAC) has been mandated to administer the SACU tariffs which remain as they were under the 1969 Agreement. The major challenge for SACU is that most of the institutions that matter most, especially the National Bodies, whose mandate is to ensure that SACU tariffs serve the needs and interests of Member States, have not yet been created.

#### 3.2.2.3. *The Revenue Sharing Formula*

The new agreement makes no mention of the use of the tariff as a source of revenue. Instead it states in Article 2(g) that one of the objectives of SACUA2002 is to “facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States.” This revenue will only be shared after the cost of running the Secretariat, Tariff Board and Tribunal have been deducted. The Pool revenue will be divided into three components.

- *The Customs Component* – is structured in such a way that it reflects the importance of customs revenue, especially to the BLNS countries. The customs component is calculated in terms of the proportion of each country’s intra SACU imports CIF (cost, insurance and Freight) as a proportion of total intra-SACU imports CIF (both less re-exports). Since South Africa has a trade deficit with its smaller trading partners, the largest share of this components goes to the BLNS countries, even though South Africa contributes about 80 percent of customs revenue pool (Sentsho and Tshoko, 2005). This is meant to provide an implicit compensation for the “price-raising effect” and the “industrial polarization effect” of SACU on the BLNS.
- *The Excise Revenue Component* – this consists of all duties levied and collected in the common customs area less SACU institution funding and the development

component of the SACU (these two are estimated at 15 percent of the fund). The remaining 85 percent is shared, where each member Country gets the value equal to the proportion of its GDP in total SACU GDP. Sentsho and Tsheko (2005) show that for the 1998/99 figures, South Africa would get 80 percent of the excise revenue while Botswana gets 4 percent, Lesotho 1 percent, Namibia 2 percent and Swaziland 1 percent.

- *The Development Component* – This is calculated on the basis of each country's GDP per capita adjusted for deviation from average and deflated by a factor of 10. It has been shown, using the 1998/99 figures that, on the basis of this calculation, Botswana and South Africa receive 19 percent each while Lesotho, Namibia and Swaziland receive 22 percent, 20 percent and 21 percent, respectively. Thus, in this case, even though the less developed countries contribute less to the fund, they receive more in proportional terms, which emphasizes again the issue of implicit compensation in the revenue sharing formula.

#### 3.2.2.4. *The Challenges of SACUA2002*

Even though efforts have been made to address the problems that adversely affected SACU countries, especially the BLNS, under the 1910 agreement, significant challenges that should be taken into account in the formulation of Botswana's trade policy remain. These include:

- (i) Even though the revenue sharing formula has attempted to address problems of the BLNS, two important challenges remain. First, there is conflict in terms of the major objective that the CET should serve. For South Africa, the tariff should be an instrument of industrial policy to serve the industrialization objective. This is in conflict with the main interest of the BLNS where the tariff is a major source of government revenue. This is especially important for Lesotho and Swaziland where the share of pool revenue can be as high as 50 percent of government



revenue. *Even though this is not a major problem for Botswana, the country will have to make a decision on this matter.* The second challenge relate to the fact that, with trade liberalization, especially in South Africa which has committed herself to liberalize trade in line with her WTO and other trade commitments like the TDCA, tariff revenue are likely to decline significantly in the next few years. *Thus, instead of tariff revenue, SACU and in particular, Botswana, will have to emphasize other benefits such as industrial development and possibilities of benefiting from cross-border investment by South African firms seeking lower costs of production to be competitive in world markets;*

- (ii) The Development of common industrial policy will also pose as a major challenge for the new SACU. This will mainly be due to (a) the differences in the levels of economic development for South Africa on the one side and the BLNS on the other side; (b) the differences in infrastructural development, the composition of trade and manufacturing, and financial markets conditions; and (c) developing a common industrial policy in a region where there is no common labor market policy will be opposed by the highly unionized South Africa's labor movement which sees workers as paying the price of unemployment for trade liberalization. *Therefore, to design, implement and monitor common industrial policies will prove a daunting challenge in terms of the required technical expertise and political support. On the economic side, it will require targeted provision of infrastructure, fiscal incentives and the development of an overall regional industrial policy that goes beyond the infant industry provision;*
- (iii) Another challenge for the BLNS relates to the actual negotiations for a balanced common industrial policy for SACU. First, South Africa's policy makers are used to setting trade policy to serve their interests without regard for the BLNS countries. They are unlikely to be willing to

relinquish this power easily. Second, South Africa's business community are used to getting their trade policy demands without the "inconvenience" of delays caused by consultations with the BLNS countries. They are thus likely to put a lot of pressure on the already unwilling South Africa's negotiators, to disregard the BLNS interests. This is likely to be exacerbated by the potential opposition from the labor movement in South Africa. *Thus for Botswana and the BLNS to get their demands in the New SACUA2002, tough and experienced negotiators, armed with well researched country needs of the BLNS must be at the front of the negotiations. Thus capacity building in the BLNS, not only in the area of technical expertise to handle tariff matters, but also in the area of negotiations in trade policy and in particular, tariff related matters, should be a priority in the BNLNS;*

- (iv) South Africa's ITAC was delegated to continue to administer the SACU tariff as it was in the 1969 agreement until new National Bodies have been created to take over. Moreover, it has been four years since this agreement was signed and no National Body has so far been formed in the BLNS. This therefore means that the negative impact of South Africa's tariff structure on the BLNS countries, namely, the "price raising effect" and the "industrial polarization effect" remain even under the New Agreement, retarding industrialization and economic diversification efforts in the BNLNS. *The National Bodies will have to be formed as a matter of priority and their first task should be a substantive review of the SACU tariff structure with a view to finding how it may be revised to support industrial development in the BLNS.*

### **3.3. The EU-South Africa Trade, Development and Cooperation Agreement**

#### *3.3.1. Introduction*

The Trade, Development and Cooperation Agreement (TDCA) between the European Union on the one side and South Africa, on the other, was signed to establish a Free Trade Area (FTA) on 12 December, 1999. According to the Agreement, the TDCA is to establish a Free trade Area (FTA) which will be in conformity with the WTO provisions for FTAs. The FTA is to be established over a period of 12 years for South Africa and 10 years for the EU. The objectives of the TDCA, as states in Article 1 of the Agreement are:

- (a) To provide an appropriate framework for dialogue between the parties, promoting the development of close relations in all areas covered by this agreement;
- (b) To support the efforts made by South Africa to consolidate the economic and social foundations of its transition process;
- © promote regional cooperation and economic integration in the Southern Africa Region to contribute to its harmonious and sustainable economic and social development;
- (d) to promote the expansion and reciprocal liberalisation of mutual trade in goods, services and capital;
- (e) To encourage the smooth and gradual integration of South Africa into the global economy;
- (f) To promote cooperation between the Community and South Africa within the bounds of their respective powers, in their mutual interest.

### 3.3.2. *The provisions of the TDCA*

The provisions of the TDCA are comprehensive and broad, covering trade in goods, services and capital (Article 1(d)). The TDCA also provides for cooperation in areas of Industry (Article 51) which is meant to facilitate the restructuring and modernization of the South African industry in order to make it competitive in the global economy; Investment promotion and protection (Article 52) which is meant to promote both domestic and foreign investment for the mutual benefit of the two parties and most important for Botswana's trade policy, trade Development Cooperation (Article 53). The objective of this cooperation includes diversifying trade and assisting South African producers to be competitive both regionally and internationally as well as encouraging regional cooperation for the development of trade and trade-related infrastructure and services.

On the issue of Regional Trade Arrangements (RTAs), Article 22 of the Agreements states that contracting parties to the agreement may enter into trade arrangements with third parties provided the agreement does not alter the rights and obligations of the TDCA. Further, there should be consultation between contracting members to ensure that mutual interests of the Community and South Africa are taken into account.

The TDCA also provides for infant industry protection or industries that experience difficulties due to increased imports from the EU (Article 25). The provision allows South Africa to impose a duty (for a maximum of four years) which should not exceed applied MFN rate or 20 percent ad valorem. The imports subject to the duty must not exceed 10 percent of total EU industrial imports to South Africa over the last year for which data was available.

### **3.4. The TDCA Challenges for Trade Policy in Botswana**

This trade agreement has important implications for trade policy in Botswana. First, because of the SACU Agreement, Botswana and the other BNLS countries are *de facto*

implementers of the agreement. Thus, just like the firms in South Africa, firms in the BLNS will face steep competition from EU imports. This may have a significant impact on firms, as it may lead to restructuring and in some cases closure with the concomitant result of unemployment and increased number of people below the poverty datum line in the country.

Second, the TDCA requires South Africa to consult with the EU on matters of trade policy before any changes or new trade agreement can be entered into with third parties. This is likely to complicate trade policy negotiations in SACU, because South Africa is likely to continue to treat the BLNS countries as of second importance to the EU (This precedence has already been set when South Africa suspended negotiations of the New SACU to finish with the EU first).

Third, even though the TDCA provides for protection of infant industries, this provision was made mainly for the interests of South African firms and may not be adequate for the small, landlocked and vulnerable economies of the BLNS. Since the TDCA requires WTO compatibility which is defined in terms of Article XXIV of GATT 1994, flexibility to cater for the development concerns of the BLNS countries will be a problem until this WTO provision on RTAs is changed.

### **3.5. The SADC trade Protocol**

#### *3.5.1. Introduction*

The SADC Trade Protocol was signed in 1996 and ratified in September 2000. The Protocol aims to have a Free Trade Area (FTA) by 2008, when about 85 percent of its trade will be liberalised between member states. The remaining 15 percent, which constitute sensitive products are to be liberalised within a period of four years so that by 2012, SADC will have achieved a customs union in line with the provisions of Article XXIV of GATT 1994.

### 3.5.2. The Provisions of the SADC Trade Protocol

The overall objective of the SADC Trade Protocol is to provide increased intra-SADC free trade by creating conditions that are conducive for free trade between Members States. The specific objectives of the Protocol, as outlined in Article 2 are:

1. To further liberalize intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements, complemented by Protocols on other areas;
2. To ensure efficient production within SADC reflecting the current and dynamic comparative advantages of its Members;
3. To contribute towards the improvement of the climate for domestic, cross-border and foreign investment;
4. To enhance the economic development, diversification and industrialization of the region;
5. To establish a Free trade Area in the SADC Region.

To achieve these objectives, the SADC countries agreed to reduce tariffs according to four categories. Category A, defines tariffs that were very low or zero at the time the Protocol came into force. These were eliminated immediately. Category B comprised sensitive products that were important to Members States due to their revenue contribution. These are to be liberalized over a period of 8 years, so that Category A and B, should constitute 85 percent of liberalized SADC trade by 2008. The remaining 15 percent constitute Category C. These are defined as products that are sensitive in terms of industrialization and agricultural development. These are to be liberalized in 12 years. Category E defines goods that are exempted from preferential treatment such as firearms.

### 3.5.3. The Challenges of the SADC Trade Protocol

The previous sub-section defined the provision of the SADC Trade Protocol. In this Section, we outline the challenges that face SADC that would have to be addressed in Botswana's trade policy.

#### 3.5.3.1. Tariff Phase-down Schedule

In order to meet the FTA target of 85 trade liberalization by 2008 and Customs Union target by 2010, each country has offered a tariff phase-down schedule for its tariff reductions. However, countries are slow on implementing the protocol because of its implications on existing industries ability to survive increased regional competition, the cost of industrial restructuring on employment creation and poverty reduction; and the tariff revenue implications for countries which depend on tariff revenue for their recurrent and development expenditure (Kalenga, 2004). Because of this, *back-loading of tariff* reductions is common in SADC. Table 3.1 shows that, under the current implementation pace, only SACU SADC countries and Tanzania will be able to meet the 2008 85 percent tariff liberalization target.

**Table 3.1:** Proportion of Liberalisation Achieved (%)

	Fourth Year Offer to RSA	Fourth Year Offer to SADC	Fourth Year Offer to RSA	Fourth Year Offer to RSA
SACU	NA	46.8	Na	99.5
Malawi	1	12	70.4	60
Mauritius	26.4	7.4	70.4	72.5
Mozambique	9.2	8.7	62.7	76.3
Tanzania	8.3	31.4	87.3	87.9
Zambia	18.5	38.7	62.7	76.9
Zimbabwe	18.6	37.4	68.3	57.7

*Source:* SADC Trade Projects, 2001 in Kalenga 2004

This Sub-Section suggests the need for SADC countries to consider:

- fast-tracking their tariff reductions;
- Harmonise their tariff schedules in order to minimize “tariff-jumping” or “tariff-deflection;”

- Ensure that the 2010 deadline for a Customs Union is met in order to have a common external tariff which will eliminate problems of “tariff-jumping” or “tariff-deflection” cited above;
- Avoid back-loading in their tariff reductions as this spells dangers of potential failure to implement tariff reductions at the end of the period which may prolong the realization of the SADC customs union.

### 3.5.3.2 Non-Tariff Barriers (NTBs)

It has been argued that non-tariff barriers are a major impediment to intra-SADC free trade. The most important among these are the Rules of Origin (ROO). Initially, the Trade Protocol provided for simple and less restrictive rules of origin. Under these, products qualified for SADC tariff preferences if they underwent a single change of tariff heading or if they contained 35 percent value added or if they included not more than 60 percent of non-SADC imported material inputs (Kalenga, 2004, and 2005). However, overtime problems such as actual/potential dumping from Asian countries and weak SADC countries’ customs administrations that that could allow “trade deflection” or “tariff jumping,” led to a call for tightening the rules of origin that resulted in the current *complex, restrictive, cumbersome and product-specific rules of origin in the SADC*. These rules of origin undermine the potential for the growth of intra-SADC trade.

Other, NTBs that have a significant impact on intra-SADC trade flows cumbersome customs procedures and documentation; cumbersome import licensing/permits; cumbersome export licensing/permits; import and export quotas and unnecessary import bans/prohibitions (Kalenga, 2004, and 2005). In the agricultural sector, sanitary and phytosanitary (SPS) measures are also used to protect products like wheat, being justified on safety and health reasons. Even though, it may be justifiable in some cases like the control of foot and mouth disease, in most cases, these NTBs are merely used as instruments for protectionism. This therefore means that it will be in SADC’s interest to:



- Follow the WTO on dealing with NTBs which involves tariffication of NTBs to their tariff equivalents and then following the tariff reduction schedules to reduce and finally eliminate them;
- Simplify rules of origin so that they allow more intra-SADC trade flows between Member States
- Follow the WTO on trade facilitation which will simplify customs procedures and thus allow more intra-SADC trade flows;
- Remove all non-tariff barriers to trade among SADC Members States in order to achieve the desired FTA by 2008 and customs Union by 2010.

### 3.5.3.3 Membership to Multiplicity of Regional Trading Blocs

In addition to the above challenges, SADC countries belong to a multiplicity of regional trading blocs. As can be seen in Table 3, SADC countries belong to SACU, COMESA and the Cotonou Agreement.

**Table 3.2: SADC Country Membership to Regional Blocs**

Country	SACU*	CMA	SADC	COMESA	Lome'
Angola			x	x	x
Botswana	x		x		x
Lesotho	x	x	x	x	x
Malawi			x	x	x
Mauritius			x	x	x
Mozambique			x	x	x
Namibia	x	x	x	x	x
South Africa	x	x	x		x
Swaziland	x	x	x	x	x
Tanzania			x	x	x
Zambia			x	x	x
Zimbabwe			x	x	x

This has a number of important implications for the realization of the SADC Trade Protocol:

- (a) First, for a region with limited negotiating capacity like SADC, this creates strain on the already limited financial and human resources for trade negotiation, thus making trade negotiations unduly long and costly;
- (b) Because of availability of easy options, member states are unlikely to be committed to tariff and NTBs reforms, knowing that they can choose to move to a regional bloc(s) with less onerous conditions. This undermines not only the commitment of Member States to the process of trade liberalization, but also disempowers committed Members when it comes to disciplining non-cooperative members;
- © Further, as may be expected under the above conditions, implementation record has not been good in SADC, suggesting that more needs to be done to achieve trade liberalization.

### **3.6. Economic Partnership Agreements (EPAs)**

#### *3.6.1. Introduction*

The non-reciprocal trade relationship between the EU and the 77 Africa, Pacific and Caribbean (ACP) countries has since 1975 been conducted under the Lome Convention. However, in recent years the EU chose to establish a reciprocal trade relationship with the ACP countries that will be WTO compatible in relation to the most favored nation (MFN) principle. This section discusses the EPAs and how their relevance to Botswana trade policy.

#### *3.6.2. The Objectives of the EPAs*

According to article 20 of the Cotonou Agreement, the main objectives of the EU-ACP development cooperation are (i) to achieve economic development for poverty reduction and (ii) to achieve both regional integration and integration into the global economy.

From the EU perspective, the EPAs have potential benefits for the ACP countries because of the benefits that will come from reciprocity and regional integration (Bilal and Rampa, 2006). On the issue of reciprocity, the EU argues that consumers in the ACP will benefit from low cost imports. Further, there will be increased competition in the ACP that will encourage efficiency and competition according to comparative advantage, increased investment and technological transfer from the EU to the ACP. In addition to these benefits, regional integration is expected to assist the ACP countries to achieve economies of scale in production and thus become competitive which will assist them to become globally competitive.

The ACP perspective on the above issues is cautious optimism. According to the ACP, the benefits of reciprocity and regional integration will not be realized unless adjustment costs for the ACP together with their supply constraints are addressed (Bilal and Rampa, 2006). The adjustment costs include fiscal reform due to loss of import revenue, loss of competitiveness that would result in the restructuring of domestic industries and the resultant loss of jobs in the ACP together with institutional developments to issues such as sanitary and phytosanitary measures (SPS), trade facilitation and other regulatory developments. On the issues of capacity constraints, the ACP suggest that there is need to address ACP countries' capacity to negotiate and implement the EPAs, to produce and trade competitively to reap the expected benefits of the EPAs and to face their adjustment costs. In addition, the ACP trade liberalization is to be accompanied by support to address supply side constraints such as strengthening infrastructure, related institutional and structural weaknesses.

### *3.6.3. The Implications of the EPAs for Trade Development*

As indicated above, the EPAs are expected to bring a significant number of benefits for the ACP. Various studies, using different methodological approaches have tried to quantify the benefits of the EPAs to the ACP (Bilal and Rampa, 2006). The implications for trade policy include:

- (a) First, trade liberalization is expected to increase EU-ACP trade flows as imports to the ACP increase;
- (b) Second, there are indications that trade creation may in some cases exceed trade diversion. However, the benefit may not be much due to significant adjustment costs that are incurred;
- (c) Third, the ACP will face significant tariff revenue loss due to trade liberalisation, suggesting the need, not only for assistance to adjust to these costs, such as the much talked about *aid for trade*, but also the need for the ACP countries to find more reliable and sustainable alternative sources of income;
- (d) EU free access into the ACP markets may lead to the establishment of core-periphery relationship between the EU and the ACP countries as the more technologically advanced EU firms export their products into the ACP markets, out-competing the latter's less efficient firms, and thus preventing the ACP to develop their own industries as well as resulting in increased unemployment and poverty. This is perhaps the most undesirable potential outcome of these negotiations that must be addressed by bring on board the development concerns of the ACP countries through the special and differential treatment of the ACP provided for in the WTO development Agenda. However, as we shall see below, the benefits of this provision are also very limited;
- (e) The potential industrial polarization implied by the preceding point means that there is need for the ACP countries to strengthen their South-South trade, both among themselves and with other developing country regional blocs;

- (f) The EPAs formation of regional trading blocs is unique in that, unlike in the past, where there were mainly North-North regional trading arrangements and South-South regional trading arrangement, this one brings together developed and developing countries together in a North-South RTAs. However, this arrangement has significant challenges for trade policy in Botswana. First and foremost, the EPAs are to conform to the provision of the WTO on RTAs, in particular Article XXIV of GATT 1994. This article requires that in a free trade area or a customs union trade must be liberalised in “substantially all trade (SAT)” and this should occur “within a reasonable length of time” where the latter is defined in terms of a maximum of 10 years, with a longer period authorised “only in exceptions cases.” These provisions of Article XXIV of GATT 1994 provide a big challenge for tariff negotiations and implementation for the EPAs. Further, SADC countries are composed of developing countries, some of which are at middle income level like Botswana, Mauritius and South Africa, while others are Least developed Countries (LDCs) like Lesotho, Malawi and Mozambique. Because of this, there is need for flexibility to allow for asymmetry in tariff reduction processes in the EPAs to take account of the development needs of developing countries vis-à-vis the developed EU countries. This is not provided for in Article XXIV of GATT 1994.

Thus while there is a lot of optimism about the prospects of EPAs, especially in developed countries, it is apparent that SADC countries must approach these cautiously. More importantly, they must support the submission of the ACP countries to the WTO on 28 April 2004, which is pushing hard for the inclusion of flexibilities that will take account of the development concerns of developing countries in Article XXIV of GATT 1994.

### **3.7. Africa Growth and Opportunity Act (AGOA)**

#### *3.7.1. Introduction*

The AGOA is an initiative of the US government which is intended to promote US-Africa trade. AGOA was signed in September, 2000 and allows Sub-Saharan African countries duty free and quota free access to the US market provided they meet certain country and product eligibility criteria. Initially, Sub-Saharan countries with a per capita income of US\$1500 were not eligible. These included Botswana, Gabon, Mauritius, Namibia, Seychelles and South Africa. However, these countries have since negotiated with the US and were given special eligibility up to 2007. The other countries AGOA period was up to 2008, and has since (AGOA Acceleration Act of 2004) been extended to 2015.

### *3.7.2. Country Eligibility*

To qualify for AGOA duty-free and quota-free access to the US market, Sub-Saharan countries are expected to comply with the following:

- Establishment of a market based economy that protects private property rights;
- The rule of law, political pluralism and the right of due process;
- Elimination of barriers to the US trade and investment;
- Protecting intellectual property rights;
- Efforts to combat corruption;
- Protection of human rights and worker rights;
- Elimination of abusive forms of child labor;
- Beneficiary countries should not take any actions that undermine US National security interests
- Policies to reduce poverty and increase access to health care and education (<http://www.apparelafricaonline.com/AGOAdetails.htm>).

### *3.7.3. Product Eligibility*

AGOA extends the GSP program (which covers 4,650 products) to include an additional 1,835 items not covered under the GSP for beneficiary countries up to September 30, 2015. To access the US market, these products face eligibility criteria that must be observed (see the AGOA Informed Compliance Publication, May, 2001). These include:

- The article must have become the growth, product or a manufacture of the beneficiary Sub-Saharan African country by some process other than simple combining or packaging operation or the mere dilution with water or the mere dilution with another substance that does not materially alter the characteristic of the article;
- The article must have importee directly from the beneficiary Sub-Saharan African country into the customs territory of the United States;

- The article must have at least 35 percent of its appraised value attributed to the sum of the direct costs of processing operations performed in the beneficiary Sub-Saharan African country or in any tow or more beneficiary Sub-Saharan African countries....;
- As variation from the general GSP 35 percent value content rule, two additional rules were added:
  - (i) The cumulation of the cost or value of materials from different beneficiary countries is not dependant on those beneficiaries being members of an association of countries; and
  - (ii) the cost or value of materials produced in the customs territory of the United States (...) may be counted towards the 35 percent requirement to a maximum of 15 percent of the article's appraised value.

Botswana has been able to qualify for AGOA under these stringent conditions for up to 2007. The challenge for the country and its trading partners like South Africa is to negotiate for eligibility until 2015. Further, Botswana has taken advantage of AGOA mainly textile and apparel. There is need to extend the list to cover a substantial number of the 6000 product items under AGOA.

### **3.8. World Trade Organisation (WTO)**

#### *3.8.1. Introduction*

The WTO major objective is to achieve free trade among member countries and the process of globalisation entailed by free trade. This involves facilitation of the implementation of WTO obligations by Member countries, as well as facilitation of administration and operations of the multilateral trade agreements. Further, the WTO provides a forum where these agreements are negotiated in order to achieve mutually beneficial trade based on consensus and the most favoured nation (MFN) principles.

#### *3.8.2. WTO Provisions*

On issues of market access, the WTO is committed to negotiations of market access for agriculture and non-agricultural market access (NAMA).

On NAMA, Member Countries are expected to declare their bound and applied tariffs to the WTO and apply the agreed tariff formula (currently the simple Swiss formula is to be used even though discussions on modalities are still on-going) to eliminate tariff peaks, high tariffs and tariff escalation.

With regard to non-tariff barriers, Member Countries are to simplify and make their NTBs transparent. Further, they are to convert their non-tariff barriers to their ad valorem tariff equivalents, and then bind and apply the agreed tariff reduction formula to reduce them. Discussions on the modalities on this process are also on-going at the WTO.

WTO trade negotiations also cover a wide range of trade issues including trade in services, intellectual property rights (Trips), trade facilitation, trade and environment, trade and the transfer of technology, and electronic commerce (e-commerce). While these have not much ground has been covered on these issues because most of them are relatively new in the WTO agenda, they have to be covered in Botswana's trade policy document.

The challenges Botswana in trade policy comes from two areas. First, even though the WTO Doha Development Agenda provides for SDT, this provision of Article XXIV of GATT 1994, does not cover FTA or customs unions. As stated earlier, the WTO provision states that for a FTA or customs union to be formed trade liberalisation must occur in "substantially all goods," and should be done within a "reasonable length of time" where this is defined as a maximum period of 10 to 12 years. This provision lacks flexibility to accommodate the development concerns of developing countries, and it's thus a major concern for trade policy in developing countries like Botswana.

Second, the current WTO talks on both Agricultural and Non-Agricultural Market Access show that the simple Swiss formula has been chosen for tariff cuts, even though the modalities have not been finalised. As shown in the 2005 BIDPA Study on NAMA for Botswana, the use of the simple Swiss formula cuts deeply into tariffs and thus has significant implications for (i) industrial development in developing countries where tariff protection is still required for infant industries and (ii) tariff revenue, because many developing countries still depend on this for a significant proportion of their recurrent and development expenditure. Therefore, deeper tariff cuts as required under WTO will significantly reduce government tariff revenue in many developing countries, resulting in significant welfare losses. (iii) Deeper tariff cuts will also result in significant adjustment



costs in developing countries as firms restructure due to increased competition which may result in firms closures and increased unemployment.

From the WTO negotiations' perspective, it will be in the interest of Botswana to adopt the following:

- Continue to advocate for non-stringent tariff reduction measures;
- Continue to advocate for gradual liberalisation on the part of the developing countries in line with the flexibilities provided for in Paragraph 8 of Annex B of the Doha Development Agenda;
- Continue to advocate for the developed countries' speedy liberalisation of the agricultural sector since this is where products of interest to developing Countries have comparative advantage;
- Make full and beneficial use of the provisions for special and differential treatment provided for in the WTO;
- Explore the possibilities to make full and beneficial use of the provisions for capacity building, including "*Aid for Trade*" which the WTO commits to embark on in order to aid the developing countries' efforts to expand trade.

### 3.8.3. *WTO Assistance*

*Special and Differential Treatment (SDT)* - because of the differences in levels of development, the Doha Development Agenda provides for the Special and Differential Treatment (SDT) of Developing and Least Developed Countries (Doha development Agenda, 2004, Par.8 & 16). This provides for less than full reciprocity in tariff reduction commitments, which may be in the form of longer tariff reduction implementation schedules and keeping not more than 5 percent of the country's tariff lines unbound. Further, WTO provides *Technical Cooperation* for Member Countries. This include

capacity building for Developing Countries to be able to participate effectively in the WTO negotiation, which is the mandate of the Joint Integrated Technical Assistance Programme (JITAP), and (*Aid for Trade A4T*) which is a newly conceived concept currently under discussion at the WTO. Even though discussions on the form and modalities for A4T are still on-going at the WTO, it is expected that A4T will assist developing countries to build capacity and trade-related infrastructure in order to assist recipient countries to be able to implement and benefit from their WTO obligations.

#### *3.8.4. Bilateral Agreements and On-going Trade Negotiations*

In addition to the multilateral agreements discussed above, Botswana has bilateral agreements with India, Malawi, Zambia and Zimbabwe. Among these, the most important is Zimbabwe, especially before the current political and economic crises occurred. These agreements cover issues of market access and mutually beneficial trade discussed in the preceding sections, more especially that, these countries are either Members of SADC or WTO or both.

Recently concluded free trade agreements include the SACU-EFTA free trade agreement which was signed between SACU and the EFTA countries, namely Iceland, Liechtenstein, Norway and the Swiss Confederation on 26 August, 2005. The objective of the Agreement is to establish a free trade area which will be compatible to the WTO provisions for trade in goods as well as “substantially increasing investment opportunities in the free trade area. The SACU- MERCOSUR free trade agreement which was signed between SACU and the MERCOSUR countries, namely Argentina, Brazil, Paraguay and Uruguay. This agreement provides for fixed preference margins in tariffs as a first step towards the creation of a free trade area.

On-going negotiations in the SACU include the SACU-US trade negotiations for free trade. These have progressed slower than expected due to mainly two factors, namely negotiating capacity constraints on the side of SACU and divergent views on key issues of the negotiations (The Fifth US Annual Report, 2005). Other negotiations on the

pipeline include SACU/India free trade negotiations and SACU/China Free trade negotiations.

### **3.9. Conclusions and Policy Recommendations**

This Chapter reviewed Botswana's trade agreements with bilateral, regional and multilateral trading partners. These agreements have shaped Botswana's trade policy in the past and will continue to do so in the foreseeable future. To this end Botswana will have to make important policy decisions and options regarding her trade policy which should reflect the changes and challenges in the domestic, regional and global trade policy environment. Some of the policy decisions and options that Botswana should consider include the following:

1. There is conflict between the BLNS on one side and South Africa on the other when it comes to the purpose of tariff policy. South Africa views the tariff as a tool for industrial development while for the BLNS it is a tool for government revenue. Since tariffs are actually going to decline over the next 10 years or so due to liberalization and the contribution of tariff revenue is currently around 12 to 15 percent, Botswana will benefit more if she could advocate for *other benefits such as industrial development and possibilities of benefiting from cross-border investment by South African firms seeking lower costs of production to be competitive in world markets;*
2. *The ITAC of South Africa is still responsible for SACU tariff formulation and management until national tariff bodies are formed in the BLNS. This means that in the interim period, the price-raising effect of the tariff and the industrial polarization effects remain and continue to stifle industrial development and economic diversification in the BLNS. Therefore, the formation of National Tariff Bodies, which is now overdue by four years, should be a matter of priority by all the BLNS; Further, once these Bodies are functional, their first task should be to review the SACU tariff structure, with a view to make it supportive of industrial development in the BLNS;*

3. *To achieve the benefits envisioned in the preceding points, Botswana and the BLNS will need to engage tough and experienced negotiators, armed with well researched country needs of the BLNS must be at the front of the negotiations. Thus capacity building in the BLNS, not only in the area of technical expertise to handle tariff matters, but also in the area of negotiations in trade policy and in particular, tariff related matters, should be a priority;*
4. *The New SACUA2002 advocates for common industrial policies. It is evident from the analysis in this chapter that to design, implement and monitor common industrial policies will prove a daunting challenge in terms of the required technical expertise and political support. On the economic side, it will require targeted provision of infrastructure, fiscal incentives and the development of an overall regional industrial policy that goes beyond the infant industry provision;*
5. *Because of SACU, the BLNS countries are de facto implementers of the TDCA. Therefore the smaller economies will have to face the adverse challenges of increased imports competition from the EU which have the potential to wipe out domestic firms in the BLNS. Further, there will be competition for market in the EU under the TDCA. This will be exacerbated by the end of the multifibre agreement in 2005 and the expected EPAs which will be completed in 2008. These changes mean that now SACU countries will have to compete with more efficient low cost producers from East Asia and Latin America in the EU market. These changes are likely to involve extensive costs of adjustment that will need technical assistance that may take the form of **Aid for Trade**;*
6. *In addition, EU free access into the ACP markets may lead to the establishment of core-periphery relationship between the EU and the ACP countries as the more technologically advanced EU firms export their products into the ACP markets, out-competing the latter's less efficient firms, and thus preventing the ACP to develop their own industries as well as resulting in increased unemployment and poverty.*

This is perhaps the most undesirable potential outcome of these negotiations that must be addressed by bringing on board the development concerns of the ACP countries through the special and differential treatment of the ACP provided for in the WTO Development Agenda. However, as we shall see below, the benefits of this provision are also very limited;

7. *The study shows that free trade efforts in SADC are not very encouraging. Implementation of tariff schedules is slower than expected while NTBs have become complex and very restrictive. This is complicated by SADC country Membership to a multiplicity of RTAs. To counteract these problems, the following are recommended:*

- fast-tracking their tariff reductions;
- Harmonize their tariff schedules in order to minimize “tariff-jumping” or “tariff-deflection;”
- Ensure that the 2010 deadline for a Customs Union is met in order to have a common external tariff which will eliminate problems of “tariff-jumping” or “tariff-deflection” cited above;
- Avoid back-loading in their tariff reductions as this spells dangers of potential failure to implement tariff reductions at the end of the period which may prolong the realization of the SADC customs union.
  
- Follow the WTO on dealing with NTBs which involves tariffication of NTBs to their tariff equivalents and then following the tariff reduction schedules to reduce and finally eliminate them;
  
- Simplify rules of origin so that they allow more intra-SADC trade flows between Member States
  
- Follow the WTO on trade facilitation which will simplify customs procedures and thus allow more intra-SADC trade flows;

- Remove all non-tariff barriers to trade among SADC Members States in order to achieve the desired FTA by 2008 and customs Union by 2010;
  - For a region with limited negotiating capacity like SADC, Membership to a multiplicity of RTAs creates strain on the already limited financial and human resources for trade negotiation, thus making trade negotiations unduly long and costly. Botswana should advocate for a single regional trading bloc for Southern African Countries.
8. Botswana has been granted Least Developed Country (LDC) status up to 2007. The major challenge facing the country and its trading partners like South Africa is to negotiate for eligibility until 2015. Further, Botswana has taken advantage of AGOA mainly textile and apparel. There is need to extend the list to cover a substantial number of the 6000 product items under AGOA. Most important, Botswana will have to find ways of continuing to access the US market beyond the AGOA dispensation.
9. *On average, Botswana stands to benefit from tariff liberation under WTO in terms of market access for her exports and access to imports on MFN tariff rates, WTO Technical Cooperation for Member Countries, capacity building to be able to participate effectively in the WTO negotiation, and Aid for Trade. The challenges of WTO to Botswana include* (i) even though the WTO Doha Development Agenda provides for SDT, this provision of Article XXIV of GATT 1994, does not cover FTA or customs unions. This provision lacks flexibility to accommodate the development concerns of developing countries like Botswana; (ii) the choice of the simple Swiss formula for tariff cuts has significant implications for industrial development in developing countries where tariff protection is still required for infant industries and tariff revenue, because many developing countries still depend on this for a significant proportion of their recurrent and development expenditure. Finally, deeper tariff cuts will also result in significant adjustment costs in developing

countries as firms restructure due to increased competition which may result in firms closures and increased unemployment.

10. A strategic relationship with these bodies in tariff policy formulation is central to successful policy formulation for Botswana. This would require more thought and innovative thinking as we craft our policies and define the path that Botswana should follow in her export-led growth strategy.

## **CHAPTER FOUR**

# **TRADE POLICY AND BOTSWANA'S ECONOMIC POLICIES**

### **4. Introduction**

Botswana has chosen a private sector-led economic development strategy. In this strategy government plays a facilitative role by providing a conducive political and macroeconomic environment while the private sector plays a leading role in the economy when it comes to the production of goods and services. Because of the small domestic market, Botswana has chosen an export-led growth strategy for her economic growth and development. The main objective of this Chapter is to review Botswana's domestic economic policies and indicate how they are supportive to the country's trade policy. Specifically, the Chapter will assess how domestic policies support industrial development, export development and export competitiveness.

Botswana's domestic policies define the domestic environment that should support the country's export-led growth strategy and hence its export competitiveness in world markets. These policies include National development plans (NDPs), Vision 2016, the Industrial Development Policy, Rural development policy, NAMPAADD, Small, Medium and Micro Enterprises (SMME) Policy, Privatization Policy, Competition Policy, Foreign Direct Investment Policy, Tourism Policy, Privatisation Policy, National Competition Policy Citizen Economic Empowerment Policy and the recently launched Botswana Export Development Strategy. The effective implementation of these policies is meant to create a domestic environment that is private sector investment friendly. The successful implementation of these policies will also be supportive of the countries foreign direct investment policy as well as economic diversification that has potential to create employment for the majority of the country's growing labor force.



#### **4.1. National Development Plans and Vision 2016**

National Development Plans (NDPs) and vision 2016 are important for Botswana's trade policy. NDPs define not only the general policy environment for successful implementation of the country's trade policies, but also the broad trade policy framework for the country. On the former, all of Botswana's NDPs are based on the national principles of democracy, development, self-reliance and unity. These principles are important for the creation of an environment of social harmony, peace as well as political and economic stability which are so vital for private sector investment decisions. These principles complement the country's national development principles of sustained development, rapid economic growth, economic independence and social justice. These development principles define the desirable "inclusive economic growth" that should characterise Botswana's trade policy.

In addition to these principles, NDPs normally have themes that define the main objectives for economic planning during the plan period. For instance, the theme for NDP 8 theme is "*Economic Diversification.*" This theme emphasis the need for the economy to move away from dependence on primary exports of beef and minerals, mainly diamonds, into other forms of sources of incomes such as manufacturing and services. The theme of the current National Development Plan (NDP 9) is "*Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets.*" This theme emphasizes the fact that Botswana's economic diversification will be realized by participating effectively and competitively in world markets to meet the ideals of Vision 2016 (see below). *Implicit in this theme is Botswana's trade policy which is an outward looking export-oriented trade policy.*

In this context, Botswana's trade policy forms an integral part in the realization of Vision 2016 policy objectives. This national Vision is based on seven pillars indicating what Botswana aspires to be by 2016. These include:

- (1) an educated, informed nation,
- (2) a prosperous, productive and innovative nation,

- (3) a compassionate, just and caring nation,
- (4) a safe and secure nation,
- (5) an open, democratic and accountable nation,
- (6) a moral and tolerant nation, and
- (7) a united and proud nation.

The most relevant pillars for trade policy are Pillars 1 and 2. Pillar 2 envisions Botswana of 2016 as a country that will have achieved economic diversification, full employment of resources, including labor and therefore, having achieved prosperity for all. Pillar 1 emphasizes the importance of education to produce people with relevant skills, who will participate effectively in the economy as both entrepreneurs and employees. Like the NDPs, Vision 2016 asserts that this ideal will be realized by following an export-led growth strategy, again emphasizing the importance of Botswana's trade policies in the country's national development.

Botswana's long-term Vision 2016 has a target rate of growth of real GDP of 8% p.a. for the 20 year period from 1996 to 2016 and aims to reduce the proportion of the population living below the poverty datum line to 23% by 2007, and to zero by 2016. Further, the Vision aims to create sustainable job opportunities and to ensure that income is equitably distributed as well as to attain a diversified economy with vast export and investment opportunities. In this regard, Vision 2016 advocates for economic growth with a human face, which is the type of growth that should characterize Botswana trade policy.

#### **4.2. National Export Strategy**

Even though Botswana chose an export-oriented development strategy early in her development effort, it is evident that country has never had a either national trade policy document or national export strategy document where these policies are articulated. The latter was only achieved this year, May 2006, when the Botswana National Export Strategy was officially handed to the Minister of Trade and Industry by the BEDIA. As

for the latter, the current study is an effort in that direction. This Section discusses the relationship between Botswana's National Export Strategy and the National Trade Policy.

The overall objective of the Botswana National Export Strategy is to make Botswana exports internationally competitive and thereby assist the country to achieve its objective of industrial development and economic diversification. To this end, the strategy has identified six priority sectors that will assist the country to achieve this objective, namely:

- Arts and Crafts
- Garments and Textiles
- Hides and skins
- Jewellery
- Leather and Leather products
- Meat and meat products.

The strategy outlines current export competitiveness constraints faced by the export community and the strategies that may be employed to overcome the constraints. These include, among others, an improvement of the competitiveness issues, namely trade facilitation, capacity building in export trade, strengthening the country's trade support network and the need to formulate private sector development strategy. The strategy points out the fact that export support in Botswana has mainly addressed macro issues relating to free trade negotiation for market access, promotion of large scale FDI projects and encouragement of value addition on existing export sectors; and has done little to address micro issues relating to individual exporter needs such as production planning, and export decision making. This area seems to be coming up as the main focus of export promotion under BEDIA and is likely to change the phase of export promotion in the coming years.

It is evident from the above discussion that the National Export Strategy will have to focus mainly on micro issues relating to firm competitiveness and penetration of world markets. This strategy will be complementary to the National Trade Policy, whose main focus will be how Botswana should conduct her trade with bilateral, regional and multilateral trading partners. To this end, the National Trade Policy will focus mainly, but not exclusively, on macro issues of trade relating to trade and markets access while National Export Strategy will focus on the micro issues relating to how firms and individual exporters may access world markets.

### **4.3. The Industrial Development Policy**

The objective of this section is to briefly outline the relationship between Botswana's Industrial Development Policy (IDP) and Trade Policy. For a mineral-based economy like Botswana, industrial development from the booming sector may generally take three forms. First, the booming sector may purchase inputs from domestic firms, leading backward linkage industries. Second, the booming sector may be a source of productive inputs into domestic firms, leading to what is known as forward linkage industries. Finally, the booming sector may be a source of large sums of government revenue, which may be used to provide economic incentives for the emergence of industries that the country did not initially have comparative advantage on.

Trade policy is important for the emergence of all the above forms of industries. In the first two cases, trade policy would require that the booming sector purchases inputs from domestic firms and provides input into their production as well. The latter is premised on the concept of beneficiation which has recently become important in discussions relating to Botswana's diamond sector. The third industrial development strategy requires government innovative thinking in the use of both financial resources from

the booming sector and trade policy to develop export-oriented industries as was the case in the East Asian countries. Botswana's trade policy has been strong in the third category and weak in the first two. However, efforts are now under way to rectify this weakness.

- As noted earlier, Botswana has chosen an export-oriented development strategy and BIDP is actually premised on this strategy. One of the key principles of the BIDP is “encouragement of highly productive and efficient export industries based, to the extent possible, on local natural resources and integrated with foreign markets and technology.” Pursuant of this policy strategy, Botswana has entered into bilateral, regional and multilateral trade agreements in order to enable Botswana to (i) achieve the broadest possible free and reliable access to markets for Botswana's exports of goods and services, especially within the Southern African region, and (ii) enable producers and consumers to have access to the widest choices of international goods and services on the best possible terms (NDP 8.164);
- The BIDP emphasizes the fact that the world economy has become globalized, as a result Botswana firms will have to operate in a globalized economic setting in which firms survive by maintaining competitive standards in terms of the price, quality and uniqueness of their products as well as the productivity of their labour. Neither the BIDP nor Botswana trade policy provide for industrial development behind high tariff and non-tariff barriers, save for the infant industry protection under SACU;
- The BIDP provisions have led Government to put in place export support measures. These include the Botswana Export Development and Investment Authority (BEDIA) whose key mandate is the promotion of Botswana's export development and investment; the Botswana Export Credit Insurance and Guarantee Company (Pty) Ltd, which provides insurance coverage to exporters; and financial assistance which started with the Financial Assistance Policy (FAP) grant scheme (1982 to 2000) and the current Citizen Entrepreneurial Development Agency (CEDA). CEDA provides investment funding to producers, including exporters;

- The BIDP has identified important export service sectors that need to be developed in the country's pursuit for economic diversification. These include, among others, the tourism sector, the financial sector and the transport sector;
- Finally the BIDP sector recognizes the need for government to attend to impediments for the development of export-oriented production, namely lack of access to serviced land, lack of factory shells, especially for SMMEs, inadequate trade data for investor's information on available markets and the undiversified nature of tourism products.

Overall, it is evident that Botswana's industrial development policy, has embedded in it, Botswana trade policy. Thus, the envisaged trade policy should take the issues of industrial development raised in this section into account.

#### **4.4. Policy on Small Medium and Micro Enterprises (SMMEs)**

The contribution of SMMEs in the national economy is increasingly being recognized worldwide. In the case of Botswana, the Policy on Small Medium and Micro Enterprises, Government White Paper No 1 of 1998, reports that in 1996, SMMEs were estimated to contribute 30-45 percent to GDP and 50 percent to employment. Indeed, Botswana recognizes this importance of SMMEs and has put in place both institutional support (Local Enterprise Authority(LEA), Small Business Council (SBC)) and financial support administered by CEDA.

In the area of trade, the importance of SMMEs is recognized in three of the seven objectives of the SMME Policy. The objectives are:

- To *promote exports* - this is important, especially when it comes to niche markets of traditionally made goods and other handmade goods where Botswana has comparative advantage;
- To promote the development of vertical integration and horizontal linkages between SMMEs and primary industries in agriculture, mining and tourism. This is important in line with the National Export Strategy of value addition as this will link production for export to SMME development;
- Fostering citizen entrepreneurship and empowerment - this has connection with the previous point. It is becoming clear from the experience of Newly

Industrialized Countries of East Asia that some of the large multinationals from those countries started off as SMMEs.

These objectives of SMME Policy show an important link between trade policy and SMME policy relating to export promotion, economic empowerment and entrepreneurial development. These issues should indeed form the elements of Botswana's National Trade Policy.

#### **4.5. Foreign Direct Investment Strategy**

Because of its small markets size and the limited local entrepreneurial skills, Botswana has always viewed foreign direct investment as having potential to achieve her ambitious objectives of economic diversification and eradication of poverty by 2016. NDP 9:118 recognizes the importance of FDI as a source of managerial, technical and professional skills, appropriate and modern technology and access to and knowledge of export markets.

In 2003, UNCTAD conducted an "Investment Policy Review of Botswana," which was meant to be a major input into Botswana's Foreign Investment Code aimed at defining the parameters of how FDI will be conducted in Botswana. The study indicated that, in spite of Botswana's generally attractive economic environment, the country has not benefited much from FDI due to, among others, pre-occupation among policymakers that FDI will replace local businesses, lack of FDI strategy and lack of competitiveness in world markets. The study outlines the strategies that need to be followed for FDI to fulfill the objectives of trade policy. These include specialized analysis of sector's potential for FDI, careful investor targeting and benchmarking as well as monitoring Botswana's competitiveness.

The Foreign Direct Investment Strategy, like the National Export Strategy is complimentary to the National Trade Policy. Botswana's Foreign Investment Code will

thus go a long way to clarifying the regulatory environment for FDI investors in Botswana and thus increase opportunities for Botswana as an attractive FDI destination.

#### **4.6. National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD)**

The National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD) is a product of the TAHAL Consulting Engineers Ltd of Israel. The programme was introduced in 2002 in order to “improve the performance of the [agricultural] sector and ensure sustainable use of the country’s natural resources” (NAMPAADD Final Report, 2000:1). The Mater plan aims to :

- identify the potential for agricultural production and how it can be improved;
- make agriculture competitive and reduce the country’s reliance on imports of agricultural produce that can be viably produced locally;
- make arable and dairy farming more attractive and profitable to farmers and thereby increase rural incomes and employment and reduce rural-urban migration.

In order to achieve these objectives, the programme targets booth traditional and commercial formers mainly in rainfed arable agriculture (grain/cereal production), dairy and irrigated arable agriculture (horticulture).

In the area of rainfed arable agriculture, the programme focuses on (i) the establishment of training farms in areas identified as having agricultural potential, (ii) encouragement of small farmers to form large production units of minimum side of 150 hectares, (iii) promotion of mechanized farming within the cluster and (iv) establishment of service centers that will provide advisory and technical support as well as inputs to farmers. The production training centers, which started with the Ramatlabama centre, are used to demonstrate to farmers the benefits of modern technology, improved management system and mechanized farming.

In horticulture, the objective of the programme is to establish production clusters with a minimum size of 20 or more hectares of cultivated land per farmer. The idea is to encourage clustering so that farmers can share not only the ideas of farming, but also the cost of inputs procurement, production and product marketing. Training centers for horticultural farming have been established at Glen Valley near Gaborone and Dikabeya, near Palapye. NAMPAAD also has dairy farming projects where on-farm demonstrations are meant to show farmers the benefits of modern commercial dairy farming.

The relevance of NAMPAADD to Botswana's trade policy is very important. First, the programme aims to modernize the agricultural sector and make it competitive, not only in terms of achieving import-substitution, but also export-oriented production. The success of this programme may turn Botswana into a supplier of agricultural produce for the region. Second, competitiveness in a globalized economic environment, as indicated in various NDPs and Vision 2016, is key to Botswana's new trade policy drive. Thus, NAMPAADD, if implemented properly, will bring the agricultural sector into line with Botswana's trade policy.

#### **4.7. Revised National Policy for Rural Development**

The Revised National Policy for Rural Development was motivated by the fact that while about 50 percent of Botswana live in the rural areas and has over the years made a living on arable and livestock-based agriculture, this source of livelihood is quickly disappearing as the youth generally do not prefer that type of life. As a result, Government desire is to have a rural economy that will be characterized by (i) a modernized commercial agriculture, in particular, NAMPAADD, that will be able to attract the youth and private sector in general and (ii) the growth of traditional economy along with the modern commercial sector, that will be able to provide alternative means of livelihood in the form of viable businesses which will be a major source of employment, reducing rural-urban migration. To this end the objectives of the Policy include, among others:

- Reduction of rural poverty;



- Retention of subsistence livelihood opportunities through the establishment of a viable rural commercial sector;
- Stimulate rural employment and income generation through identification and exploitation of profitable alternatives to livestock and arable agriculture, such as rural industries, services and crafts; attraction of youth; promotion of private sector
- Increase agricultural productivity.

Implicit in these objectives of Rural Development Policy is the fact that trade policy should lead to equitable distribution of both industrial development and the benefits of economic growth in general. Thus the aspirations of the Rural Development Policy support the notion that trade policy must result in export-led growth with a human face where even the most disadvantaged areas of a country receive the benefits from growth.

#### **4.8. Tourism Policy**

Tourism is an important service export worldwide. In some countries like the Caribbean Islands, it contributes the main engine of growth. For Botswana, Tema estimates the contribution of tourism to GDP at around 5 percent in 1996, and postulates that this figure must have grown over the years as the sector grew. This contribution of tourism signals the importance government attaches to the sector, as it has been identified as one of those with potential for growth that will contribute towards employment creation, income generation and economic diversification. To this end, the objective of the sector are:

- To increase foreign exchange earnings and government revenues;
- generate employment, mainly in rural areas;
- raise incomes in rural areas in order to reduce urban drift;
- generally promote rural development and to stimulate the provision of other services in remote areas of the country;
- improve the quality of national life by providing educational and recreational opportunities;

- project a favourable national image to the outside world.

Botswana has generally focused on tourism that involves visits to National Parks and Game Reserves - specializing mainly on viewing wild animals and other wildlife scenery. However, in recent years emphasis has also been placed on the need to diversify tourism products to include other products like Botswana historic places in peri-urban areas as well as rural areas. This, together with the general campaign to have Botswana participate in tourism is expected to assist the sector to achieve its objectives of contributing towards income generation, employment creation and economic diversification. Since this sector has more economic linkages, especially with the agricultural sector which may be a source of fresh produce for it, it is expected that it will support the agricultural efforts under NAMPAAADD.

In addressing the issues relating to export promotion, foreign exchange generation, economic linkages and rural employment, the sector will thus fulfill the objectives of trade policy – achieving export-led growth with a human face and equitable industrial development.

#### **4.9. Privatization Policy for Botswana**

Privatization has become a global process that is embraced by almost every country in the world. Despite this global shift, privatization has not always been popular in Sub-Saharan Africa (SSA) where it was met with suspicion and resistance, and had to be imposed by the use of the International Monetary Fund (IMF) and the World Bank structural adjustment conditionalities. Botswana is unique in that its policy move towards privatization is motivated by a desire to keep pace with the global shift towards the market economy as well as increasing the productivity and efficiency of the public sector and parastatals. There are various modalities of privatization. These include:

- ***Divestiture*** – means the transfer of ownership of a government entity through the sale of all or some of its assets to private ownership;

- ***Outsourcing*** – also called contracting out means the transfer of the provision of a service from government to the private sector so that it may be provided on commercial terms;
- ***Commercialization*** – is the transformation of a government entity into a commercial entity so that the commercialized department/unit is managed and operated fully on business terms;
- ***Corporatisation*** – means the incorporation of a government department/Unit into a private entity or company governed by company statutes and laws;
- ***Management Contracts*** – here government continues to own the service it provides together with its assets, but transfers the management of the service to contracted managers who then run the service for a fee. This is usually done to enhance efficiency and effectiveness in service delivery and thus avoid administrative bottlenecks normally found in government management;
- ***Leasing*** – government retains ownership of its assets and property, but leases them out to private companies or individuals who then provide the service on commercial terms This is done in cases where the State does not want to loose ownership of its assets;
- ***Employee Buy-outs*** – this occurs when government encourages employees to group themselves into a company in order to provide the service they used to provide when they were government employees. This is usually preferred as a means of citizen empowerment.

The Public Enterprise Evaluation and Privatization Agency (PEEPA) was mandated to formulate a Privatization Master Plan and see its implementation. Even though the

privatization plan has been slow, Air Botswana and Botswana Telecommunications Corporation appear to be first on the list of parastatals targeted for privatization.

Privatization is important in trade policy because, in line with global practice, Botswana has chosen an export-oriented development strategy and this strategy is best driven by the private sector. Because of this, government development policies have over the years emphasized the critical role of the private sector, both in terms of citizen private companies and foreign direct investment. The objectives and mode of privatization discussed above appear to be supportive of this trade policy strategy.

#### **4.10. The National Competition Policy For Botswana**

The National Competition Policy For Botswana has strong complementarity with the Privatization Policy. The Policy is motivated by the fact that, when left without a regulatory authority, economic agents may sometimes pursue profit maximization at the expense of consumers or other companies. In the case of the former, monopolistic pricing may involve the reduction of output in order to reduce supply and thus inflate prices, thus denying many consumers access to the product. In some cases, firms that sell differentiated products choose to collude and set a monopolistic price, again hurting consumers.

In some cases, foreign firms entering the domestic market may choose to practice dumping by temporarily reducing a commodity price below its market price in order to drive out domestic competition. If there is no regulatory authority to control this anti-competitive behavior, the entrant would actually drive out domestic firms and establish themselves as a monopoly with high prices. The competition policy is structured to overcome these problems which are more prevalent when privatization is done in small economies like Botswana where there is likely to be very limited domestic competition. To this end the objectives of The National Competition Policy For Botswana include, among others, to:

- Enhance economic efficiency, promote consumer welfare and support

economic growth and diversification;

- Prevent and redress unfair practices adopted by firms against consumers and small businesses in Botswana;
- Prevent and redress anticompetitive practices in the Botswana economy and remove unnecessary constraints to the free play of competition in the market;
- Enhance the attractiveness of the Botswana economy for foreign direct investment by providing a transparent, predictable and internationally acceptable regulatory mechanism for firms to engage in economic activities

Competition Policy is important for Trade Policy in that the latter is successful only where there is fair play in trade. In cases where there is no regulatory authority, the benefits that can be derived from trade policy may be wiped out, especially where there is extensive privatization in a small economy with limited number of firms to have effective competition.

#### **4.11. Citizen Economic Empowerment**

The main objective of this Section is to briefly indicate Government Citizen Economic Empowerment Policy and how it is beneficial and complimentary to the country's trade policy. Hudson (2002) surveys Government Policies and Measures to further Citizen Economic Empowerment. For those with relevance to trade policy, he discusses the financial assistance schemes like the FAP and CEDA, which encourage and support citizen entrepreneurial development in all areas of business. There is also the Local Procurement Scheme, large Government purchases are split into two so that 30 percent is served for citizen companies and the remaining 70 percent is open to all.

For trade policy, these citizen empowerment schemes are important mainly for ensuring that citizens participate actively in the country's export oriented economic growth and

development of the country. Given the fierce competition that can characterize trade in a globalized economic environment, this policy move is a step in the right direction. However, like infant industry protection which has in some cases been subject to abuse by firms which want to be “infant forever,” citizen economic empowerment may be subject to abuse in cases where recipients assume that “citizenship” should replace the firms’ obligation to deliver quality goods and services according to the agreed contract. Related to this, firms may erroneously equate citizen economic empowerment to “economic entitlement.” Therefore, should encompass citizen economic empowerment that is defined to exclude economic entitlement and rent seeking.

#### **4.12. Conclusions and Recommendations**

The main objectives of this chapter was to review Botswana’s domestic economic policies and indicate how they compliment trade policy. This exercise was meant to assess whether there are policy decisions and options that Botswana would have to make in order to make trade policy impact beneficial to the country. The following are some of the conclusions and recommendations;

1. The NDPs do not only define trade policy for Botswana, but based on the national principles of democracy, development, self reliance and unity, they have been able to create an environment of economic and political stability as well as social harmony and peace. These are important for private sector investment which is essential for a successful trade policy implementation;
2. Further, the NDPs and Vision 2016 define Botswana of 2016 as an economy that will be industrialized and diversified as well as having achieved full employment of resources, especially labour employment. To achieve this ideal, an outward looking export-oriented trade policy is envisioned.
3. The National Export Strategy is complimentary to the Trade policy in that the former emphasizes microeconomic issues of firm export competitiveness in world markets while the latter emphasizes market access at a macro country, regional

- and global level. Further, the National Export Strategy identifies six important sectors for export development that will have to serve markets that will be identified by Botswana's trade policy.
4. Industrial development policy discussions suggest that there are three types of industries that may emerge in a mineral-based economy like Botswana. These include backward linkage industries, forward linkage industries and beneficiation industries. All the three types of industries can emerge due to the adopted trade policy. Botswana needs to explore this opportunity for trade policy;
  5. The SMMEs Policy emphasis the development of niche export markets and the development of vertically and horizontally integrated industries in agriculture, manufacturing and mining as a way of fostering economic empowerment. Botswana's trade policy will thus have to take this economic structure into account and ensure that it includes SMMEs.
  6. The importance and contribution of FDI is recognized in most of Botswana's development plans and economic policies. For a country that has chosen an export-led growth, the importance of FDI cannot be overemphasized. However, Botswana trade policy will need to consider the importance of a balance between FDI and citizen economic empowerment. It appears that reserving certain economic activities for citizens in areas where they have capacity is a desirable policy for a country with a private sector that is still in its growing stage.
  7. An important objective of NAMPAAADD is to commercialize agriculture as well as making it competitive so that it can serve the import-substitution objective and increase the incomes of rural communities. Thus in the area of trade policy, the programme serves two important areas. First, is the import-substitution objective in which the programme would like to capture a significant market of agricultural fresh produce and other consumables currently served by South African imports; Second, horticulture is currently a lucrative business with a big market in the EU.

Therefore in this area, NAMPAADD will serve the export-orientation objective of Botswana trade policy. It is important that NAMPAADD is made to work. Graduates from agricultural training institutions, who have so far not been visible in agricultural activity except as government salaried employees, should be encouraged to take advantage of this opportunity.

8. NAMPAADD is complimentary to the National Rural Development Policy and Tourism Policy in that it advocates for the development of rural industries and the promotion of private sector activity in rural areas. These policies see potential for the rural economy to generate incomes, create sustainable employment and generate foreign exchange earnings as well as government revenue. With these policies, trade policy will reach the farthest remote area dweller.
9. The Privatization Policy and the Competition Policy are complimentary. The former recognizes the importance of the private sector in trade policy formulation and implementation while the latter recognizes the fact that the benefits of trade policy may not be fully realized unless there is an effective regulatory institution to ensure that anti-competitive pricing behaviour is outlawed. Botswana's trade policy will require these policies to be more effective and successful.



## **CHAPTER FIVE**

# **OPPORTUNITIES AND CHALLENGES FOR TRADE POLICY**

### **5. Introduction**

Even though Trade policy is important for all countries and is desirable for any country to be successfully integrated into the global economy as both an effective participant and beneficiary, the benefits of trade are not always fully realised because trade policy generally faces challenges relating to the enabling business environment, capacity development, infrastructure development, domestic market demand challenges as well as regional and international trade factors.

The enabling business environment covers issues such as good governance, which is anchored on the principles of democratic practice, human rights, political freedom and the rule of law. Enabling environment also incorporates the macroeconomic environment which must be characterized by appropriate fiscal and monetary policies that are supportive of private sector investment initiative. In addition, an appropriate legal and regulatory framework is also essential for business because it defines the level of protection of businesses as well as individual consumers. An appropriate enabling environment must also have positive economic regulation and competition policy in order to curb and bring under control unfair and uncompetitive pricing practices that often stifle honest business ventures in many developing countries.

Capacity constraints refers to a situation in which a country is not able to achieve its policy objectives due to shortage or lack of certain fundamentals that must be available for a country to achieve desired levels of output. The formulation of trade policy will thus emphasize the need for capacity development in the area of human skills development, especially in relation to skills in sectors that are deemed to be actual and/or potential engines of growth in the global economy; private sector development to take advantage of the emerging business opportunities that government identifies and provides

incentives for their development; institutional capacity building will involve assisting the Ministry of Trade and Industry to achieve its mandate in policy formulation and implementation with financial resources, infrastructural resources and humans resources. Capacity building also covers issues of market demand in terms of the market size and the ability of businesses, households and individual consumers to purchase the goods and services that are being produced. The later may be achieved through international trade cooperation or regional trading blocs.

### **5.1. Enabling Policy Environment**

An enabling policy environment, which aims to ensure that both the policy and the economic environment within which economic agents operate, is critical for the realisation of long-term developmental objectives.

The key elements at the core of the enabling policy environment are embedded in:

- the macroeconomic policy framework which should pursue policies consistent with private sector development initiatives and long term economic policy priorities
- the adoption of good practices of good governance
- The pursuit of a friendly and positive business and market oriented regulatory and legal framework as well as competition laws that promote private sector development and would not stifle competition and growth of industries
- The availability of trained human skills and required capacity in the implementation of policies
- A business environment with the key components described above, is essential to supporting the efforts of entrepreneurs and to ensure that exporters succeed in the highly competitive international market

Below is a brief discussion of the key elements in the creation of an enabling policy environment as well the proposed key strategies for the successful implementation of Botswana's national trade policy.

### *5.1.1. Policy Strategy*

An enabling policy environment is important for trade policy, especially for investment decisions of both citizen entrepreneurs and their foreign counterparts. Therefore an appropriate enabling policy environment should always accompany trade policy so that private sector-led economic growth may be realized.

## **5.2. Capacity Development**

### *5.2.1. Human Skills Development*

Human resources development is a key element in achieving an export-led economic growth. During NDP 9, human resources development is focused on the creation of a strong manpower base with the right knowledge, skills, attitude and values, which will enhance productivity and competitiveness.

Priorities for the human resources development sector during NDP 9 involve: ensuring universal access to 10-years basic education; increasing access to senior secondary education; expanding vocational and technical training; promoting life-long learning; increasing tertiary education participation and attainment rates; improving access to education services by children and youth with special needs; and improving the quality of education.

Botswana has achieved notable success in human development, transforming the population from being largely uneducated, illiterate and unskilled to being literate, with a basic 9-10 years of education and some training in basic skills for the world of work. There have been dramatic, rapid increases in the numbers of Botswana with secondary and tertiary qualifications, as well as with technical and professional qualifications, although the latter are still in short supply (BIDPA, 2001a).

While there have been some positive achievements and plans to continue promoting skills and education to achieve Vision 2016 objective to have an Educated, Informed Nation by 2016, challenges remain:

- Botswana still has some gaps in the area of educated and skilled personnel;
- In enhancing human capital and capacity, Botswana needs to train its labour and match it with the skill requirements of the market.
- Botswana still faces an education policy challenge that should ensure that all training institutions, from primary to tertiary level, are set up in such a way that they address the skills gap that exists in the economy.
- Botswana still needs to develop a culture of life-long learning in its workforce. The effect of HIV/AIDS upon the future availability of skilled and experienced personnel must also be fully taken into account in the planning process.

Botswana has initiated a number of programmes and strategies to remedy the above capacity constraints in Government. These include national manpower development planning and human resources development strategies, public sector reforms and productivity improvement programmes such as the introduction of the Performance Management System and the Performance Based Reward System. The Botswana Government has invested heavily in human resources development programmes, with the education budget taking up 25 percent of the total budget. Government has also adopted a National Privatization Policy, which is aimed primarily at achieving productivity improvements in the economy.

#### *5.2.1.1 Policy Strategy*

Initiatives adopted by Government in developing its human skill base is a commendable step in striving towards the attainment of the nations objectives and Vision objective of having an educated, informed nation by 2016. It is imperative that the further strategy in the human skill development policy direction emphasize the importance of training and education that is commensurate with the needs of the market and priority skills needed in the economy. The training and education systems should be dynamic to adapt to changing

needs to the market and meet the requirements in an effective and coordinated manner in order to support trade policy.

### *5.2.2. Private Sector Development*

The private sector is very important for the successful implementation of Botswana's trade policy. To this end, Government has played a pivotal role in influencing private sector development. This is because government policies, in both their design and implementation, significantly affect the performance and development of the private sector. Achievement of the NDP themes, such as the NDP 8 theme of "Sustainable Economic Diversification", has been predicated on the development of the private sector.

The Government has put in place programmes and policies aimed at promoting the development of the private sector. These initiatives have included, inter alia, the FAP, the Industrial Development Policy, the SMME Policy and the Privatization Policy of 1998, As well as CEDA.

Government policies have been formulated with a view to providing an enabling environment for the private sector to develop and prosper. Creating and maintaining an environment that promotes private sector development have been amongst the highest priorities of Government, as reflected in the theme for NDP 9 of "Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets" (MFDP, 2002b). The private sector is important for the successful implementation of trade policy.

#### *5.2.2.1. Policy Strategy*

Government should continue with its strategy to promote private sector development through its policies and initiatives. Such a strategy should be complimented with well suited regulatory practices that promote the enabling policy environment within which the private sector operates.

### **5.3. Infrastructure Development**

Infrastructure plays a vital role in facilitating the flow of trade and is an essential prerequisite for firm and country level competitiveness. Some of the key infrastructure sectors are transport, telecommunications, finance and business services. The ability of firms to respond to and take advantage of trade opportunities and to compete effectively with imports depends on the quality, cost and reliability of infrastructure. UNCTAD (2005) makes two distinct definitions of infrastructure; the narrow definition of technological infrastructure and the broader range of infrastructure.

The narrow definition of technological infrastructure covers telephone mainlines, personal computers and mobile phones. Effective telecommunications is a vital input in all economic activities. Effective telecommunications provide a low cost option for sourcing information and using it to access global markets. This is particularly important who may otherwise find it difficult to access global markets. The broader definition of infrastructure covers electricity, transport, clean water, etc. The quality, cost and reliability of these services facilitates the operations of firms.

As a landlocked export-driven economy, efficient transport systems are important to support export growth and competitiveness. The competitiveness of exports from landlocked countries is undermined by high transport costs which increase product prices and make it extremely difficult to withstand fierce competition in international markets.

#### *5.3.1 Policy Strategy*

The Government should intensify the development of technological and other infrastructure. Measures aimed at developing infrastructure should include;

- Expedite the adoption of and the implementation of the Information and Communications Technology (ICT) Policy which forms the basis for taking full advantage of the ICT revolution to build a competitive economy.
- Maintain the momentum of continuously modernising the telecommunications infrastructure to create a more reliable telecommunications network.

- Explore the possibility of further liberalising the telecommunications sector given its potential to increase competition and reduce prices.
- Establish a regulatory body to regulate communications markets (Postal Services, Telecommunications, Broadcasting, etc).
- Explore the possibility of restructuring and privatisation of utilities, power and water.
- Consider the possibility of establishing a power and power regulator to ensure interests of consumers, universal access, etc and taken care of.
- Promote the use of Walvis Bay as an alternative port
- Consider a regional approach to road transport.
- Look into reliability and competition issues on rail transport
- Enhance efficiency in air transport, through, inter alia, increased competition.
- Expedite the establishment of non-bank financial institutions regulatory authority.
- Continue the periodic review of legislation on financial services to keep pace with the dynamism in the financial sector.
- Continue measures to develop and deepen the financial sector through, inter alia the development of capital markets.

#### **5.4. Domestic Market and Demand Challenges**

The objective of this Section is to identify Botswana's domestic market size challenges in providing for a competitive domestic market. One of the key principles underlying a country's international trade success is the positive relationship between its global competitiveness and the competitiveness of its domestic market (Porter, 2005). It is believed that competition in the domestic market fuels better value-added productivity, thus placing domestic firms in a better competitive position to serve international markets. This in turn stimulates a country's prosperity through greater export earnings. A prerequisite for domestic market competitiveness is a sizable domestic market that is willing and able to consume domestically produced goods and services (Prokopenko, 2000). While some countries are fortunate and have large populations with high disposal incomes to drive domestic demand, others with smaller populations and less discretionary

income have to enlarge domestic demand through regional integration to achieve greater international trade success.

The total demand for goods and services in an economy during a specific period is referred to as the level of effective demand. Effective demand is also known as aggregate demand and is made up of four components: the demand of goods and services by households (personal consumption); business firms (private investment); government; and from the rest of the world (exports minus imports). These four parts are classified into two main sources of demand, namely; local market (which constitutes consumption, investment and government expenditure) and foreign market (which constitutes net exports).

#### *5.4.1. Case for Botswana*

While Botswana's per capita GDP classifies it as a middle-income country, small market size restricts its economic prosperity. This is a consequence of its population of 1.63 million people (CSO, 2005). According to the 2002/03 Household Income and Expenditure Survey, 44 percent of the population lives in the rural areas while 33% lives in urban villages and 44 percent in cities and towns. This population figure suggests that the market size is not large enough to generate sufficient domestic demand to develop international trade competitiveness.

The problem of small market size is further aggravated by high unemployment and poverty rates. The national unemployment rate is 23.8%, where cities/town rates are 18.5%, urban villages 23.1% and rural areas 29.6%. Income is also relatively unevenly distributed with national income inequality measured by the Gini-Coefficient at 0.573 (a value of 0 represents perfect equality, and a value of 1 perfect inequality). The percentage of people living below the World Bank's Dollar a Day poverty line is 23.4% and the Botswana Poverty Datum line is 30.3%. The above figures further suggest that Botswana's opportunities to achieve economic growth through domestic demand growth are limited by its domestic market size.



Regional integration serves as a mechanism that countries can use to expand their internal domestic market size to strengthen their capacity to participate in world trade (Economic Commission for Africa, 2004). Regional integration creates opportunities for countries to overcome their limited domestic market size to enabling countries to realize greater economies of scale. Cooperation in areas such as tariff reduction and harmonization, legal and regulatory reform, investment incentives and tax system harmonization, and labour market practices enables participating countries to pool their resources together to attain a level of technical and administrative competence that would not be possible at country-level. Botswana is a member of a number of RTAs, namely SADC, and SACU.

#### *5.4.1.1. Policy Strategy*

To enlarge Botswana's domestic market, the following issues must be addressed to promote trade and market integration in the region:

- Greater convergence of macroeconomic policies and domestic regulations in order to promote an enabling business environment;
- Collaborative efforts to eliminate poverty, promote income equality, and fight HIV/AIDS;
- Removal of trade impediments to enhance movements of goods and services across countries;
- Improved competitiveness through the harmonisation of quality standards and better information sharing;
- Diversification of products to more value-added products; and
- Creation of a trade database especially on market trend information.

## **CHAPTER SIX**

### **TRADE POLICY INSTRUMENTS**

#### **6. Introduction**

Trade policy instruments are all the measures that are used to affect imports, exports and the production of goods and services and thus influence the direction and pattern of trade. The outline of trade policy instruments should be informed by the national needs, which include stimulation of domestic production, promotion of exports, protection of consumers and safeguarding domestic industry against dumping practices. The trade policy instruments should be applied in a manner that will ensure compliance with the Botswana's international trade obligations such as the various WTO agreements. The trade policy instruments are listed below:

#### **6.1. Tariffs**

Tariffs are measures that directly affect imports, mainly to reduce them or limit their entry into a particular country.

As a Member of SACU, Botswana applies the common external tariff which was set solely by South Africa and is applicable to other SACU members states. Moreover, South Africa has a major standing free trade agreement with the EU (Trade, Development and Cooperation Agreement – TDCA), which affects the BLNS countries. However, Botswana continues to participate in trade negotiations under both SACU and SADC, including for example, the SACU-US and Economic Partnership Agreements. With the new SACU Agreement that grants member countries equal status in negotiations, Botswana should continue to strive to use tariffs to safeguard her national interests.

The New SACU Agreement has resulted in the creation of SACU democratic institutions. However, it has left the SACU tariff structure intact with its price-raising effects and industrial polarisation effects. Given this, Botswana trade Policy should:

- Insist that, even though Botswana is a Middle Income developing country, she should continue to be adequately compensated under the new arrangement;
- Aggressively seek and advocate for policies that will lead to equitable industrial distribution in SACU;
- Review the current SACU tariff structure with a view to (i) identify those that have more adverse effects on the sensitive commodities of high export potential for the BLS countries and (ii) suggest a review of such tariff structures.

## **6.2. Taxation**

Botswana's tax rates are relatively the lowest in the region, with the company tax at 25% and manufacturing tax at 15%. The ongoing trade liberalisation efforts aimed at fostering deeper economic integration at regional level and the proliferation of reciprocal free trade agreements with the developed countries such as the USA and the EU, as well as the envisaged results of the WTO trade negotiations, pose a possible negative impact on the tariff revenues. Consequently, the need to put in place alternative revenue generating activities has become even more pressing. Taxation, including value added tax, remains one of the options that Botswana will have to explore in order to fill the revenue gap that is likely to be created by tariff reduction. Tariff revenue contributes on average, 15% of Government revenue, which is substantial, even though is overshadowed by the mineral revenue, whose contribution averages 50%. Some necessary reforms will have to be undertaken in order to put in place a tax regime that continues to encourage domestic and foreign direct investment but ensures minimal adverse impact on Government budget.

### *6.2.1. Policy Strategy*

Botswana should continue to review and rationalise her tax regime in order to (i) continue to have it support a competitive industrial policy, while simultaneously (ii) contributing positively to sustainable government revenue and (iii) according the country's exports a competitive edge in world markets.

## **6.3. Non-tariff Measures**

Non-tariff measures are used for purposes of protecting the domestic industries. They are imposed by restricting imports into the country and they include quotas, import licensing and registration, pre-shipment inspection, and customs valuation, state trading operations, government procurement and administrative barriers. Botswana has in place the following non-trade barriers:

### *6.3.1 Registration and Import Duties and Other Measures*

Under the SACU Agreement, member states have harmonised a few trade policies, which include applied tariffs, excise duties, valuation methods, rules of origin and contingency trade remedies. In Botswana, all major traders should be licensed with the Ministry of Trade and Industry through the National Licensing Authority. Customs clearing and forwarding agents are licensed through the Botswana Unified Revenue Services (BURS).

There exist in the SACU Agreement, a clause that protects infant industries (Article 26 – Protection of Infant Industries). The Protection of Infant Industries' clause can be invoked only in the BLNS countries. It allows that additional duties be levied on imports of goods being produced by the industries that are being accorded protection from external competition. Botswana has invoked this clause on only three instances to protect Kgalagadi Soap Industry, Kgalagadi Breweries Ltd and Bolux Milling (Pty) Ltd.

Botswana also imposes VAT at the rate of 10% on all imported goods and services. VAT was introduced with the motive to reduce the level of reliance on government receipts

from the SACU Common Customs Revenue Pool, which are currently about 15% of total government revenue.

#### *6.3.1.1 Trade Policy*

Botswana should adopt and advocate, in the context of both regional trading blocs such as SACU and SADC and the domestic policy formulation, the adoption of the WTO stance on non-tariff barriers. This requires the rationalisation of non-tariff barriers and their tariffication to their tariff equivalents in order to not only make them transparent and manageable, but also make it possible to cut them using the WTO negotiated tariff formulas.

### **6.4. Customs Valuation and Other Related Issues**

Botswana has embarked on some customs reforms over the period of existence of the Department of Customs and Excise in the Ministry of Finance and Development Planning. The Botswana Unified Revenue Services (BURS), a parastatal was established recently to administer both customs and excise duties and other forms of taxes. Through the gradual implementation of the customs reforms, Botswana has made progress in streamlining customs procedures (see Box 6.1 for a complete sequence of customs reforms in Botswana).

<b>Box 6.1: Sequence of Reforms</b>	
<b>Time</b>	<b>Reform</b>
Since 1984	<p><b>GATT/WTO Agreement on Customs Valuation:</b> Botswana started implementing the GATT valuation agreement since 1<sup>st</sup> July, 1984 without being a contracting party. Botswana applied the agreement as a non-member by virtue of the country's membership in SACU, hence the use of the SACU legislation, which contained the agreement due to South Africa. On the 31<sup>st</sup> May, 1995 Botswana acceded to the WTO Agreement on Valuation. The agreement established the basic criteria for the valuation of imports for duty purposes and outlines five alternate valuation methodologies in cases where the transaction value cannot be determined.</p> <ul style="list-style-type: none"> <li>Transaction of identical goods</li> <li>Transaction value of similar goods</li> <li>Deductive method</li> <li>Computed method</li> <li>Fall back method</li> </ul> <p>The change in the valuation system was recognised as a priority to the country at the time.</p>
Since 1988	<p><b>Harmonised Commodity Description and Coding System (HS):</b> Botswana acceded to the HS on 13<sup>th</sup> February 1987 and started implementing it when it came into force on 1<sup>st</sup> January 1988. The HS is a legal and logical international nomenclature developed through the WCO. Although it was primarily designed for tariff classification purposes it is widely used to determine goods subject to import and export controls, freight tariffs, application of VAT, trade statistics and origin determination.</p>
1991	<p><b>Kyoto Convention:</b> Botswana acceded to the International Convention on the Simplification and Harmonisation of Customs Procedures on 5<sup>th</sup> July 1991. Botswana is now preparing to accede to the 1999 revised Kyoto convention and recommendations have been made to the Ministry of Finance and Development Planning. To accede to the Convention, a country must accept without reservations, the General Annex, which contains core procedures and practices for clearance of goods. The accession of the convention and implementation has resulted in the reform of customs procedures. Some of the Kyoto convention requirements have since been met, while others are still pending. Out of more than 30 requirements, Botswana has succeeded in implementing:</p> <ul style="list-style-type: none"> <li>Risk Management Technique</li> <li>Provision on the payment of Duties and Taxes</li> <li>Reform of the documentation procedures</li> <li>Establishment Appeals Procedures</li> <li>Customs Co-operation</li> </ul> <p>The implementation of these requirements is explained in the text below.</p>
May 2002 to May 2004	<p><b>Implementation of ASYCUDA:</b> Botswana started implementing the ASYCUDA customs software in May 2002. ASYCUDA is aimed at speeding clearance of cargo and improving data collection and dissemination. It is also intended to rid customs systems of outdated procedures and practices and incorporate international standards and practices, thereby increasing customs revenue. The ASYCUDA reform is ongoing.</p>
July 2002	<p><b>Tax policy reform:</b> Botswana replaced the sales tax with the value-added tax in July 2002. Part of the reason for the transition was to increase the base of government revenue as more goods are covered under the VAT regime than under the sales tax.</p>

Source: Maiketso and Gabaraane (2005)

The most important step that has been taken though rather only administrative, is the accession of Botswana to the WTO's Agreement on Customs Valuation in 1995. The Automated System for Customs Data (ASYCUDA) system has been adopted. The

national exercise of computerising the points of entry has been ongoing and a substantial ground has been covered, with over 90 percent of the goods entering the country through computerised points of entry. The positive results of the customs reforms include among others

- The streamlining of customs clearing documentation.
- The significant reduction of time taken to clear commercial goods, which currently stands at 10-45 minutes.
- It is anticipated that the trade statistics will be more accurate and timely.

As a SACU member, Botswana is assured of implementation of similar customs reforms in the other four SACU members since the SACU Agreement covers customs cooperation (Article 23) and the SACU members have all along cooperated on customs issues. Articles 13 and 14 of the SADC Trade Protocol cover customs cooperation and trade facilitation respectively. The satisfactory implementation of the Trade Protocol is essential for the customs reforms and harmonisation of customs procedures to be achieved in the SADC region.

#### *6.4.1. Policy Strategy*

It will be in the interest of Botswana to continue to pursue customs policies that will promote transparency, fair and efficient customs valuation procedures at SACU. It will be equally important for Botswana to advocate for the speedy implementation of the SADC Trade Protocol so that the benefits of effective customs procedures can be realised at the wider regional level.

### **6.5. Technical Standards and Regulations and Botswana**

In view of its membership to the WTO, Botswana is expected to comply with WTO requirements, including those on technical standards and regulations. Like most developing countries, Botswana has some limited capacity to meet technical standards and regulation requirements. Though some capacity on technical standards and regulation

requirements exists, it is still largely inadequate. Below is a review of the domestic capacity on technical standards and requirements.

#### *6.5.1 Sanitary and Phyto-Sanitary Standards*

Botswana exports of beef are subject to stringent sanitary and phyto-sanitary measures in the European Union (EU), some of which are beyond standards set by the Office of International des Epizooties (OIE), the benchmark used by the WTO. The EU is a major market for Botswana beef. Judging by its continued beef exports to the EU despite increasing requirements, Botswana maintains adequate sanitary measures. However, compliance with EU sanitary requirements has not been without problems. This is due to the following;

- Exports of beef to the EU have fluctuated because of frequent closures at the Botswana Meat Commission (BMC), the sole beef export monopoly in order to deal with disease outbreaks.
- Despite the technical capacity and political will to meet the ever increasing EU requirements, the costs of compliance have been significant and increasing. These costs are borne by both the farmers, the Botswana Meat Commission (BMC), which is the monopoly exporter of beef and the Government. While estimates on compliance costs are not available, Government expenditure figures indicate that between 1994/5 and 2003/04 the Ministry of Agriculture budget increased by 241% (BIDPA and World Bank, 2005). The same study indicates that during the same period, expenditure estimates of the Department of Animal Health and Production increased by 220% and accounted for 47% the Ministry of Agriculture expenditure. Expenditure on foot and mouth increased by 271%.
- The EU hygiene standards have also affected the ostrich sector. While the Botswana Ostrich Company (BOC) could not isolate and quantify costs of compliance with EU standards, the BIDPA and World Bank (2005) indicated that BOC considered them costly. This could negatively affect efforts to diversify exports within the agricultural sector.



With regard to phyto-sanitary standards, the preliminary findings of a study to identify phyto-sanitary capacity development needs conducted by the Plant Protection Division suggest that;

- (i) The capacity for executing phyto-sanitary services is inadequate because;
  - There are no specific plant inspectors at ports of entry
  - Surveillance of plant diseases and pests is ad-hoc
  - Some key equipment and skills necessary for effective diagnosis is not yet available. This is despite the fact that a laboratory and some pest diagnostic equipment exists. Given that effective plant disease and pest surveillance and inspection depends on good diagnosis, inadequate equipment and skills have a negative impact on effective inspection and surveillance.
  - Procedures and documents on phyto-sanitary services exist but need updating. For example the Plant Diseases and Pest Act is out dated and needs review. The review process is in progress and was nearing completion.
  - No particular post-plant diseases and pest reporting system exists.
  - Treatment capacity has to be developed. Plant diseases and pest treatment facilities are available.
  - Pest risk analysis capability does exist but there are some deficiencies in this area.
- (ii) International developments were putting pressure on available phyto-sanitary resources. For example, a new standard on Wood Packaging Materials (ISPM 15) was being implemented. Capacity in particular, establishment of private testing facilities to comply with this new standard was being developed.

Costs of implementing these could be significant and further put pressure on limited resources.

## **6.6. Import Prohibitions**

There are licensing requirements for importation of different products. The licensing is handled by different Ministries, including the Ministry of Agriculture for the agricultural products, Ministry of Trade and Industry for non-agricultural products and the Ministry of Environment, Wildlife and Tourism for endangered species.

Also, some import bans are occasionally imposed on goods including some vegetables and fruits, dairy products, meat and meat products, poultry and bread. The import bans are imposed by the Ministry of Agriculture for all the agricultural products and by the Ministry of Trade and Industry for the non-agricultural products. *Apart from the SPS issues, it is still not clear as to what the SACU provisions that Botswana is using to impose the import restrictions are; perusal of the SACU Agreement does not yield any possible answer.*

There are some agricultural products that are highly monitored through licensing and are occasionally banned from being imported into the country on account of SPS requirements, most of which are necessitated by the need to preserve Botswana's preferential market access to the EU, especially for beef.

### *6.6.1. Policy Strategy*

In the interest of effective coordination and implementation, Botswana should bring import control under one Unit or Government Department.

## **6.7. Government Procurement**

Government procurement, especially in Botswana where Government is one huge spender is a very important component that can impact significantly on the domestic businesses. Government procurement that includes foreign companies pits domestic companies and foreign companies against each other to compete for government demand for goods and services. The establishment of the Public Procurement and Asset Disposal Board has contributed to enhancing transparency in government procurement. There are

some reservation schemes within the public procurement processes that are meant to pursue certain economic and social objectives, such as citizen empowerment. Government has come up with guidelines on the use of locally manufactured goods and services, which require that central and local government institutions and parastatal organisations procure all their goods and services from locally based firms, ‘provided that the goods and services are locally available, competitively priced and meet tender specifications...’.

#### *6.7.1. Policy Strategy*

While it is important, in the interest of fostering competition and efficiency in the delivery of public goods and services, to open up government procurement to both citizen and foreign-owned firms, Government should at the same time continue to maintain reservation schemes that are meant to achieve the objectives of citizen economic empowerment and access to productive economic resources as well as support for citizen entrepreneurial development.

### **6.8. Trade Defence Mechanism**

These are measures with a provisional WTO allowance to be used by countries to protect some production activities that face competition risk if not protected. These include subsidies, safeguard measures, antidumping, and rules of origin.

SACU has in place a Tariff Board, which over and above tariff setting functions, deals with issues of unfair trade practices such as anti-dumping, countervailing and safeguard mechanism (Article 11). The extent to which these mechanisms can be put to use is dependent on the capacity of Botswana as a member of SACU to detect and bring to the attention of SACU Secretariat cases of unfair trade practices. Botswana does not provide direct domestic and export subsidies, save in the case of indirect CEDA interest subsidised loans.

## 6.9. Trade Development Policy Instruments

These are policies that are used for export promotion and the expansion of trade. They address supply side constraints of production. These include investment code and rules, export processing zones, export promotion measures and export facilitation measures. Botswana does not pursue any export processing zones initiatives. The export promotion activities are being handled by the Botswana Export Development and Investment Authority (BEDIA), whose mandate is to attract and nurture both domestic and foreign investors. BEDIA occasionally participates in international trade fairs and engages in investment missions abroad that are specifically targeted to attract foreign investors. Also, BEDIA has regional offices in South Africa and the UK. The contribution of the private sector in this endeavour is through the Exporters Association of Botswana.

## 6.10. International Trade Policy Instruments

These are policies that are based on agreements between actual and /or potential trading partners. Their effectiveness is thus positively related to the extent and level of cooperation between trading partners. These include bilateral cooperative initiatives, regional trading arrangements and the WTO agreements. Table 6.1 below shows the trade agreements under which Botswana operates.

**Table 6.1: Botswana's Trade Agreements**

<b>Agreement</b>	<b>Type and Current Status</b>
SACU	A customs union that was first established in 1910. Botswana's trade policy is anchored on this trade arrangement. The latest renegotiation of SACU was in 2002 and came up with a new revenue sharing formula and institutional arrangements.
SADC FTA	Based on the SADC Trade Protocol. Through the ongoing tariff reduction schedules, SADC countries are to liberalise fully their tariffs by 2012. Services negotiations have not yet started.
EPAs	Negotiations are ongoing. In the meantime, the Cotonou Agreement forms the trading arrangement between Botswana and the EU.

**Table 6.1: Botswana's Trade Agreements**

Agreement	Type and Current Status
	Botswana is negotiating the EPAs as part of SADC, which include Angola, Lesotho, Mozambique, Namibia, Swaziland and Tanzania.
AGOA	Botswana's LDC status was granted in August 2001. The LDC status will expire in mid 2007.
SACU-US FTA	Negotiations for a free trade agreement between SACU and the US are ongoing. The pace of these negotiations is particularly slow.
SACU-MERCOSUR	A free trade agreement between SACU and Mercosur, which was concluded and signed in 2005. Mercosur's member countries are Argentina, Brazil, Paraguay and Uruguay.
WTO	Doha Round of negotiations ongoing. There are different agreements under the WTO, including among others, the GATS, SPS Agreement, Agreement on Agriculture, Agreement on Technical Barriers to Trade, Agreement on Trade in Intellectual Property Rights etc.
Botswana-Malawi	A bilateral trade agreement for reciprocal duty-free entry between Botswana and Malawi. It came into force in 1956 and is still under implementation
Botswana-Zimbabwe	A bilateral trade agreement for reciprocal duty-free entry between Botswana and Zimbabwe. It came into force in 1988 and is still under implementation.

### *6.10.1. Policy Strategy*

Botswana should continue to effectively participate in bilateral, regional and multilateral trade negotiations and agreements in order to (i) create market access for her export goods and services and (ii) source capital imports for her industries as well as consumer goods and services for her consumers. There is more to gain from trade than from autarky.

## **6.11. The Use of the Exchange Rate as an Instrument of Trade Policy**

Monetary policy has also been important in counteracting the problems associated with mineral-led economic development, in particular the problems associated with the boom-

induced exchange rate appreciation that usually results the adverse effects of the “Dutch Disease.” In this section we briefly outline the use of the exchange rate as a trade policy instrument in Botswana.

Botswana is highly dependant on imports of both consumer and capital goods from South Africa. Because of this, there is a significant price pass-through into Botswana through inflation and exchange rate changes in South Africa (Atta, Jefferis and Mannathoko, 1996). Consequently, the initial exchange rate policy in Botswana, whose main objective was to make food imports for households and capital imports for manufacturers accessible at affordable prices, has been mainly anti-inflationary. As a result, the decade to 1986 was characterised by periodic revaluations of the Pula against the Rand as an anti-inflationary measure. However, from the mid-1980s onwards, government policy shifted from the use of the exchange rate as an anti-inflationary measure to using it as an export competitiveness measure.

The use of the exchange rate as a competitiveness tool was prompted by government policy of encouraging economic diversification away from the mineral sector in 1982 (Financial Assistance Policy, 2000). As part of this policy move, government felt that its domestic currency must be appropriately valued against the currencies of Botswana’s major trading partners in order for the private sector to undertake import-competing production for the domestic market and export-orientated production for foreign markets. Hence, from the mid-1980s to the present, the country’s exchange rate was characterised by periodic devaluations intended to make its exports more competitive. The latest development in determining a competitive value of the Pula involves inflation targeting by the Bank of Botswana. The target of 4 to 6 percent during 2003 was almost realised because the inflation was 6.4 percent at the end of the year. For the 2004, 205 and 206 the target arte was set at 4 to 7 percent (BoB Monetary Policy Statements). Further, in 2005, Botswana moved to a crawling peg system in which the exchange rate is allowed to continuously adjust within a predetermined band. This has been adopted to make the exchange rate more stable, transparent and predictable as well as avoiding one-off large

devaluations which have been seen to have more adverse impact on business activity. The effects of the new exchange rate regime are yet to be seen.

## **CHAPTER SEVEN**

### **TRADE POLICY AND PRIORITY SECTORS**

#### **7. Introduction**

The main objective of this Chapter is to briefly outline some of the Sectors that are a priority for Botswana's economic development due to factors such as (i) contribution to economic growth and development, (ii) contribution to government revenue and export earnings, (iii) contribution to employment creation and (iv) potential for growth in one or all of these attributes. To this end the Chapter discusses the Mineral sector, the agricultural sector, the Manufacturing sector and the Services sector. Finally, an attempt is made to show how trade policy can and/or should be made to benefit these sectors.

#### **7.1. The Mineral Sector as a Priority Sector**

Economic development in mineral-based economies (MBEs) has generally posed as a paradox. This has happened because while minerals are a major source of foreign exchange and government revenue that has in many occasions been used to provide social services such as education, health care and infrastructure, it has at the same time breed many development problems. The most important among these is a phenomenon that has come to be known as the "Dutch Disease." The Dutch Disease explains the observed complex tendency for a booming mineral sector to retard the growth in other sectors of the economy through (i) the appreciation of the real exchange rate which makes non-traditional exports uncompetitive in world markets and (ii) the attraction of labor and other resources from the non-mining sector to the mining sector. These two effects generally affect the agricultural and industrial sectors of the economy, leading to the undesirable results of de-agriculturalisation and de-industrialisation.

Botswana is one of the few developing countries that has managed its mineral wealth in such a way that she has generally minimised the deadly effects of the Dutch disease and sustained rapid mineral-led economic growth over the last four decades. Therefore, this



section will focus on the mineral sector as a priority sector in Botswana and show how trade policy should be formulated to further support the contribution of the sector to Botswana's economic growth and development.

### *7.1.1 Why the Mineral Sector is a Priority Sector for Botswana*

Even though Botswana's other sources of revenue such as foreign aid, the Southern African Customs Union (SACU) and beef exports have contributed significantly to the country's economic growth over the years, minerals were and continue to be the most important source of Botswana's economic growth and development. Minerals were discovered mainly after independence and include copper/nickel at Selebi-Phikwe, diamonds at Orapa, Letlhakane, Jwaneng and Damtshaa; coal at Morupule and soda ash at Sowa.

Botswana is one of the few African countries that has been able to have a significant share of her mineral wealth. Overall, the country's current equity shares are diamonds 50 percent, copper/nickel 33 percent, Soda ash 50 percent, coal 0 percent, even though the option to have equity remains, and small minerals 15 percent (B. Gaolathe, 1997).

The most important of these are diamonds which have since become the main engine of growth for the economy. This is illustrated in Table 7.1 below. The Table shows that for the sample period (1980 to 1997), minerals contributed an average of 33 percent to GDP, about 50 percent to government revenue and well over 70 percent to export earnings. However in terms of employment, the sector contributes less than 5 percent, indicating that mining is a capital intensive activity. Nevertheless, it is very clear that mineral wealth has been important to Botswana's economic growth.

### 7.1.2 *Economic Transmission of Minerals Growth*

Mineral growth generally affects the rest of the economy through three main linkages. First is the *backward linkage* which occurs when an incoming firm purchases inputs from domestic firms. This is important because it does not only minimize both time wastage and transport costs for the mining company, but also leads to the development of backward linkage industries as well as employment creation for poverty reduction. Second is the *forward linkage* which occurs when the output of an incoming firm is used as a productive input in the domestic industry. Again, this has potential to lead to the growth of *forward linkage* industries with the benefits similar to those discussed above. The third, which has been the most important for Botswana, is the *fiscal Linkage*. This involves the state receiving revenues from the booming (mining) sector in the form of royalties, taxes and dividends and using the proceeds thereof for the provision of education, public health and infrastructure. This linkage is especially important in MBEs because, though the receipts may be currently high, the life span of the resources is finite, necessitating steps to move the economy away from dependence on such a resource. The impact of this linkage in Botswana is illustrated in Table 7.1. It is the use of this linkage that has made Botswana to avoid the path of enclave development in which the mineral sector has very little impact on the domestic economy to achieve the path of integrated development in which the mineral-sector has a significant impact on the growth and development of the domestic economy.

**Table 7.1 A Comparative Contribution of Minerals to Real GDP, Real Government Revenue, Real Export Earnings and Total Employment in Botswana**

Year	Real GDP (P. million) 1985/86 prices	% of Real GDP				Govt Rev.* (P. million)	% of Govt Revenue			Expt Earn.* (P'million)	Expt Earn.** (US\$'million)	% of Export Earnings			Employment Modern Sector	% of Total Employment				
		Agric	Gen. Govt	Manufac.	Mining		Minerals	C-Pool	Grants			Beef	Diamonds	Manufacs		Agric	Govt	Manufac.	Mining	Services
1979/80	1380.0	11.7	14.2	4.1	29.7	609.63	32.9	33.2	12.3	1040.32	1402.46	7.20	60.70	11.36	83400	5	36	7	8	22
1980/81	1511.0	10.5	13.2	6.7	35.1	571.94	23.9	32.3	12.3	654.00	743.07	18.20	40.60	17.25	97400	5	34	6	7	26
1981/82	1623.8	9.9	13.3	7.7	38.7	598.44	25.3	29.0	12.0	873.68	823.44	17.00	52.00	17.17	100200	4	34	6	7	28
1982/83	1884.10	7.5	12.6	6.1	48.8	824.22	34.4	27.9	8.6	1469.54	1271.74	11.30	66.60	12.62	100500	4	37	7	7	27
1983/84	2101.20	5.8	12.5	5.7	50.7	1025.97	46.9	19.4	4.9	1603.50	1027.84	7.30	71.90	13.00	110000	5	36	9	7	29
1984/85	2251.90	5.3	13.4	4.2	48.8	1300.06	51.3	13.2	3.6	2,241.58	1,069.01	7.00	75.70	8.60	116800	3	39	8	6	28
1985/86	2420.60	5.5	13.5	5.1	46.8	1,507.11	54.6	12.4	4.4	2,130.19	1,159.25	7.40	74.50	10.50	123500	4	40	9	6	27
1986/87	2636.10	4.7	14.9	5.6	46.5	1,987.37	56.7	12.8	5.8	2,909.83	1,858.51	3.10	84.60	7.90	140200	4	37	10	5	30
1987/88	3038.70	6.7	16.2	6.3	41.5	2,764.44	59.0	11.4	4.3	2,905.15	1,500.80	4.20	73.90	8.10	160800	4	35	10	4	30
1988/89	3702.50	5	14.9	6.5	40.5	2,683.60	58.0	12.8	1.5	3,644.20	1,946.37	3.60	76.40	7.40	176200	3	35	12	4	30
1989/90	3911.30	4.9	14.6	6.5	37.1	2,506.50	53.6	12.8	3.1	2,224.00	1,188.51	3.20	78.70	9.90	198500	3	32	12	4	26
1990/91	4252.40	4.7	14.6	6.4	37.3	2,646.76	46.4	18.7	1.7	2,431.23	1,173.07	3.30	78.70	10.10	222800	3	31	11	3	31
1991/92	4521.90	4.5	16.1	6.4	34.9	2,814.29	40.1	21.5	2.2	2,223.09	985.05	2.90	78.90	10.40	227500	3	33	10	4	31
1992/93	4516.00	4.4	16.7	6.3	33.3	2,890.78	42.5	15.3	3.5	2,303.64	898.19	3.80	78.20	12.90	226200	2	37	9	4	32
1993/94	4700.50	4.2	16.8	6	33.6	2,303.87	52.5	15.9	1.7	2,557.56	941.18	3.70	74.90	16.20	231200	2	36	10	4	32
1994/95	4847.50	3.9	17.2	6	32.1	2,393.83	47.4	15.2	0.7	2,602.83	922.44	3.00	67.00	24.40	231300	2	38	10	3	32
1995/96	5184.80	3.6	17.2	6	33	3,060.00	49.2	12.1	1.1	3,369.13	924.49	2.50	70.30	21.70	234116	2	38	10	4	32
1996/97	5,544.30	3.4	17.3	5.9	32.6	2,664.85	56.5	13.7	2.2	3,197.78#	839.42	2.20	73.80	19.50	237550	2	37	10	4	32

Notes: Agric = Agriculture; Gen. Govt = General Government; Manufac = Manufactures; Rev. = Revenue; Expt = Export

\*Real Government Revenue and Real Export Earnings converted from nominal to real figures using GDP deflator.

\*\*Converted from real export earnings in Pula to Real US\$ export earnings using exchange rates in Appendix 2.1; # Preliminary figures.

Source: CSO: Statistical Bulletins, various years

### 7.1.3 Trade Policy

**Policy I:** Botswana should have in-built in her trade policy the need for all mining companies that are given licence to extract minerals in the country to develop both forward and backward linkage industries as this will result in a positive economic growth from mineral wealth and employment creation for poverty reduction. The new concept of economic beneficiation that is being discussed is a welcome development in this direction and should be reflected in the trade policy.

**Policy II:** Government policy should continue to be that “.....that the proceeds from diamonds and other non-replenishable resources, which the economy can only sell once, be re-invested in other forms of productive, renewable wealth that will continue to diversify the economy and generate income well into the future.” (National development Plan 7:25).

**Policy III:** Botswana has achieved a 50 percent share of the proceeds of her diamonds. Effort should be made to increase the value of optional equity shares beyond 20 percent in order to raise the overall share of the country above 50 percent. This could thus become a standing policy arrangement for all mineral wealth sharing arrangements.

## 7.2. Agriculture as a Priority Sector in Trade

The economy of Botswana depended highly on the agricultural sector at independence. The agriculture sector was the main economic activity, accounting for 40 percent in the country's Gross Domestic Product (MFDP, 1997). Today, agriculture accounts for less than 5 percent of GDP. The drastic decline in the performance of the agricultural sector was attributed to primarily, the fast growth of the mining sector, which is up to now, the leading economic activity in the Botswana economy. Notwithstanding this, agriculture remains an important economic activity in the country. The majority of rural dwellers derive a livelihood from the sector as it has proved to be a source of food, employment and income for them. Moreover, since poverty is more prevalent in the rural areas of the country, this justifies the importance of the agricultural sector in the poor people' livelihoods. The sector has also proven to have some important

linkages with other sectors of the economy, such as tourism and some food processing industries.

This Section focuses on the agricultural sector as a priority sector. The Section will assess the identified priority sectors within the agricultural sector. And how they relate to trade policy.

### *7.2.1 Developments in the agricultural sector*

As indicated earlier, the agricultural sector has witnessed a significant relative decline in its contribution to the country's GDP since independence. Because of the sector's relative importance on the survival of the rural dwellers, to say the least, the Government has seen it fit to rejuvenate the sector. Efforts are put in place to enhance the sector's productivity and to commercialize the sector. It is envisaged that commercialization of the sector would be achieved through the implementation of the National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD). Botswana's climate is characterized by erratic rainfall and frequent prevalence of droughts. As such, arable farming is not a viable option for farmers in the country. The NAMPAADD programme encompasses all sub-sectors within the agriculture sector. The sub-sectors include rainfed arable agriculture (grain/cereal production), dairy and irrigated arable agriculture (horticulture). This program is meant to promote agricultural production and productivity growth through the adoption of improved farming methods and technologies. Such productivity growth is expected to enhance household incomes and food-security, and hence further lead to poverty reduction at household level. This is particularly so in rainfed agriculture where the idea is to enhance the capacity of smallholder farmers to expand output.

From independence until the end of 1991, one of the objectives of the agricultural policy was to promote self-sufficiency in food, particularly the main staple crops of maize and sorghum for both food and seed. The food self sufficiency objective was abandoned in 1991 and was replaced by the food security strategy, which is the current strategy that is in place. It was envisaged that the policy switch would link the agricultural sector to world markets. It was also proving difficult to eliminate the country's food deficiency status due to high costs associated with implementing the

public support programmes geared at ensuring food self-sufficiency. Hence, this justifies the importance of the agricultural sector as a priority sector for Botswana.

### 7.2.2 Priority sectors within the Agriculture sector

Table 7.2 Total Expenditures by Agricultural Sub-Sector, 1980-2004						
	1980	1985	1991	1995	2000	2004
Headquarters	11	19	26	14	25	24
Animal Health and Production	44	35	42	33	43	46
Crop Production and Forestry	31	37	21	43	23	21
Department of Agricultural Research	7	5	7	6	7	7
Co-operative Development	1	1	2	3	2	2
Botswana College of Agriculture	6	2	2	0	0	0
MINISTRY TOTAL	100	100	100	100	100	100
Recurrent Expenditures by Agricultural Sub-Sector, 1980-2004						
	1980	1985	1991	1995	2000	2004
Headquarters	6.5	5.9	15.9	18.4	17.4	17.4
Animal Health and Production	47.2	52.9	52.1	45.3	50.5	50.7
Crop Production and Forestry	29.3	25.9	19.6	25.1	22.0	21.5
Department of Agricultural Research	11.3	8.6	8.5	8.3	7.3	7.5
Co-operative Development	2.0	2.7	2.7	2.8	2.8	2.9
Botswana College of Agriculture	3.8	4.0	1.2	0.0	0.0	0.0
MINISTRY TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Development Expenditures by Agricultural Sub-Sector, 1980-2004						
	1980	1985	1991	1995	2000	2004
Headquarters	22.8	31.7	57.9	4.1	48.0	47.6
Animal Health and Production	45.7	18.8	10.7	7.1	18.8	27.8
Crop Production and Forestry	19.9	48.0	26.1	79.2	24.7	19.3
Department of Agricultural Research	1.1	1.4	1.4	0.9	5.4	3.8
Department of Co-operative Development	0.0	0.0	0.9	4.2	0.9	0.2
Botswana College of Agriculture	10.6	0.0	3.0	4.4	2.3	1.4
MINISTRY TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: BIDPA (2006)

Since independence public support has gone into most sub-sectors of agriculture, which include arable farming, cattle and small stock farming, and non-traditional activities such as horticulture, dairy and poultry. The NAMPAADD programme has also identified these sub-sectors as the priority sub-sectors<sup>5</sup> within the agricultural sector.

<sup>5</sup> The sub-sectors include rain-fed arable agriculture (grain/cereal production), dairy and irrigated arable agriculture (horticulture).

Priority sub-sectors within the agricultural sector can also be determined by the amount of public expenditure directed to the sectors. **Table 7.2** shows total expenditures by agricultural sub-sectors from 1980 to 2004. It is clear from the table that Government's priorities are in the animal health and production sub-sector, followed by the sub-sector on crop production and forestry. The high allocations to the sub-sector on animal health and production were dictated by the national development plan priorities of improving productivity, off-take, and disease control measures within the livestock industry through the establishment of the Botswana Vaccine Institute (BIDPA, 2006). In addition, cattle are the raw materials for the beef industry and a significant proportion of the country's foreign exchange reserves are obtained from it.

### *7.2.3 Policy Prescriptions*

Understanding the importance of the agricultural sector in Botswana is very important because most people who reside in rural areas depend on. Hence, trade policy should consider the following:

- Efforts should be made to ensure that the agricultural sector is competitive so that Botswana's agricultural products will continue to be competitive in world markets' even after liberalization;
- The trade policy should also consider the issue of allocation of land in the country, with a view to ensuring that land is available for all who want to engage in agricultural production for export;
- The trade policy should ensure that the implementation of NAMPAAD is such that both traditional and commercial farmers would equally benefit.

### **7.3. Manufacturing as a Priority Sector**

The conventional development path of most countries is usually characterised by the initial strong agricultural sector, which would be followed by the marked growth in the manufacturing sector and ultimately by the growth and development of the services sector. Such that, an economy that is undeveloped or is in the initial stages of the development would feature the dominance of agriculture's contribution followed by manufacturing and then services. The reverse is true for the highly developed and rich economies. The world's developed economies such as Japan, USA, UK, Switzerland, depict this phenomenon. The developing countries in Africa and elsewhere are also going through this developmental path.

Manufacturing is increasingly becoming an important sector in the economy because of the following reasons:

- The key contributor to GDP, mining is highly capital intensive, thus creates very few jobs. As a result, there is the need to develop alternative sectors that can help reduce the high levels of unemployment and improve people's incomes.
- Despite the overall good performance of exports, the export basket is highly concentrated, with diamonds accounting for over 80% of total exports, prompting the need for export diversification in order to avert the vulnerability attached to this single commodity export.
- Value addition is very important. Rather than export products such as diamonds (and other minerals), agricultural and natural resources in their raw form, it would be more beneficial to process them and add value to them so that they can fetch better prices in the international markets. This undertaking will also ensure creation of jobs and improve sectoral linkages in the economy. The development of the services sector, for instance will be speeded up if the manufacturing sector is developed and thus demands certain provision of services such as packaging and labeling, customs clearing and forwarding, transport, storage etc. Other linkages will be with the other services sectors such as finance, insurance, information technology, telecommunications etc. as the manufacturers would demand them.



- Manufacturing for the export markets is important in Botswana where the domestic market is essentially small.
- Over dependence on imports, particularly from South Africa, as shown by the high trade deficit between the two countries. Therefore, a certain level of import substitution needs to be pursued in order to further develop the domestic industries.

Against the backdrop of the economic structure described above and the national needs and objectives listed above, over the years there have been different policies and programmes with intended direct or indirect impact on the development of the manufacturing sector. These include: Industrial Development Policy, Small, Medium and Micro Enterprises (SMME) Policy, Privatisation Policy and Competition Policy

These policies need to be harmonised with a view to make them export promoting. There are other policies and pieces of legislation and administrative procedures that have a bearing in doing business, thus have an impact in the exporting capabilities of the manufacturing firms. The FIAS report has identified the regulatory and administrative procedures, which need to be reformed in order to make expedient doing business.

### 7.3.1 Trade Policy

Botswana should use her policies (Industrial Development policy, SMME Policy, Privatisation Policy and Competition Policy) to encourage the growth and development of manufacturing for export. To this end the following policy strategies should be pursued in the process of manufacturing for export:

- **Beneficiation** involving the use of natural resources to produce finished and semi-finished products for export. This is especially important for diamonds and beef, which have hitherto been exported in raw form even though there is evidence that value creation will bring more benefits;
- **Promotion of the growth** of the production of existing manufactures such as clothing and apparel;

- *Exploring for new products* for development and promotion such as glass and glass-related products.

## **7.4. Services Priority Sectors**

### *7.4.1. Introduction*

Services play a vital role in economic growth of both developed and developing countries. They contribute to economic growth and create employment. Services account for large shares of production and employment in most economies in the world. According to the World Bank, the share of services sector employment in total employment in developed countries lies between 60 and 70 per cent. The European Union (EU) estimates that the services sector accounts for about three quarters of gross domestic product (GDP) in the EU and on average, 50% of GDP for developing countries.

An efficient services sector is important for the overall economy because services do not only contribute to employment and income they also serve as a vital input for the production of goods and other services e.g. telecommunications, banking, transport, etc. The competitiveness of producers and exporters depends in part, on access to efficient banking, insurance, telecommunication or transport systems.

It is widely believed that liberalization of service sectors will improve the efficiency of service sectors. However, despite this potential benefits, countries have used restricted entry into service sectors through government regulation. Reasons for restricting entry into service sectors have ranged from historical practices and the nature of some services, which if left to market forces, may not produce desired.

This section reviews the services sector in Botswana with a view to providing input in the National Trade Policy. Services cover a wide range of sectors. These include, tourism, financial, business, communications, transport, construction, recreation, environment, distribution, health and education. This section only covers tourism, financial services and education. This is because, communications and transport were

covered elsewhere in the report and paucity of data in other sectors makes it difficult to make any meaningful assessment.

#### *7.4.2. Financial Services and Trade Policy*

The financial sector plays a key role in economic growth in Botswana. Its share in GDP has increased over the decade. The increasing share in GDP is largely due to regulatory reform and technology which have increased the competition and the range of products and services in the financial sector. International experience indicates that liberalization should be accompanied by adequate regulatory, supervision and surveillance capacity. Botswana has adequate regulatory capacity in most areas. However, trade policy should ensure that capacity to manage risk is continuously developed. Evidence in developed countries indicates that analysis to analyse long-term risk is not well developed.

Given the increasing complexity and dynamism of the financial sector, Botswana should strive to keep pace with international best practice. Trade policy should ensure initiatives identified by NDP 9 and those contained in the 2006 budget speech are implemented as planned. These include;

- The establishment of supervisory and regulatory system for non-bank financial institutions.
- Government should expedite the repeal of the Botswana Stock Exchange Act and its replacement by Securities Act.
- Establishment of a deposit protection scheme and a national contingency plan to support the financial system in the event of a financial crisis.
- Strengthening of financial and money markets operations
- Development of offshore regulation.
- Strengthening the IFSC framework by placing under a relevant government agency; and,
- Creation of a Central Securities Depository to clear bonds and equities.
- Finally, Botswana should make commitments of financial services at the GATS. This would lock in reforms that Botswana has made in the financial

sector and provide signals to potential investors that policy reversal of the reforms made is unlikely.

### *7.4.3. Education*

#### *7.4.3.1. Introduction*

Until in recent years, education was not part of the debate on globalization because it was widely believed that education was a non-trade service. It is now increasingly being acknowledged that education services is a major business in countries such as Australia, Canada, New Zealand, the United Kingdom and the United States of America. The major mode of supply in trade in education services has been consumption abroad. However, the information and communication technology is increasingly making it possible to engage in cross-border trade using electronic means. This section reviews the education sector in Botswana with a view to identifying issues that trade policy should consider in trade in services.

#### *7.4.3.2. Trends in Trade in Education Services*

Statistics on trade in educational services are difficult to find because the data is often lumped with other activities. In Botswana, trade in services data is not available. An attempt is made to estimate exports of education services using enrolments at the University of Botswana. While this is a very rough estimate, it provides an indicator (albeit rough) on the trends in exports of education in Botswana. Table 7.3 shows trends in estimates of tuition and fees paid to the University of Botswana by foreign students.

**Table 7.3: Estimates of Tuition and Fees Paid to the University of Botswana by Foreign Students**

	1999	2000	2001	2002	2003	2004
Tuition	5,650,800	8,079,000	7,671,400	11,050,100	12,258,600	12,241,550
Other Fees	329,378	367,008	468,285	563,677	600,860	593,460
Living Expenses	4,838,044	5,840,116	5,959,221	8,621,835	9,241,060	8,706,550
Total	10,818,222	14,286,124	14,098,906	20,235,612	22,100,520	21,541,560

**Source: BIDPA, 2005**

Table 7.3 depicts an increase in exports of education services. However, figures for single financial year expenditure by the Department of Student Placement and Welfare on Botswana students studying abroad indicate that Botswana is a net importer of education services (table 7.4).

The BIDPA (2005) study on trade in education services concluded that;

- Training outside the Botswana was necessitated by shortage of places for tertiary training locally.
- The Government of Botswana spent a significant share of its education budget on training outside the country.
- Compared with training costs at the University of Botswana, it cost the country 5 times more to train abroad suggesting that there was scope to reduce the training costs if there were more local tertiary institutions.
- Opportunities existed to increase exports of tertiary education through establishment of institutions given a stable macro-economic and political situation. However costs of establishing these could be substantial.

#### *7.4.3.3. Education and Training*

The education sector's priority is to universal access to education to 10 years of basic education. Enrolments rate for primary education are over 90%. The Government has demonstrated its commitment to universal access to basic education, by providing adequate resources for the education sector. For example, the education sector public expenditure averaged 15% per annum since 1997/98 (BIDPA and World Bank, 2005).

*Table 7.4: Estimated Cost of Botswana Students Studying Abroad-2004/2005*

Country	# of Students	Average Cost per Student	Total Cost (P)
Australia	550	160,000	88,000,000
UK	372	330,000	122,760,000
USA	185	340,000	62,900,000
Canada	137	215,250	29,489,250
Caribbean Islands	90	335,000	30,150,000
Cuba	10	271,000	2,710,000
Malaysia	241	77,000	18,557,000
Ireland	103	360,000	37,080,000
Norway	21	125,000	2,625,000
Grenada	30	347,000	10,410,000
Czechoslovakia	32	148,000	4,736,000
Kenya	2	72,400	144,800
Swaziland	120	37,285	4,474,200
Zimbabwe	10	35,000	350,000
Namibia	7	65,000	455,000
Uganda	1	71,000	71,000
South Africa	7,100	70,000	497,000,000
Total	9,011	101,200	911,912,250

Source: BIDPA

Growth in enrolments at the tertiary level is also impressive. For example, the University of Botswana recorded 13,000 students in 2002/2003 compared with about 4,000 in 1992/93 (BIDPA and World Bank, 2005). Due to limited local capacity in tertiary education institutions, some students are trained abroad and within the SADC region. The Government training budget in 2004/05 stood at around P1 billion. Despite this impressive growth in enrolments and continued government's commitment to education and training, BIDPA highlighted the following challenges:

- The training system in Botswana is supply driven with very limited input of employers in the development of the curriculum and training standards.
- There is no systematic human resource planning.
- Science and engineering enrolments stand at 20% of total enrolments.
- Like most sub-Saharan African countries, there is isolation of manufacturing enterprises from the formal vocational system.

There are attempts to tackle these challenges. Some of the initiatives aimed at addressing these challenges are:

- The National Policy on Vocational Education and Training of 1997 plans to create an integrated, national vocational education and training system; rationalize courses and qualifications through the establishment of a national qualifications framework.
- Establishment of the Tertiary Education Council to be in charge of the reform process.

#### *7.3.3.4. Issues for Trade Policy*

The data on exports and imports discussed in earlier sections indicate there is a significant trade in services deficit. This suggests that;

- Trade policy should consider the potential to increase exports of education services through, among others, promotion of commercial establishments of education institutions, especially at the tertiary level by local investors, foreign direct investors, joint ventures and other arrangements. This would increase local capacity to absorb more local and foreign students; promote education exports and reduce the import of education;
- Given the potential to increase exports through commercial presence and the increasing modes of delivery of education services e.g. e-learning, the regulatory, supervisory and surveillance capacity should be improved to cope with the dynamism in the education sector arising from possibilities of e-learning to ensure better consumer protection against low quality programs;
- Trade policy should consider a more concerted and coordinated approach to increasing science and engineering technology enrolment. Innovation is increasingly becoming a vital component of competitiveness. If Botswana is to achieve export-led growth, the development of technological capacity should be pursued vigorously.

#### 7.4.4. *Tourism*

The sector is of export interest to Botswana because it is a source of foreign exchange and also a major source of employment. Tourism in Botswana is generally expected to be “Government led and private sector driven”. The responsibility of Government is to provide an environment that is conducive for private entrepreneurs to develop and expand their businesses.

##### 7.4.4.1. *Tourism Export Trends*

The BIDPA and World Bank (2005) study highlighted the following:

- The number of tourists coming to Botswana increased by 196% between 1993 and 2000.
- More than 50% of the visitors were from South Africa, the rest of Africa 15.4%, Europe 17%, USA 3.7% AND Australia 2.4%.
- Between 1994 and 1998, the European market grew the fastest at 24.7%. This suggests there is potential for further growth.
- Since 2000, there has been a consistent decline in visitor numbers. Similar trends or very limited growth was recorded in Southern and Eastern Africa. The decline was consistent with global trends largely due to global events such as terrorist attacks, the Iraq war and SARS. Despite this global and regional declining trend, South Africa recorded considerable and moderate growth in 2001/02 and 2002/03, respectively. Given Botswana’s close proximity with South Africa, there is scope to capitalize on South Africa tourism growth.
- Overseas arrivals declined from 10% in 2000 to 6% in 2003.
- The political situation in Zimbabwe has had a negative effect on regional tourism. Tourist operators are increasingly excluding Zimbabwe from tour packages and this seems to be affecting Botswana negatively.
- The World Tourism Organisation indicates that there are signs of recovery in global tourism market. Botswana should be poised to take advantage of recent developments in tourism and should make concerted efforts to address all constraints to tourism in Botswana and take advantage of the opportunities that are emerging. These opportunities include; the development and



promotion of a network of trans-frontier conservation areas in Southern Africa; the expected improvements in the situation in Zimbabwe in the next few years and the visitors to the World Cup to be hosted by South Africa in 2010.

#### *7.4.4.2. Market Access and other Restrictions in the Tourism Sector*

In general, the tourism sector is liberal. Licences for tourism related businesses for both local and foreign tourism service providers are required under the Tourism Act. The act has no specific provision to reserve certain activities solely for citizen entrepreneurs. However, some tourism related activities such as hotels, bars and restaurants require a trading licence under the Trade and Liquor Act. Retail trading, smaller restaurants and bars are reserved for citizen entrepreneurs under the Trade and Liquor Act.

#### *7.4.4.3. Tourism Sector Issues for Trade Policy*

Trade in tourism show that the sector is viable and growing. Further, the sector is accessible to both citizens and foreign investors. Trade policy should therefore continue to support the growth and development of the sector because it holds potential for both income generation and employment creation for the country.

## **CHAPTER EIGHT**

### **TRADE POLICY AND CROSS-CUTTING ISSUES**

#### **8. Introduction**

The main objective of this Chapter is to discuss trade policy and cross-cutting issues. These are issues that affect trade and other sectors of the economy in various ways. To this end the Chapter discusses environmental issues, trade and poverty reduction, issues of skewed development, issues of gender and youth as well as protection of intellectual property rights.

#### **8.1. Trade Policy and Environment: Mining, Tourism and Agriculture in Botswana**

##### *8.1.1. Introduction*

The main objective of the Chapter is to analyze issues of trade policy and the environment. The Chapter focuses on the Botswana's agriculture, mining and tourism challenges to the environment. From other countries experiences appropriate policies to make Botswana's trade and environment policies compatible are derived.

The issue of trade policy and the environment is anchored on the concept of Sustainable Development. According to the Brundland Commission, sustainable development is defined as the *“development that meets the needs of the present [generation] without compromising the ability of future generations to meet their own needs.”* This basically means that all generations must have a fair share and access to economic resources. In other words, the current stock of natural capital, man-made capital and human capital should be utilised in such a way that future generations will be able to enjoy the level of utility or satisfaction enjoyed by the current generation, if not, more. This has proved to be a powerful concept in promoting environmental awareness and stewardship.

World consumers' today demand to be sold goods and services that are produced under environmental friendly conditions. In more recent years a number of countries have imposed restrictions or banned altogether importation of goods that are deemed to have been produced under conditions that negatively impact on the environment. This means that production of export traded goods and services perceived to be harmful to the environment can certainly affect international trade.

To make environmental and trade policies mutually supportive, countries have adopted mechanisms that are environmental friendly. Such mechanisms includes, among others, reflecting environmental costs in the prices of traded goods and services (internalization of environmental costs), adopting technologies that lessen air pollution, and appropriate environmental policies that encourage both large established and new establishments to adopt the latest technologies that are less harmful to the environment.

#### *8.1.2. Botswana's challenges*

The major environmental challenges for trade policy in Botswana is to ensure that the exports of agriculture, mining and tourism services are compatible with environment standards based on the UN environmental treaties the country has signed.

Botswana is party to most of the United Nations multilateral environmental agreements (MEAs). These include the UN Framework Convention on Climate Change (UNFCCC), the Montreal Protocol (ozone), the UN Convention to Combat Desertification (UNCCD), the Convention on Biological Diversity (CBD), the Ramsar Convention (wetlands), the Convention on International Trade in Endangered Species (CITES), the Basel Convention (hazardous wastes) and the Convention on the Protection of the World Cultural and Natural Heritage. Botswana is furthermore a signatory to the African Convention on the Conservation of Nature and Natural Resources (Algiers, 1968) and to various SADC regional protocols (notably on shared watercourses and wildlife). The transboundary and international nature of environment calls for global action and compliance with MEAs and protocols' obligations. National communications were presented to UNCCD, CITES and CBD; the first report to the UNFCCC was completed in November 2001. The Permanent

Okavango River Basin Water Commission (OKACOM) was established in 1994 as a tripartite vehicle towards integrated management of the Okavango basin. SADC has developed a draft Policy and Strategy on Environment and Sustainable Development, which calls for equity-led sustainable development.

Botswana has been able to achieve sustainable development in the use of mineral revenues to increase human capital through increased expenditure on education and health. However in environmental terms it is not clear if the government has made significant productivity achievements as challenges remains. Notable issues are:

1. Conflicts caused by pressure on land and land scarcity: these are mainly associated with competing livestock, arable and wildlife uses, and sub-market value (or non-existent) user charges. Dual grazing rights, insecure resource tenure rights and private fencing developments add to a trend towards degradation and sub-optimal land management.
2. Pollution and waste increases: As much as the economy continues to benefit from increased minerals' extraction, localized air pollution occurs around the BCL copper mine and Morupule coal operations and in some industrial areas, waste and mine dumps. Land and soil pollution takes place through littering, in landfills, and via largely unmonitored industrial practices. The planned decommissioning of the BCL operations in Selebi-Phikwe will have negative environmental impact if no environmental assessments are conducted and remedial measures adopted. Indiscriminate mining of sand and gravel is causing environmental damage and stagnant water in the dug-out areas contributing to health hazards, potentially increasing the incidence of malaria and other water borne diseases.
3. Declining wildlife population: wildlife population trends indicate decline in species with the exception of protected species such as Elephant. Ivory stocks were reduced in a one-off CITES-monitored sale in 1997.

National environmental laws cover a wide range of environmental and natural resources issues. Law enforcement, compliance and implementation issues are

mandated to various ministries and departments and leave room for improvement. Until May 2006 Botswana had no Environmental Impact Assessment (EIA) legislation and an omnibus Environmental Management Act. As a result environmental quality and emission standards, critical to law enforcement and environmental management, were lacking. The new EIA legislation will require ongoing development and regular revision of scoping and screening guidelines, schedules and standards. EIA legislation will inevitably result in litigation. However for the EIA to be effective capacity to implement environmental law need to be enhanced.

On issues of trade and environment the government has not been able to adequately reflect on major concerns on the environment. One of the major constraints is the lack of a coordinated approach to environmental issues. There is no proper guidance to enable other Government agencies to take environmental issues on board in their various policies. This is probably due to the lack of understanding of trade and industrial processing issues as they relate to environmental impact. It is also due to the lack of an encompassing environmental policy to address trade issues, industrial processing, and trade in services, such as tourism. As such, there has not been an appreciation of the need for a foreign trade policy which also addresses environmental issues. In this regard, the lack of legislation on foreign trade policy will continue to impact on the need to ensure that environment issues are taken on board at the national level. Personnel constraints also added to the slow process of developing and implementing policies and legislation to address environmental concerns at the national and international levels.

### *8.1.3. Mining and Environment*

The environmental impact of mining activities varies from country to country depending on the country's environmental policy and the level of enforcement. The experience of countries like Chile, Sierra Leone and Zambia shows that, diamond mining and copper mining can have a adverse impact on the environment. This is especially the case with small unregulated mining. Such operations devastate the land from the initiation of the mine by clearing and digging up vegetated areas. After an

area has been mined the land is sometimes left exposed and degraded, unsuitable for farming or any other activity. When the mining is carried out on hilly areas and slopes, severe erosion takes place and flooding results. In certain locations miners not only remove vegetation and economically valuable trees but their activities also divert surface drainage. Siltation in river systems becomes a common problem faced by communities living downstream. Water collected and stagnated in the dug-out areas contribute to health hazards, potentially increasing the incidence of malaria and other water borne diseases.

Problems associated with copper mining and processing have a significant effect in the environment and the health and well being of the people working in the mines. The mining process use a number of dangerous chemicals including arsenic and carbon monoxide that produces waste materials that pollute water, soil and the air. The smelting process also creates considerable pollution. Smelting produces large volumes of low concentration sulphur dioxide that is not worth further processing to remove the sulphur. It is in most cases pumped into the environment. In Zambia the sulphur dioxide emission created acid rain that devastated crops some 100 km away from the smelter. Vegetables no longer grow and trees and other plants are withering. Paint peels off the walls as a result of the acid rain from the town's copper smelter.

For Chile copper contributes handsomely to GNP. In 1990, copper made up half of Chile's exports and 15 percent of its GDP. In spite of its importance, the Chilean government did not pay attention to the environmental impact of copper. Yet, it costs a lot of money to rehabilitate the country's mines and achieve environmentally acceptable standards. Consequently, Chilean mining was extremely vulnerable to allegations (by US Copper Mine Firms) of "Ecological dumping" or unfair competition on environmental grounds.

#### 8.1.4. Tourism and Environment

Tourism represents the biggest industry in the world. The consistent growth of tourists and tourism receipts over the decades since international travel became accessible to the general public, has convinced many developing nations that they can profit from tourism. Caribbean countries, such as Jamaica and Barbados, have had a history of

tourism development, and the region as a whole has seen much growth in the sector. However, critics contend that any relative benefits of tourism have been far outweighed by the negative impacts of the industry on the environment.

The impact of tourism on the environment has been found to be multifaceted. The increased visits to tourist attraction areas was found accelerate the degradation of the environment. The negative impact occurs when the level of visitors is greater than the environment's handling capability. Further, tourism may affect the environment by causing depletion of natural resources, pollution, physical impacts, and a loss of biological diversity. It also creates great pressure on local and regional resources such as food, energy, and native raw materials. Construction of infrastructures such as hotels, roads, marinas, golf courses, and airports also contribute to land degradation. Forests often suffer negative impacts of tourism due to deforestation for fuel, and land clearing.

One of the largest issues about tourism is the pollution it causes; air emissions, solid waste, litter, noise, oil and chemical, and the release of sewage. Transportation is a major factor in pollution. Because people have to see the wilderness from the hotels they take airplanes, cars, boats, or other motorized vehicles. Noise pollution from airplanes, cars, and buses, and recreational vehicles such as snowmobiles and jet skis are ongoing problems. With mass amounts of tourists come mass amounts of waste; biological waste and artificial (trash). Waste disposal is a major problem in highly visited areas. Some tourists on expeditions leave behind cans, trash, and toilet paper; which are not only unattractive, but also unhealthy to humans and animals. Wastewater has polluted rivers, seas and contributed to the destruction and deterioration of fragile coral reefs. Changes in salinity cause many species to die and decay. In areas with high concentrations of tourist activities and appealing natural attractions, waste disposal is a serious problem and improper disposal can be a major spoiler of the natural environment - rivers, scenic areas, and roadsides. Solid waste and littering can degrade the physical appearance of the water and cause the death of animals. Physical impacts are probably the most noticeable kind of destruction. Physical impacts are caused not only by tourism-related land clearing and construction, but also by continuing tourist activities and long-term changes in local

economies and ecologies. Extraction of building materials, like sand, affects corals, mangroves, and hinterland forests, leading to erosion and destruction of habitats.

#### *8.1.5. Agriculture and Environment*

Agriculture remains the source of income for the rural population the world over, and of foreign exchange for most of developing economies. This alone highlights the importance of land to farming and its consequent impact on the environment. Increased trade in agricultural products and agricultural farming practices can have adverse impacts on the environment. The key issues around agriculture and environment relate to climate change, pollution by nitrates and pesticides, and soil preservation.

Agriculture adds to greenhouse gas (GHG) problems. There are three main sources of GHG emissions from agriculture: nitrous oxide emissions from soils, mainly due to nitrogen fertilisation; methane emissions from intestinal fermentation; emissions from manure management. Herbivore grazing, trampling, defecation, and urination within kraals and areas where animals concentrate in large numbers drastically increase the soil nitrogen level. In Botswana, Smet and Ward (2005) found nitrogen levels around water points on commercial cattle ranches to be many times higher than those in communal livestock and game ranches. In the European Union to deal with similar problems they launched the European climate change programme in March 2000 which contains plans for how the EU will meet its Kyoto Protocol commitment to reduce GHG emissions by 8 % by 2012. The plans deal with GHG problems in agriculture and also how agriculture could make a positive impact to solving these problems. Measures being considered include: encouragement of more efficient fertiliser applications to reduce overall use, composting and improvements in anaerobic digestion systems (e.g., for production of biogas), to deal with biodegradable by-products and waste; renewed emphasis on biomass production, conservation tillage and organic farming. The EU's nitrates directive was introduced in 1991 with two main objectives in mind: to reduce water pollution by nitrates from agricultural sources and to prevent further pollution. The directive involves: monitoring of water quality in relation to agriculture; designation of nitrate vulnerable zones; establishment of (voluntary) codes of good agricultural practice and of



(obligatory) measures to be implemented in action programmes for the nitrate vulnerable zones.

Pesticides used in agriculture are usually referred to as plant protection products. They protect plants or plant products against pests. They are widely used in farming for their economic benefits - to fight crop pests and reduce competition from weeds, thus improving yields and protecting the quality, reliability and price of produce. However, their use does involve risk to the health and the environment if not used properly. Human and animal health can be negatively affected through direct exposure (e.g. industrial workers producing plant protection products and operators applying them) and indirect exposure (e.g. via their residues in agricultural produce and drinking water, or by exposure of bystanders or animals to spray drift). Soil and water may be polluted via spray drift, dispersal of pesticides into the soil, and run-off during or after cleaning of equipment, or via uncontrolled disposal. The EU regulations were designed that seeks to ensure their correct use, and regulate their use in order to minimise their detrimental environmental impact and informs the public about their use and any residue issues. The EU water framework directive provides an integrated framework for assessment, monitoring and management of all surface waters and groundwater based on their ecological and chemical status. The directive requires measures be taken to reduce or eliminate emissions, discharges and losses of hazardous substances, for the protection of surface waters. Agri-environmental measures offer support for commitments on keeping records of actual use of pesticides, lower use of pesticides to protect soil, water, air and biodiversity, the use of integrated pest management techniques and conversion to organic farming.

Soil degradation processes such as desertification, erosion, decline in soil organic matter, soil contamination (e.g. by heavy metals), soil sealing, soil compaction, decline in soil biodiversity and salinisation can cause soil to lose its capacity to carry out its main functions. Such degradation processes can result from inappropriate farming practices such as unbalanced fertilisation, overabstraction of groundwater for irrigation, improper use of pesticides, use of heavy machinery, and in the case of Botswana overgrazing. Overgrazing in Botswana is a result of overstocking and poor management practices, as well as unclear property rights, through the practice of dual grazing. The EU strategy on soil protection offer opportunities for favouring the

build-up of soil organic matter, the enhancement of soil biodiversity, the reduction of soil erosion, contamination and compaction. These measures include support to organic farming, conservation tillage, the protection and maintenance of terraces, safer pesticide use, integrated crop management, management of low-intensity pasture systems, lowering stock density and the use of certified compost.

Overall the EU applies agri-environmental measures which support specifically designed farming practices that help to protect the environment and maintain the countryside. These measures commit farmers, for a five-year minimum period, to adopt environmentally-friendly farming techniques that go beyond usual good agricultural practice. In return they receive payments that compensate for additional costs and loss of income that arises as a result of altered farming practices. Examples of commitments covered by national/regional agri-environmental schemes are: environmentally favourable extensification of farming; management of low-intensity pasture systems; integrated farm management and organic agriculture; preservation of landscape and historical features such as hedgerows, ditches and woods; conservation of high-value habitats and their associated biodiversity. Agri-environment measures have become the principal instrument for achieving environmental objectives in the European Union.

#### 8.1.6. Policy Recommendations: Issues of Environmental Best Practice

Botswana should be committed to the development of national policies and procedures to minimize the impact of mining on the natural landscape, and to ensure a safe and healthy environment for the communities in and around mining areas. To avoid costly clean up measures due to trade threats like in Chile, Botswana should draw up general standards for the environment and making specific demands on mining companies in relation to the environment. Environmental impact assessments are the major instrument used both in Chile and in the Caribbean states to control environmental impact of both mining and tourism. Botswana's newly introduced environmental impact assessment act should be capacitated to effectively see to it that new and old mining companies implement operations that are environmental friendly.

In the face of actual and/or potential threats to the environment, the policy should demand that new mining projects should be set up using leading edge technologies and processes that will cut emissions that are harmful to the environment.

*The policy should adopt both corrective and preventive environmental strategies for both old and new mining firms, as well as in small and medium scale mining operations, particularly those that engage in indiscriminate mining of sand for domestic trading. The aim should be to encourage mines to internalize the costs of environmental impact in their operations.*

### **Policy I: Mining**

- There is need to enforce the new minerals policy act to deal with environmental degradation resulting from small mining operations, such as, sand and gravel mining.
- Institutions should be set up to regulate negative impacts on the environment from mining operations. The Botswana government has since constructed a laboratory to analyse environmental pollutants and air pollution monitoring, to ensure that harmful gas emissions were within internationally acceptable levels.
- The newly introduced environmental impact assessment act should be capacitated to prevent, control and periodically monitor mining activities harm to the environment.
- There is need to encourage new foreign investment in the mining sector to adopt the latest environmental friendly technology in equipment, processes and management.

### **Policy II: Trade Policy**

There is need to strive for the development of the tourism industry that will meet the economic development goals of today's generation without compromising that of future generations through:

- Policies that enable communities to co-exists with natural resources to benefit from tourism receipts. To this end, the currently implemented Community Based Natural resource Management strategy should be resourced to benefit a large population of communities that live with wild animals. This will help these communities to conserve natural resources for future generations.
- Waste disposal is a major problem in highly visited areas. Some tourists on expeditions leave behind cans, trash, and toilet paper; which are not only unattractive, but also unhealthy to humans and animals. The relevant ministry should device a clear strategy on the disposal of waste in tourist areas.
- The increased visits to tourist attraction areas were found to accelerate the degradation of the environment. The negative impact occurs when the level of visitors is greater that the environment's handling capability. The national strategy should aim for a high cost and low volume to avoid excessive negative impact on the environment.

### **Policy III: Agriculture**

Agriculture is vital for the livelihood of the rural population in Botswana, and for it to continue as the source of livelihood for the current and future generations the following policies are suggested. Policies are suggested on well known issues that not much has been done.

- There is an urgent need to define property rights in Botswana, as a means of avoiding overgrazing due to dual grazing.
- There is need for the sector to improve farm management practices to avoid overstocking. This should be part of a strategy that encourages the build-up of soil organic matter, the enhancement of soil biodiversity, the reduction of soil erosion, contamination and compaction.
- There ought to be plans to deal with greenhouse gas GHG problems in agriculture and also how agriculture could make a positive impact to solving these problems.
- There is need for monitoring of water quality in relation to agriculture; designation of nitrate vulnerable zones; establishment of (voluntary) codes of

good agricultural practice and of (obligatory) measures to be implemented in action programmes for the nitrate vulnerable zones.

- To minimise their detrimental environmental impact of pesticides there is need for strategies that informs the public about their use and any residue issues. There is a need for periodic assessment, monitoring and management of all surface waters and groundwater based on their ecological and chemical status. Furthermore measures had to be undertaken to reduce or eliminate emissions, discharges and losses of hazardous substances, for the protection of surface waters.

## **8.2. The Link between Trade Policy and Poverty Reduction**

### *8.2.1. Introduction*

The objective of this section is to review the linkages between trade policy and poverty reduction. In the past, it was assumed that trade policy that leads to positive economic growth would automatically lead to poverty reduction. This optimism came from the belief that free trade leads to increased and sustained economic growth and the resultant poverty reduction due to increased employment and income earnings. However, this assertion is not always true for all countries. While many developed countries have benefited and stand to benefit from increased free trade, for developing countries, the benefits are mixed. Increased free trade has benefited large developing countries that have been able to adjust their economies to effectively participate in the global economy. For example, China and India managed to reduce poverty in their economies through greater integration into the world economy (Bhagwati, J, et al, 2002). Vietnam registered a reduction in poverty (from 75 to 37%) due to global integration (Dollar, 2001). On the other hand, developing and least developed countries (LDCs), especially those in the Sub-Saharan region and Central Asia have found themselves “left out” and “marginalised” by the process of globalisation. As a result, for these countries, international trade has resulted in increased poverty and income inequalities both within and between countries.

It has also been argued that while international trade has in many cases acted as a catalyst for economic growth for poverty reduction, it has in some cases resulted in marginalisation of the poor by introducing technological developments that displace the poor in production and thus worsen their economic state. It is therefore important to ensure that existing bilateral and multilateral trade agreements are made more beneficial to the poor.

In some countries, trade occurs in sectors of the economy where the poor are not engaged. For instance, trade may occur in the industrial sector, while the majority of the poor are engaged in the agricultural sector. Whenever this state occurs, the poor are marginalised and impoverished. Therefore, intervention should be directed to the sectors of the economy where the majority of the poor are located. This section assesses the link between trade policy and poverty in Botswana with a view to indicating how these may be strengthened for the country to have an “inclusive export led growth.”

#### *8.2.2. The Nature of Poverty in Botswana*

The review of the various trade policies and legislation in the country, should be preceded by an assessment of the nature of poverty in the country. This analysis is important in the process of identifying the linkages between trade policy and poverty. More importantly, the information will enable us to predict the impact of changes in trade policy on poverty reduction in the country.

Poverty reduction is one of the developmental objectives of Botswana. This is reflected in most Government documents such as Vision 2016, National Strategy for Poverty Reduction, various National Development Plans and the Botswana Millennium Development Goals Status Report 2004, just to name a few. One of the objectives of Vision 2016 is to reduce the share of the population living below the poverty datum line to 23 percent by 2007 and ultimately eradicate absolute poverty by 2016 (MFDP, 2003). On the other hand, one of the Millennium Development Goals aspirations is to reduce the share of the population living below the poverty datum line by 50 percent by 2015 (United Nations, 2004). While the targets differ across policies, it is clear that the government has embarked on an ambitious plan to reduce poverty. The Vision 2016 pillar on “a prosperous, productive and innovative nation”

has a bearing on poverty reduction and eradication, through, inter alia, economic growth, employment creation, and entrepreneurship development. The pillar strives for the development of effective entrepreneurs, who would be able to adapt to the new innovative situations transferred by international trade.

Income poverty in Botswana was first studied in 1974/1975 during the Rural Income Distribution Survey (RIDS). The study, which assessed the causes of poverty in rural areas, ascertained that unemployment and underemployment were widespread in the rural economy, and that agriculture, which was the major source of livelihood, yielded low returns to labour; employment opportunities outside agriculture were also found to be limited. The first comprehensive study on poverty and poverty reduction was undertaken in 1997, using data from the 1985/86 and 1993/94 Household Income and Expenditure Surveys (BIDPA, 1997). The study estimated the proportion of the population living below the poverty datum line as 59 percent in 1985/86 and 47 percent in 1993/1994. The recent 2002/03 HIES results, on the other hand, indicated the proportion of the population living below the poverty datum line to be 30 percent (CSO, 2004). Table 8.1 below shows trends in poverty levels over time for Botswana, based on the three Household Income and Expenditure Surveys of 1985/86, 1993/94 and 2002/03.

**Table 8.1: Trends in Poverty**

	<b>Percentage of poor households</b>	<b>Percentage of poor population</b>
1985/86	49	59
1993/94	38	47
2002/03	21	30

Source: Various HIES Reports

The table shows that even though poverty levels for both the poor households and the proportion of the poor population have been declining over time, poverty is still a problem in the country. The worst forms of income poverty are experienced in the most remote areas of the country, for example, the rural South West which covers Ghanzi and Kgalagadi districts and western parts of Kweneng and Ngwaketse. The following have been found to be the people mostly affected by poverty in the country;

the unemployed, the elderly, the youth, the female-headed households, etc. The unemployed people lack employable skills and the female-headed households are poorer due to the prevalent high unemployment suffered by females than males in the country. The main causes of income poverty in the country are the narrow base of the economy, low employment opportunities and relatively slow progress in export growth and economic diversification (MFDP, 2003). Hence, the new trade policy should be seen to be aiming at containing these bottlenecks. Effort should be made to contain poverty in the country because high levels of poverty hampers the effective demand of the country's exports and hence leading to the unavailability of external markets. This would also constrain the availability of capital which is necessary for investment.

### *8.2.3. Issues for Trade Policy*

Understanding the link between trade and poverty is important to ensure that trade policy is pro-poor. Trade policy should address the following:

- Initiate measures that facilitate access to appropriate technology, support domestic investment and put in place effective schemes to stimulate domestic production. In agriculture for example, the role of commercial agriculture might become more important as liberalization increases prices of some agricultural products.
- Investment in education and health. Employees of some firms in sectors that are under the threat of intense competition e.g. textile and apparel sector might benefit from training and retraining as an adjustment measure. Aid for trade is another form of adjustment cushion that should be taken into account.
- Social protection measures and transitional training for poor producers whose livelihoods might be adversely affected by trade is necessary.

## **8.3. Trade Policy and Geographically Disadvantaged Areas**

### *8.3.1. Introduction*



Resource-based economies have been found to be prone to skewed development in favour of the areas with more developed infrastructure, financial resources, large market base and a developed transport system. This is generally more common for mineral-based economies because mineral extraction in developing countries has mostly been conducted in such a way that it has limited economic linkages with the rest of the economy. Ideally, the mineral sector should form both forward and backward linkages with domestic industries. The former occurs when the incoming mining company produces output that is used as input in the domestic industry while the latter occurs when the incoming mining company purchases inputs from domestic firms. Under these conditions, the mineral-based economy follows a process of economic growth and development called integrated development.

Conversely, there may be limited backward and forward linkages between the booming mineral sector and the rest of the economy, resulting in what is called enclave development. If there is no conscious effort, on the part of policy makers, to spread the benefits of trade fairly and equitably across the country through the provision of infrastructure and other economic incentives that will encourage firms and households to locate in other areas of the country that would otherwise be less attractive for location, there will be lack of the benefits of trade and business opportunities in rural and geographically isolated areas, resulting in skewed development and pockets and islands of poverty in a country known for resource-driven economic boom.

### *8.3.2. The Botswana Experience*

Botswana is a mineral-based economy dominated mainly by diamonds which accounted for about 87 percent of total exports in 2002 (Botswana Statistical Yearbook, 2003). When other minerals like copper/nickel and soda ash are taken into account this share increases to about 92 percent. In terms of GDP, the share of mining is about 35 percent, while manufacturing and agriculture are about 4 percent and 3 percent, respectively for 2002.

As a mineral-based economy, Botswana is prone to the problems of enclave development discussed above. Indeed, the diamond mine imports almost all of its input requirements and the selling of diamonds is handled by the de Beers Central

Selling Organisation in London, United Kingdom. While there is now much talk about diamonds beneficiation, and there are a few diamond polishing companies in a few peri-urban villages, diamond mining has remained an enclave sector with very limited employment benefits. There is however, an exception in the case of Botswana because government has been able to secure a 50-50 percent share with De Beers mining company.

To counteract the problem of enclave development discussed above, Government policy has been that:

“Sustained development required that the proceeds from diamonds and other non-replenishable resources, which the economy can only sell once, be re-invested in other forms of productive, renewable wealth that will continue to diversify the economy and generate income well into the future.” (National development Plan 7:25).

While this policy is general and does not necessarily target geographically isolated areas and rural areas, the Revised National Policy for Rural Development, Government Paper No 1 of 2002 advocates for the need to recognise “the varying opportunities and potential for various geographic regions” by providing infrastructure in production areas, adopting a cluster approach and strengthening property rights and security of land tenure in rural areas (National development Plan 9:71).

**Table 8.2 : Poverty in Botswana: 1985/86, 1993/94 and 2002/03 (Percent of Population Group Under Poverty Datum Line)**

	<b>1985/86</b>	<b>1993/94</b>	<b>2002/03</b>
	Poverty Rate (%)	Poverty Rate (%)	Poverty Rate (%)
Cities/Towns	22.5	22.7	10.1
Urban Villages	47.0	35.1	24.6
Rural Areas	59.5	47.3	45.1
National	48.1	37.0	30.3

Source: Central Statistics Office, Stats Brief. Household Income and Expenditure Survey Various Years.

In spite of these positive policy pronouncements, the situation on the ground is generally different. Even though significant efforts have been made to take development to rural areas, there remains more to be done in this front. For instance, infrastructure like tarred roads, schools, water and lately electricity have been taken to most rural areas. However, most infrastructure, manufacturing firms, financial services and government services are located in the major cities – Gaborone and Francistown, and their surrounding peri-urban villages, leaving a significant number of rural and geographically isolated areas undeveloped. This conclusion is supported by empirical evidence. For instance, a Consultancy study to Evaluate the Performance of CEDA-Financed Firms in 2003 found that most CEDA firms locate their businesses in the urban and peri-urban areas. Likewise, the BIDPA-CEDA study (2006) to Evaluate the Performance of Small and Micro Enterprises in Botswana came to the same conclusion. Finally, as can be seen in **Table 8.2**, the incidence of Poverty in Botswana is higher in rural than in urban areas, suggesting that trade policy has indeed to address the problems of skewed development.

### 8.3.3. Policy Strategy

Botswana should strengthen the provision of infrastructure and economic incentives to encourage the business community and households to locate their export businesses in the rural areas. Further, Botswana should strengthen the implementation of the Revised National Policy for Rural Development as a means of combating the problem of skewed development.

## **8.4. Trade Policy and Gender**

### *8.4.1. Introduction*

The debate on Trade Policy and Gender is premised on issues of gender equality. A crucial question concerns the sharing of potential gains from trade between all sectors of the society, including men and women. According to Anh-Nga Tran-Nguyen (2006), gender equality can take different forms, including, but not limited to: Employment Opportunities, Returns from labour, Access to resources (such as land, credit and business services), and Empowerment (participation in decision making).

A discussion on the link between trade policy and gender stands to benefit hugely from defining and understanding gender. Gender is not synonymous with or restricted to women's issues. Rather, gender in the context of our discussion refers to the socially determined relations between women and men, the ways in which they interact and the impact their different roles, expectations and conditions have on each other, on themselves and on the opportunities they have in the economy.

### *8.4.2. Theoretical underpinnings of Trade and Gender*

The theoretical foundations of trade policy are silent on gender issues; or rather simply assumes that since trade is expected to benefit the nation, members of such a nation stand to equally benefit from trade, regardless of gender. In this regard trade policy assumes that, in terms of gender, both men and women have equal opportunity and access to the means of production, namely resources for investment and the return from their investment. To this end, trade policy assumes that benefits from trade will trickle down to everybody alike as a result of growth and increased total income of participating countries: to business owners, as well as to workers and consumers, both men and women. It is therefore no surprise that (UNCTAD, 2003), asserts that Trade Policy has for many years been considered gender neutral

Free trade theory further assumes that *factors are mobile across sectors and there is perfect competition*: such assumption ignores the structural constraints that do not allow for the mobility of factors, especially labour. In particular, it ignores that a number of factors, including the gender division of labour, the lack of economic and

social infrastructure and access to information inhibit women's ability to respond to economic incentives and opportunities offered by trade.

However, the equal opportunity scenario inherent in trade theory is not born by empirical evidence. Women all over the world are significant players in different capacities - some are child caretakers, business owners, and workers. They act as care takers for both the young and the old, the sick, disabled, and they contribute a considerable amount of unpaid labour to support core community social and political activities. Yet when it comes to returns to their labor they are generally paid less than men. For instance, It is also well documented that in many developing countries, women and girls on average earn less than men. On average, women earn 77% of men's wages in developed countries. In developing countries, on average, women earn 73% of men's wages (Anh-Nga Tran-Nguyen, 2006).

#### *8.4.3. The Botswana Case*

Botswana women have made tremendous strides in education, health and employment since independence. There are however, a number of economic and socio-economic cultural practices, as well as laws, which work against women's empowerment and full participation in society. Below is an attempt to profile the situation of Botswana's women in relation to the forms of gender equality earlier on referred to:

**Employment Opportunities:** Except for service in the army, there is no legal discrimination against women when it comes to employment opportunities in Botswana. This means that both men and women in Botswana legally have equal employment opportunities. However, most of Botswana women live in rural areas, where employment opportunities are most limited. This societal structural issue seriously compromises women's employment opportunities.

As shown below, employment opportunities within the formal sector are mostly taken by men. Table 8.3 below shows male dominance in formal employment, although it is comforting to note that the proportion of women in the formal sector has been increasing steadily from 36.9% in 2000 to 38.3% in 2004.

**Table 8.3: Composition of Formal Employment in Botswana (%)**

	Female	Male
2000	36.9	63.1
2001	36.9	63.1
2002	38.7	61.3
2003	37.9	62.1
2004	38.3	61.6

Source: Bank of Botswana annual Report, 2004.

**Returns to Labour:** Women in Botswana are also known to be involved in various informal sector activities such as selling curios, baking bread, etc. According to Ntseane (undated), 75% of those involved in the informal sector in Botswana are women. Since, the informal sector is known to pay lower than the formal sector, it means that women, as compared to their male counterparts, do not have adequate returns to their labour.

**Trade policy Recommendation:** Trade policy must ensure that all workers, whether male or female adequately enjoy the full return to their labour. To achieve this, trade policy should:

- ensure that adequate infrastructure, such as factory shells and utilities like electricity and water are accessible to SMMEs in order to increase the income returns of those engaged in the sector;
- ensure that there is continuous training and flow of information on business opportunities in order to equip those in the informal sector to exploit emerging business opportunities due to trade policy developments in the global economy.

**Access to Resources (Land, credit, and business services):** Women tend to occupy activities with the lowest returns and limited opportunities for credit, skills training and materials. They have limited access to productive resources, particularly cattle, land, cash, labour and credit (Kgakge, 2006). This negatively affects womens' ability to get the highest return from their labour.

**Empowerment (participation in decision making):** The sharing of power and, consequently, the participation of women at all levels of decision-making, both public and private, is an important human right and democratic issue (United Nations and Botswana Government 1998). However, in Botswana, like in most other developing countries, men monopolize power and decision-making positions at all levels of the society. Both the public and the private spheres are characterized by very limited sharing of power between males and females, and women are marginalized in terms of decision-making (Botswana Government 1995; United Nations and Botswana Government 1998).

Until recently, men have been viewed as heads of households. Being the heads of households, males have dominated decision-making related to family resources. They have and in fact continue to exercise strong control over women in public institutions such as the national assembly (parliament). For example, the proportion of women in the country's highest decision making body, parliament, is a paltry 11.1%, a decline from the 17.0% recorded in 1999.

**Trade Policy Recommendation:** Trade Policy should empower women to participate in trade on equal terms as men by (i) giving both equal access to economic opportunities and (ii) giving women extra-trade incentives in order to close the economic disparity gap between the two genders created by past discriminatory practices against women.

#### *8.4.4. Discriminatory Laws*

In Botswana, women still face certain legal and socio-cultural constraints that put them at a disadvantage relative to men. Although the Botswana constitution guarantees certain rights and freedoms to all citizens, there are certain provisions in customary and common laws and cultural practices that infringe on women's rights and freedoms (Botswana Government 1995). Until recently, the Marriage Act, the Married Person's Property Act, the Companies Act, and the Deeds Registry Act restrict the rights of married women to land, to immovable property and to advancing their career chances in the commercial sector. This has for many years discouraged

women from using land and property as collateral for business loans, an imbalance that will take many years to redress.

Women are also put at a disadvantage by traditional and cultural values which ascribe to them a subordinate status thus qualifying them for male protection in relation to the external world and the management and control of property (Botswana Government 1995). Such traditional values deny women independent access and rights to inheritance of assets such as land and cattle, which are important for making a living particularly in the rural areas.

It is comforting to note, however, that the Government and local nongovernmental organizations (NGOs) have made strides in coming up with constructive methods to address discrimination against women in the areas of marital power. As such, on December 8, the President signed into law the Abolition of Marital Powers Act, which established equality of control over the joint estates of marriages and equal guardianship of parents over minor children. The Act also removes the domicile of husbands and fathers as the grounds for establishing the domicile for wives and minor children.

Therefore, any trade policy potentially has a different impact on men than it does on women as well as on different sub-groups of men and women. For these reasons, it is imperative that Botswana's trade policy seriously consider key trade issues of critical importance to women in Botswana. The goal is to create a deeper awareness and understanding of these trade-related gender issues, and of how they fit within the context of gender relations in the country.

**Trade Policy Recommendation:** Trade policy should be crafted in such a way that it supports and complements the efforts made towards the repeal of laws discriminating against women by:

(i) ensuring that decisions on investment in trade and trade-related investments are jointly made by both men and women (where applicable), as well as ensuring that the benefits of trade are equally shared between both sexes;



(ii) Both men and women have equal right and opportunity of access to productive and investment resources for trade and trade-related investments;

(iii) Both have equal access and control over the benefits of trade investments returns.

## **8.5. Trade Policy and Youth**

The literature as well as attention given to the debate on youth and trade is very thin, if not non-existent. It is therefore not surprising that world trade often seems remote from young people and, indeed, from most ordinary people. However, various literature looks at youth from various angles. Such literature has been handy in the discussion of this section.

**Definition of Youth:** The Botswana National Youth Policy, which is a government's key document used to address youth issues defines youth as persons within the 12 – 29 years age bracket. On the objectives of the National Youth Policy "Recognition and promotion of the participation and contribution of young women and men in Botswana's socio economic development." As with gender, involvement of youth in Trade Policy should be defined in terms of youth equal(with adults) opportunity and access to, Employment Opportunities, Returns from labour, Resources (such as land, credit and business services) and Empowerment (participation in decision making).

**Employment Opportunities:** The National Youth Policy for Botswana recognizes unemployment as one of the greatest problems facing young women and men in Botswana. It further states that responding to such problems requires the efforts of all sectors of society. In some cases this requires specific youth-oriented programmes that improve the skills, productivity and experiences of young people. In other cases it requires a broader development strategy that stimulates the economy so that there is a greater number of employment opportunities available. Thus, government has decided to push forward with a review of Government hiring criteria to remove unnecessary barriers, such as overly stringent experience criteria, that undermine our ability to recruit otherwise qualified and capable Botswana into the public service.

Like with gender, the informal sector is a major source of economic activity and

employment, especially in rural areas. Thus, the expansion of this sector can increase opportunities for young people in these areas.

**Recommendation:** As part of the broader government strategy to ensure that youth unemployment is created, Trade Policy should aim at ensuring that youth employment opportunities are created. This includes doing away with rules and regulations that hinder the creation of youth employment.

**Trade Policy Recommendation:** Trade Policy should be designed in such a way that the fruits of trade also benefit the youth, by ensuring that when employed, youth enjoy meaningful returns from their labour.

**Access to Resources:** One of the major problems hindering youth entrepreneurship in Botswana and the rest of the world is access to, among others, land and credit. Recognising this, the Government has decided to create a window under CEDA to provide agricultural loans for graduates of agricultural training institutions and improve the coordination of youth programmes among the various institutions receiving Government support (State of the Nation Address, 07, 11, 05).

**Trade Policy Recommendation:** A key consideration in the development of the Botswana Trade Policy should be to ensure that youth have access to material prerequisites for successful entrepreneurship such as land, credit and entrepreneurial skills.

**Empowerment (participation in decision making):** There does not seem to exist any deliberate move or policy by Government to ensure that youth are adequately represented in the decision making process. For example, whereas the National Youth Policy concerns itself with critical issues affecting youth such as substance abuse, labour market, sexuality, crime and violence, culture etc, the policy is silent on the role of youth in the decision making process.

**Trade Policy Recommendation:** Youth as future adults and leaders should be helped to develop decision making skills at an early age. It is against this background that the

Trade Policy for Botswana should emphasize youth involvement in decisions on the country's trade decisions and their implementation – export development, export marketing and foreign direct investment.

## **8.6. Trade Policy and Intellectual Property Protection**

### *8.6.1. Introduction*

Intellectual property protection in developing countries has the potential to lead economic growth through technological transfers. However, in some instances intellectual property protection can lead to economic deprivation, for example, by limiting the availability of essential drugs hence inflating their prices, limiting the availability of educational materials, and undermining food security initiatives. Further, in addition to natural resources and technological advancement, a country's prosperity can be derived from cultural knowledge. However, the lack of a comprehensive global approach to the protection of traditional knowledge leaves many communities vulnerable to unauthorized reproduction of the cultural expressions such as handicrafts and musical performances that could otherwise be traded internationally for economic gain. Trade policy should therefore consider issues relating to intellectual property protection.

This part of the report considers Botswana's intellectual property rights as they relate to international trade. Intellectual property protection is the protection of industrial property (patents, industrial designs, trademarks, integrated circuits, plant varieties, etc) and literary and artistic property (copyrights and rights of performers, etc). It rewards creators and innovators for their creations and provides incentives for further creativity and innovation, and therefore generates greater opportunities for economic, social and cultural progress.

Intellectual property protection contributes to the economic enrichment of countries by encouraging innovation and technology transfer. It reduces the risk of imitation and piracy, hence, when strong intellectual property rights exist in a country it signals to inventors to invest in R&D and develop new technologies. With the expectation of

turning legal rights into commercial profit innovative countries then export their inventions to other countries through three main interdependent channels of technology transfer namely; international trade in goods and services, foreign direct investment, and contractual licensing of technologies and trademarks.

#### *8.6.2. Overview of Botswana's Intellectual Property System*

In many respects Botswana has a relatively strong IPRs framework. Prior to 1996, the laws governing intellectual property were the Copyright Act (1965), the Patents and Designs Protection Act (1955) and the Trademarks Act (1937). These laws extended the registration and granting of intellectual property protection under UK and South African law to Botswana. The adoption of TRIPS led to the Industrial Property Act (1996) and the Copyright and Neighbouring Rights Act (2000). The Industrial Property Act covers industrial designs, patents, trademarks and anti-competitive practices in contractual licenses. However, there is no national legislation in place covering geographical indications, undisclosed information and plant varieties. Beyond TRIPS, Botswana also needs to protect its traditional knowledge and folklore, breeder's rights and genetic resources.

Initially intellectual property rights were administered by the Resident Commissioner in Mafeking, South Africa before being transferred to the Ministry of Trade and Industry in 1966. In 1974, the Office of the Registrar of Companies, a unit within the Ministry of Trade and Industry was created. The main responsibilities of the Registrar of Companies were to register and keep records of patents, designs and trademarks and to follow up on renewals. The Industrial Property (IP) Unit within the Registrar of Companies was created in 1996 to administer industrial property protection. The administration of copyrights is performed by the Copyrights Unit.

Some of the challenges faced by Registrar of Companies in administering intellectual property protection include:

- Inadequate technical staff to handle workload and complexity of IP;
- A shortage of technically trained professional in law, engineering fields, chemistry, physics, natural sciences, medicine or biology partly due to the fact that government salaries are invariably lower than the private sector;

- Failure to retain qualified staff at senior level for the above mentioned reason;
- Lack of public awareness on IP issues;
- Minimum participation by the private sector in IP issues;
- Limited inter-ministerial coordination;
- Weak coordination between trade officials in Geneva and local officials; and
- Limited intellectual property research and analytical work

Funds have been allocated in the 2006/07 Development Budget to carry out a study on the establishment of the Registrar of Companies as an autonomous body and the computerization of the Registrar as recommended in NDP 9.

Botswana became signatory to the TRIPS Agreement in May, 1995. To date, Botswana has made some significant changes towards legislative and administrative reforms to be fully TRIPS compliant. Botswana is also a signatory to the following WIPO treaties: the Paris Convention, the Berne Convention, Internet Treaties (WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty. It is also a member of the Convention on Biological Diversity. Further Botswana is a member of the Patent Corporation Treaty and is currently preparing to join the Madrid Protocol and the Hague Agreement. At regional level Botswana is a member of ARIPO under which it is signatory to the Harare Protocol on Patents and industrial Designs and the Banjul Protocol on Trademarks.

Following the establishment of the National Committee on Trade Policy and Negotiations (NCTPN) March 2004, the Technical Committee on Intellectual Property Protection was formed to assist develop intellectual property national positions and address sectoral specific intellectual property issues. The main objectives of the Committee include developing a national strategy to enforce intellectual property rights legislation, promote the rights of intellectual property holders and facilitate the development of an intellectual property database.

Like many other developing countries Botswana's main implementation challenges in intellectual property protection are in the administration and enforcement of IPR.

Botswana lacks the expertise, technical and financial resources to effectively administer and enforce IPR.

### *8.6.3. Trade Policy Strategies*

- In designing trade policy policymakers should consider issues pertaining to the protection of intellectual property such as public access to medicine and educational material, protection of traditional knowledge and folklore, genetic resources and biodiversity. Additional consideration should also be given to other regulatory measures affecting these issues, such as those relating to the approval and registration of medicines and documentation of indigenous knowledge, in order to develop a consistent legal framework that enhances access and protection.
- Compulsory licenses and provisions for government use of patented inventions should be an integral part of patent legislation that is sensitive to public health concerns.
- To promote efficient IPRs at national level intellectual property policy should be developed in line with developmental objectives in areas such industrial development, public health, food security and education.
- There is further need to comprehensively address intellectual property protection at regional level through SACU and SADC and other regional initiatives. This is particularly important when negotiating trade agreements with other countries that include intellectual property issues. Harmonized IPRs will facilitate collaborative negotiation stance in IPRs issues. Other benefits of uniform standards in intellectual protection in the region include increased market confidence in the region (that is investors willingness to increase new products in the region); shared use of scarce resources in the administration and monitoring of intellectual property. However, there must be some discretionary balance between regional coordination and the needs of individual countries to tailor for the special needs in individual countries.

- Lastly during the process of regional and international negotiation of intellectual property protection, to improve understanding of issues and encourage continuous balance between consultation and negotiation the public domain should be regularly informed on the issues.

## **CHAPTER NINE**

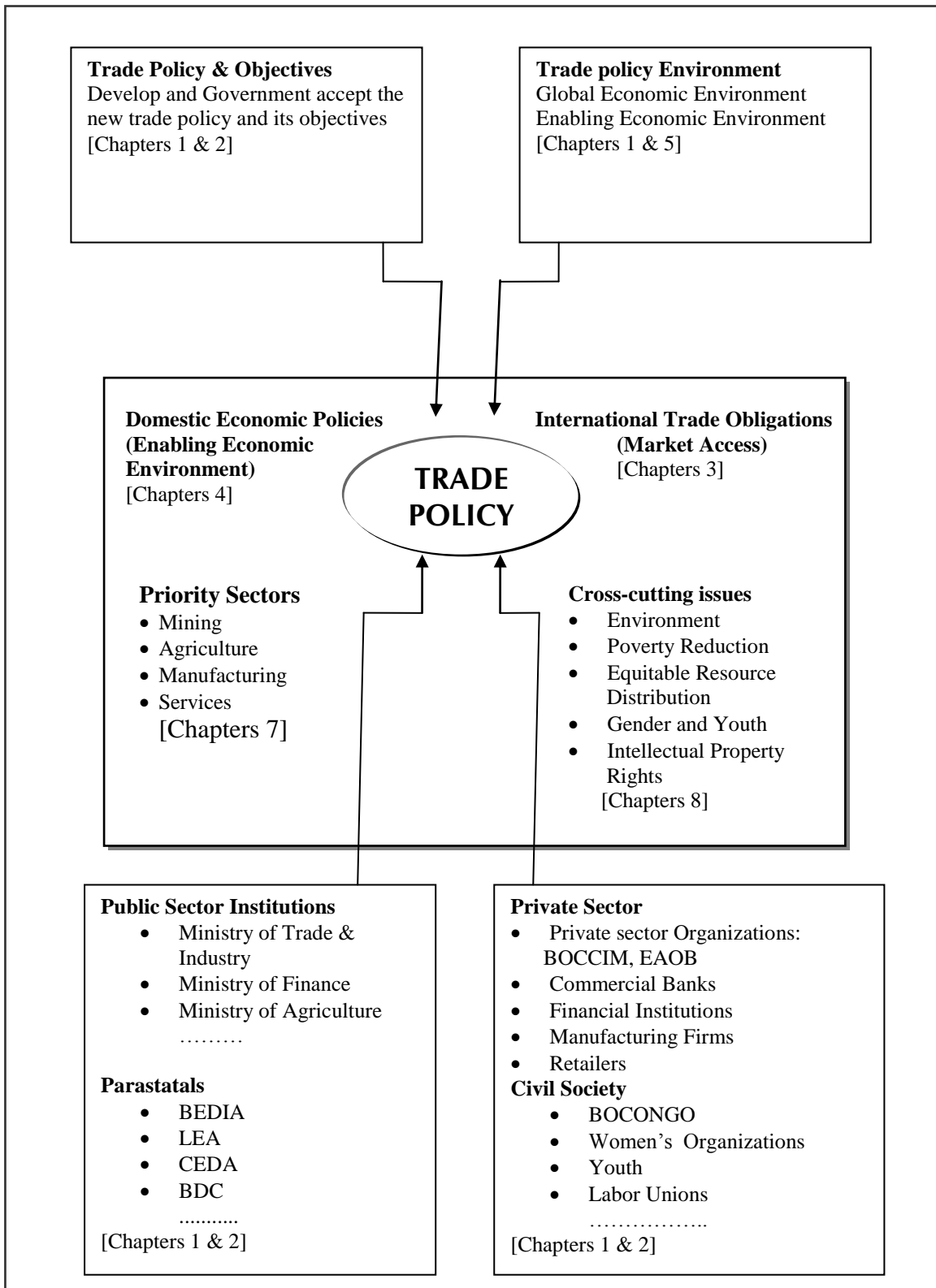
### **TRADE POLICY IMPLEMENTATION FRAMEWORK**

It has become a stylized fact that, a well articulated trade policy comes to nothing unless it is accompanied by a clearly defined implementation framework that has consensus and buy-in from major stakeholders in an economy. From the analysis in the preceding sections, it was shown that Government, through the Ministry of Trade and Industry, is important for trade policy formulation and implementation. The public sector in this case provides a legal and regulatory framework for the operation of the private sector to achieve the country's trade policy objectives. On the other hand, the private sector is brought on board to take advantage of the emerging trade opportunities availed by government in both the domestic and international market. Civil society, which includes NGOs, academia, media and other members of society, provide a back-up support system in trade policy formulation and implementation. For instance, the academia may be brought in to provide thematic studies that inform a country policy position in trade negotiations while the media informs and educates the public on the processes and benefits of the negotiations for the country.

Figure 9.1 gives an integrated view of Botswana's trade policy. The top two quadrants show that trade policy is formulated in a globalized economic environment which has a very important when it comes to the type of trade policy and trade policy objectives a country chooses to pursue. At the centre of the figure are components of trade policy. Trade policy is influenced by domestic policies which define the development objectives and strategy that trade policy is expected to achieve. Along with this are international trade obligations for the country. These define the trade agreements the country has with bilateral, regional and multilateral trading partners and the mutual trade relationship the country has with these trading partners. Trade policy for Botswana also includes priority sectors in areas of mining, agriculture, manufacturing and services. In addition the policy includes cross-cutting issues which include environment, poverty reduction, equitable resource distribution, gender and youth as well as intellectual property rights.



**Figure 9.1 Trade Policy: An Integrated View**



Finally, the bottom quadrants provides players in the trade policy formulation and implementation. These include Government Ministries and Departments which are mainly important for providing a conducive macroeconomic environment for the private sector, while the Parastatals are expected to play a dual role – some providing support services like utilities while others get involved in actual production like the Botswana Development Corporation and the Botswana Housing Corporation. Given this, the private sector is expected to take advantage of the conducive trade policy environment to produce goods and services for both the domestic and global markets. Civil society provides a support system that ensures that the country pursues export – led growth with a human face.

Most important, for trade policy to be successful, it must be accompanied by clearly defined implementation plan that identifies projects, programmes and responsible institutions for the plans along with time and output targets for each plan. This allows for monitoring and evaluation of trade policy. To this end, Table 9.1 provides Trade Policy Action Matrix.

**TABLE 9.1: TRADE POLICY ACTION MATRIX**

TRADE POLICY ELEMENT	RECOMMENDATION	RESPONSIBLE INSTITUTION	TIME FRAME <sup>6</sup>		
			ST	MT	LT
Trade Policy Environment and Objectives [Chap. 1 & 2]	<ul style="list-style-type: none"> <li>Botswana's share in world trade is negligibly small. Therefore, the country should set a credible and achievable target share in SACU, SADC and world exports to be achieved by 2016;</li> <li>Review and finalize the trade policy objectives proposed by Consultants</li> </ul>	MTI(DTI), MFDP	√	√	
				√	
Botswana's International Trade Obligations and Market Access [Chap. 3]	<p><b>Trade Policy Decisions under SACU</b></p> <ul style="list-style-type: none"> <li><i>Botswana has to form her National Tariff Body as a matter of priority and assist the other BLNS countries to form theirs as well. The National Tariff Bodies should do a substantive review of the SACU tariff structure with a view to finding how it may be restructured to support industrial and agricultural development in the BLNS.</i></li> </ul>	MTI(DTI), MFDP, MIC & FA	√	√	
	<ul style="list-style-type: none"> <li>Currently, Botswana emphasises tariff revenue as a major reason and benefit for SACU membership. <i>Therefore Botswana will have to make a decision on whether tariff revenue should continue to play a paramount role or industrial development, economic diversification and employment creation should be the main focus;</i></li> </ul>	MTI(DTI), MFDP	√	√	
	<ul style="list-style-type: none"> <li>The <i>design, implementation and monitoring of common agricultural and industrial</i></li> </ul>	MTI(DTI), MFDP	√	√	

<sup>6</sup> ST = Short Term (1-4 years); MT = Medium Term (5-10 Years); LT = Long Term (10 years and above)

<p>Botswana's International Trade Obligations and Market Access [Chap. 3]</p>	<p><i>policies will require targeted provision of infrastructure, fiscal incentives and the development of an overall regional industrial development policy that goes beyond the current infant industry provision. Botswana should make these policy issues the main negotiating agenda at SACU;</i></p> <ul style="list-style-type: none"> <li><i>For the BLNS to get maximum benefit out of the New SACUA2002, they will need to build technical capacity in both tariff negotiations and management in order to be able to match their South African counterparts who have been at it for a very long time. Further, tough and experienced negotiators, armed with well researched country needs of the BLNS must be at the forefront of the negotiations.</i></li> </ul> <p><b>Trade Policy Decisions under TDCA</b></p> <ul style="list-style-type: none"> <li><i>Because Botswana and the other BLNS countries are de facto implementers of the TDCA, they will have to pressurize both South Africa and the EU to recognize and take into account their vulnerabilities as small, landlocked and primary export dependant countries, in the execution of this agreement. To this end, technical assistance, which may be in the form of untied aid, especially for the loss of tariff revenue and employment as well as other adjustment costs this agreement entails, will have to be sought for;</i></li> <li><i>The TDCA requires South Africa to consult with the EU on matters of trade policy before any changes or new trade agreement can be entered into with third parties. The BLNS countries, in particular Botswana, will have to push the EU and South Africa to</i></li> </ul>	<p>MTI(DTI), MFDP, MIC &amp; FA</p> <p>MTI(DTI), MFDP</p> <p>MTI(DTI), MFDP, MIC &amp; FA</p> <p>MTI(DTI), MFDP,</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p></p> <p>√</p>
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<p>Botswana's International Trade Obligations and Market Access [Chap. 3]</p>	<p><i>extend this provision to them as de facto implementers of the agreement;</i></p> <ul style="list-style-type: none"> <li>• Since the TDCA requires WTO compatibility which is defined in terms of Article XXIV of GATT 1994, flexibility to cater for the development concerns of the BLNS countries will be a problem unless this WTO provision on RTAs is changed. <i>Therefore Botswana should continue to support the Africa, Caribbean and Pacific (ACP) countries submission to the WTO to have these provisions included in Article XXIV of GATT 1994.</i></li> </ul> <p><b>Trade Policy Decisions under SADC</b></p> <p><i>Tariff Reductions in SADC</i> - given the importance of SADC as a potential market for Botswana's manufactured exports and the importance this means to Botswana's industrial development and economic diversification, Botswana will have to advocate for the following policies in SADC which will support her new trade policy:</p> <ul style="list-style-type: none"> <li>• Fast-tracking of tariff reductions in SADC in order to speed up implementation;</li> <li>• Harmonization of tariff schedules to ensure that the 2010 deadline for a Customs Union is met and a common external tariff that will eliminate problems of "tariff-jumping" or "tariff-deflection" cited above is realized;</li> <li>• Avoiding back-loading in SADC tariff reductions as this spells dangers of potential failure to implement tariff reductions at the end of the period which may prolong the realization of the SADC customs union.</li> </ul> <p><i>Non-Tariff Barriers (NTBs)</i> – with the general decline in tariffs across all countries,</p>	<p>MIC &amp; FA</p> <p>MTI(DTI), MFDP</p> <p>MTI(DTI), MFDP</p>	<p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p>√</p>
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<p>Botswana's International Trade Obligations and Market Access [Chap. 3]</p>	<p>non-tariff barriers have become a major barrier to trade, especially in the SADC countries. Therefore, Botswana will have to strengthen her negotiating capacity at the SADC level with a view to increase opportunity for the success of her export-led growth strategy by advocating for the following policies:</p> <ul style="list-style-type: none"> <li>• <i>SADC to follow the WTO on dealing with NTBs which involves tariffication of NTBs to their tariff equivalents and then following the WTO tariff reduction schedules to reduce and finally eliminate them;</i></li> <li>• <i>Simplify rules of origin so that they allow more intra-SADC trade flows between Member States;</i></li> <li>• <i>Follow the WTO on trade facilitation which will simplify customs procedures and thus allow more intra-SADC trade flows; and</i></li> <li>• <i>Remove all non-tariff barriers to trade among SADC Members States in order to achieve the desired FTA by 2008 and Customs Union by 2010.</i></li> <li>• <i>Multiple Membership to Regional Trading Blocs –Botswana should spearhead the call for all SADC countries to belong to one regional body that will allow them to have a common external tariff and thus form a customs union, minimize on the limited human and financial resources in the region and optimize the benefits of regional integration by focusing all effort on one viable and sustainable regional integration body.</i></li> </ul>	<p>MIC &amp; IC</p> <p>MTI(DTI), MFDP MIC &amp; IC</p>	<p>√</p>
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	<p><b><i>Trade Policy Decisions under the EPAs</i></b></p> <p>Given the challenges posed by the EPAs, Botswana's trade policy will have to (i) advocate for assistance (such as the much talked about <i>aid for trade</i>) in order for the country to be able to absorb the adjustments costs of implementing the EPAs, (ii) find more reliable and sustainable alternative sources of income; (iii) advocate for the need for the ACP countries to strengthen their South-South trade, both among themselves and with other developing country regional blocs; and (iv) more importantly, Botswana should consider supporting the submission of the ACP countries to the WTO on 28 April 2004, which is pushing hard for the inclusion of flexibilities that will take account of the development concerns of developing countries in Article XXIV of GATT 1994.</p> <p><b><i>Trade Policy Decisions under AGOA</i></b></p> <p>AGOA has up to 6500 product lines which enter duty free into the US market and Botswana has only benefited from exports of textile and apparel. There is therefore a need to:</p> <ul style="list-style-type: none"> <li>• explore possibilities of how the other range of benefits may be accessed;</li> <li>• explore possibilities of diversification even within the textile and apparel sectors;</li> <li>• Explore for niche markets and niche products;</li> <li>• Advocate and lobby for extension of Botswana LDC status in AGOA so that she may continue to export textiles and apparel to the US market up to 2015.</li> </ul>	<p>MTI(DTI), MFDP</p> <p>MTI(DTI), MFDP, BEDIA, MIC &amp; FA</p>	<p>√      √</p> <p>√</p>
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	<p><b><i>Trade Policy Decisions under WTO</i></b></p> <p>The WTO major objective is to achieve market access for member countries and integration of Member Countries into the global economy. Further, the WTO provides a forum where trade agreements are negotiated with a view to achieve mutually beneficial trade based on consensus and the most favoured nation (MFN) principles.</p> <p>It is recommended that Botswana’s trade policy should, within the context of WTO and regional trading blocs like SACU and SADC, advocate for:</p> <ul style="list-style-type: none"> <li>• gradual liberalization on the part of developing countries in line with the flexibilities provided for in Paragraph 8 of Annex B of the Doha Development Agenda;</li> <li>• Botswana should, as a Member of SACU and SADC, advocate for the inclusion of SDT in Article XXIV of GATT 1994 to cover FTAs and customs unions;</li> <li>• non-stringent tariff reduction measures that give developing countries policy space to pursue their industrial development and economic diversification objectives;</li> <li>• the developed countries’ speedy liberalization of the agricultural sector since this is where products of interest to developing countries have comparative advantage<sup>7</sup>;</li> <li>• Explore the possibilities to make full and beneficial use of the provisions for capacity building, including “<i>Aid for Trade</i>” which the WTO commits to embark on in order to aid the developing countries’ efforts to expand trade and minimise the adjustment costs of trade liberalisation.</li> </ul>	<p>MTI(DTI), MFDP, BEDIA, MFA &amp; IC</p>	<p>√      √</p>
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Botswana's Domestic Policy Environment [Chapter 4]	<p><b>Other Trade Agreements</b> – include bilateral agreements with India, Malawi, Zambia and Zimbabwe and multilateral agreements such as SACU-MERCOSUR and SACU-EFTA as well as on-going SACU-US negotiations and proposed SACU-China and SACU-India trade negotiations.</p>		
	<p><i>It is therefore recommended that Botswana should continue to seek market access to other countries across the globe through bilateral, regional and multilateral trade agreements.</i></p>	MTI(DTI), MFDP, BEDIA, MFA & IC	√      √
	<p><i>Currently, Botswana's trade policy exists in one form or the other in various Government policy documents where it is, in some cases well-written and pronounced while in other cases, it is poorly defined. It is therefore recommended that Botswana should mainstream trade policy into all the various domestic policies so that Botswana's export-led strategy cuts across all sectors of the economy and has a positive impact upon everyone in the country.</i></p>	All Government Ministries and Departments, BOCCIM, EAOB	√      √
<p>The opportunities and challenges of trade policy hinge around the existence of an appropriate policy environment. Because of the dynamic nature of the global economy, Botswana's trade policy must be accompanied by deliberate efforts to align the country's economic environment [in terms of regulatory and legal requirements, institutional requirements, infrastructure development, private sector development, market access, availability of requisite skills] to the changing needs of Botswana's private sector in the global economy.</p>	MTI(DTI), MFDP, BEDIA, BOCCIM, EAOB	√      √	

	<p>Trade policy instruments include tariffs, taxation, and nontariff measures such as quotas, import licensing and registration, pre-shipment inspection, and customs valuation, state trading operations, government procurement and administrative barriers.</p> <ul style="list-style-type: none"> <li>○ On <i>tariffs</i> the study recommends that Botswana’s new trade policy should exploit the opportunities offered by the democratized SACU and the SADC trade protocol to have a tariff structure that supports industrial development, economic diversification and employment creation.</li> <li>● <b>Taxation</b> - review the <i>tax regime</i> to make it supportive of industrial policy and sustainable government revenue while simultaneously according the country’s exports a competitive edge in world markets;</li> <li>● <b>Non-tariff measures</b> - include quotas, import licensing and registration, pre-shipment inspection, and customs valuation, state trading operations, government procurement and administrative barriers.</li> </ul> <p>The proposed trade policy recommends that Botswana should adopt and advocate, in the context of SACU and SADC, the adoption of the WTO stance on <i>non-tariff barriers</i>. This requires the rationalization of non-tariff barriers and their tariffication to their tariff equivalents in order to not only make them transparent and manageable,</p>	<p>MTI(DTI), MFDP, MFA &amp; IC, BEDIA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MFA &amp; IC, BEDIA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, BEDIA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MFA &amp; IC, BEDIA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MFA &amp; IC, BEDIA, BOCCIM, EAOB</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>
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	<p>but also make it possible to cut them using the WTO negotiated tariff formulas;</p> <p>The policy also recommends that Botswana should continue to pursue <i>customs policies</i> that promote transparency, fair and efficient customs valuation procedures. Further, Botswana should advocate for the speedy implementation of the SADC Trade Protocol so that the benefits of effective customs procedures can be realized at the wider regional level;</p> <p><b>On <i>Technical Standards and Regulations</i></b>, it is recommended that Botswana, should comply with WTO requirements on technical standards and regulations as well as sanitary and phyto-sanitary measures. Further, for phyto-sanitary standards, the study recommends that the country needs to build capacity to deal with plant disease and pest outbreaks as well as their prevention;</p> <ul style="list-style-type: none"> <li>• The study found that on <i>import prohibitions</i>, licensing is handled by different Ministries, including the Ministry of Agriculture for the agricultural products, Ministry of Trade and Industry for non-agricultural products and the Ministry of Environment, Wildlife and Tourism for endangered species. Since this has potential to create bureaucratic red tape and coordination problems, the study <i>recommends that Botswana should strengthen her coordination and implementation mechanisms</i>;</li> <li>• <b><i>On Government procurement</i></b>, trade policy recommends that, while it is important, in the interest of fostering competition and efficiency in the delivery of public goods and</li> </ul>	<p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MoA, BOCCIM,</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>
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<p>Opportunities and Challenges of for trade Policy [Chapter 5]</p> <p>Trade Policy Instruments [Chapter 6]</p>	<p><i>services, to open up government procurement to both citizen and foreign-owned firms, Government should at the same time continue to maintain reservation schemes that are meant to achieve the objectives of citizen economic empowerment and access to productive economic resources as well as support for citizen entrepreneurial development;</i></p> <ul style="list-style-type: none"> <li>• <b>Trade Defense Measures</b> are measures [such as safeguard measures, antidumping, and rules of origin] with a provisional WTO allowance to be used by countries to protect some production activities that face competition risk if not protected. Though covered under SACU on unfair trade practices (Article 11 &amp; 41), Botswana has not yet built capacity to deal with these issues. <i>Hence the study recommends that Botswana should build capacity to deal with trade defends matters;</i></li> <li>• <b>Trade Development Policy Instruments</b> are policies that address supply side constraints such as export promotion and the expansion of trade. For Botswana, export promotion activities are handled by BEDIA. Even though BEDIA has so far appeared to have performed well, Botswana should continue to strengthen her policy development instruments in order to effectively exploit emerging opportunities in the global market;</li> <li>• <b>International Trade Policy Instruments</b> are policies that are based on agreements between actual and/or potential trading partners. <i>Therefore, the study recommends that Botswana should continue to effectively participate in bilateral, regional and</i></li> </ul>	<p>EAOB</p> <p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, BoB, BOCCIM, EAOB</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>
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	<p><i>multilateral trade negotiations and agreements in order to (i) create market access for her export goods and services and (ii) source capital imports for her industries as well as access to a diversity of goods and services for her consumers. There is more to gain from trade than from autarky;</i></p> <ul style="list-style-type: none"> <li>• <b><i>The use of the Exchange Rate as an Instrument of Trade Policy</i></b> - in Botswana, the exchange rate was first used as an anti-inflationary measure (1976 to 1982) to support consumer's access to imported food and other necessities at affordable prices. However, since 1982 the use of the exchange rate was changed to that of a competitiveness measure to support Botswana's export-led growth strategy. <i>Therefore, the study recommends that Botswana should continue to use the exchange rate to support her export-led strategy until such time that the country is able to compete on the basis of productivity and technological innovation;</i></li> <li>• <b><i>Minerals</i></b> are important in Botswana because they have been the backbone of Botswana's export-led growth. <i>The study, therefore, makes three major recommendations:</i></li> </ul> <p><b><i>Policy I:</i></b> Botswana should have in-built in her trade policy the need for all mining companies that are given license to extract minerals in the country to develop both forward and backward linkage industries as this will result in a positive economic growth from mineral wealth and employment creation for poverty reduction.</p>	<p>MTI(DTI), MFDP, MMEWR, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p>	<p>√      √</p> <p>√      √      √</p>	
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	<p><b>Policy II:</b> Government policy should continue to be that “.....the proceeds from diamonds and other non-replenishable resources, which the economy can only sell once, be re-invested in other forms of productive, renewable wealth that will continue to diversify the economy and generate income well into the future.” (National Development Plan 7:25).</p> <p><b>Policy III:</b> Botswana has achieved a 50 percent share of her diamond proceeds. Effort should be made to increase the value of optional equity shares beyond 20 percent in order to raise the overall share of the country above 50 percent. This could thus become a standing policy arrangement for all mineral wealth sharing arrangements.</p> <ul style="list-style-type: none"> <li>• <b>Agriculture</b> is one of the major sectors of the economy and should <i>therefore continue to receive focused support to be modernized, commercialized and made competitive as recommended in NAMPAAADD</i>;</li> <li>• For the <i>manufacturing sector</i>, the study recommends the development of <b>Beneficiation</b> which involves the use of natural resources [diamonds and beef, which have hitherto been exported in raw form] to produce finished and semi-finished products for export, <b><i>promotion of the growth and expansion</i></b> of existing manufactures such as clothing and apparel and <b><i>exploration for new products</i></b> such as glass and glass-related products;</li> </ul>	<p>MTI(DTI), MFDP, MoA, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, BOCCIM, EAOB, IFSC</p>	<p>√      √      √</p> <p>√      √      √</p>
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	<ul style="list-style-type: none"> <li>• <i>For the Services Sector, [tourism, financial, business, communications, transport, construction, recreation, environment, distribution, health and education] the study recommends that, because most of these sectors have been found to be viable and growing, and accessible to both citizen and foreign investors, trade policy should continue to support their growth and development because they hold potential for income generation, employment creation and significant contribution to economic diversification.</i></li>   <li>• <b>Trade Policy and the Environment</b> is anchored on the concept of sustainable development. It covers mining, agriculture and tourism. <b>Mining</b>, whether it is large scale regulated mining or small scale unregulated mining, can have adverse impact on the environment. Therefore, for mining the study recommends that: <ul style="list-style-type: none"> <li>❖ There is need to enforce the New Minerals Policy Act to deal with environmental degradation resulting from small mining operations, such as, sand and gravel mining;</li>   <li>❖ Botswana government has constructed a laboratory to analyse environmental pollutants and air pollution monitoring, to ensure that harmful gas emissions are within internationally acceptable levels. This should be strengthened and the law enforced to ensure that companies comply with environmental standards;</li>   <li>❖ The newly introduced Environmental Impact Assessment Act should be capacitated to</li> </ul> </li> </ul>	<p>MTI(DTI), MFDP, MEWT, BOCCIM, EAOB</p> <p>MTI(DTI), MFDP, MEWT, BOCCIM, EAOB</p>	<p>√      √      √</p> <p>√      √      √</p>
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	<p>prevent, control and periodically monitor mining activities harm to the environment; and</p> <ul style="list-style-type: none"> <li>❖ There is need to encourage new foreign investment in the mining sector to adopt the latest environmental friendly technology in equipment, processes and management.</li> <li>• <b>Tourism</b> may affect the environment by causing depletion of natural resources, pollution, littering, land degradation through construction of housing, routes and leisure places, as well as loss of biological diversity. The following policies are recommended for tourism: <ul style="list-style-type: none"> <li>❖ Policies that enable communities to co-exists with natural resources to benefit from tourism receipts. To this end, the currently implemented Community Based Natural Resource Management Strategy should be resourced to benefit a large population of communities that live among wild animals. This will help these communities to conserve natural resources for future generations;</li> <li>❖ Waste disposal is a major problem in highly visited areas. Some tourists on expeditions leave behind cans, trash, and toilet paper; which are not only unattractive, but also unhealthy to humans and animals. The relevant ministry should device a clear strategy on the disposal of waste in tourist areas; and</li> <li>❖ The increased visits to tourist attraction areas were found to accelerate the degradation</li> </ul> </li> </ul>	<p>MTI(DTI), MFDP, MoA</p>	<p>√      √      √</p>
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	<p>of the environment. The negative impact occurs when the level of visitors is greater than the environment's handling capability. The national strategy should aim for a high cost and low volume to avoid excessive negative impact on the environment.</p> <ul style="list-style-type: none"> <li>• <b>For agriculture</b>, Soil degradation processes such as desertification, erosion, decline in soil organic matter, soil contamination, soil sealing, soil compaction, decline in soil biodiversity and salinisation can cause soil to lose its capacity to carry out its main functions. Agriculture is vital for the livelihood of the rural population in Botswana, and for it to continue as the source of livelihood for the current and future generations the following policies are suggested.</li> <li>❖ There is an urgent need to define land property rights in Botswana, as a means of avoiding overgrazing due to dual grazing rights;</li> <li>❖ There is need for the sector to improve farm management practices to avoid overstocking. This should be part of a strategy that encourages the build-up of soil organic matter, the enhancement of soil biodiversity, the reduction of soil erosion, contamination and compaction;</li> <li>❖ There ought to be plans to deal with greenhouse gas (GHG) problems in agriculture and also how agriculture could make a positive impact to solving these problems;</li> <li>❖ There is need for monitoring of water quality in relation to agriculture; designation of nitrate vulnerable zones; establishment of (voluntary) codes of good agricultural practice and of (obligatory) measures to be implemented in action programmes for the nitrate vulnerable zones;</li> </ul>	<p>All Ministries, Vision 2016, BOCCIM, EAOB</p>	<p>√      √      √</p>
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<p>Trade Policy and Priority Sector [Chapter 7]</p>	<ul style="list-style-type: none"> <li>❖ To minimize the detrimental environmental impact of pesticides there is need for strategies that informs the public about their use and any residue issues. There is a need for periodic assessment, monitoring and management of all surface waters and groundwater based on their ecological and chemical status. Furthermore measures have to be taken to reduce or eliminate emissions, discharges and losses of hazardous substances, for the protection of surface waters.</li>   <li>• Empirical evidence on <i>the Link Between Trade Policy and Poverty Reduction</i> show that for developing countries, especially those of Sub-Saharan Africa, international trade has resulted in increased poverty and income inequalities both within and between countries. For this reason the study recommends that Botswana’s proposed trade policy should be accompanied by deliberate policy efforts to have an inclusive economic growth that will be able to achieve Botswana’s Vision 2016 goal of eradicating absolute poverty by 2016.</li>   <li>• <i>Trade Policy and Equitable Industrial Development</i> – evidence suggests that, even though Government policy has been to take mineral wealth and use it to provide infrastructure in most parts of the country which are not able to benefit directly from mining activities, this has not been adequate to overcome the problem of skewed development. <i>Therefore, the study recommends that Botswana should strengthen the provision of infrastructure and economic incentives in rural and remote areas with a view to encourage the business community and households to locate their export businesses in the areas. Further, Botswana should strengthen the implementation of</i></li> </ul>	<p>MTI(DTI), MFDP, MLG, BOCCIM, EAOB</p>        <p>MTI(DTI), MFDP, MLG, NGOs, BOCCIM, EAOB</p>	<p>√      √</p>        <p>√      √</p>
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	<p><i>the Revised National Policy for Rural Development as a means of combating the problem of skewed development.</i></p> <ul style="list-style-type: none"> <li>• <b>Trade Policy and Gender (and Youth)</b> - the debate on trade policy and gender (and youth) is premised on ideas of equality. Therefore, trade policy should be crafted in such a way that it supports and complements the efforts made towards the repeal of laws discriminating against women (and youth) by: <ul style="list-style-type: none"> <li><i>(i) ensuring that decisions on investment in trade and trade-related investments are jointly made by both men and women (where applicable), as well as ensuring that the benefits of trade are equally shared between both sexes; (ii) Both men and women have equal right and opportunity of access to productive and investment resources for trade and trade-related investments; (iii) Both have equal access and control over the benefits of trade investment returns.</i></li> </ul> </li> </ul>	<p>MTI(DTI), MFDP, MCS&amp;T, NGOs, BOCCIM, EAOB</p>	<p>√</p>	<p>√</p>
	<ul style="list-style-type: none"> <li>• <b>Trade Policy and Intellectual Property Protection</b> - Botswana's new trade policy should include the protection of intellectual property such as public access to medicine and educational material, protection of traditional knowledge and folklore, genetic resources and biodiversity. In addition, regulatory measures affecting these issues, such as those relating to the approval and registration of medicines and documentation of indigenous knowledge, should be incorporated in order to develop a consistent legal framework that enhances access and protection. In addition, intellectual property policy should be developed in line with the country's developmental objectives in areas such as industrial development, public health, food security and education. Further, intellectual property protection should be addressed</li> </ul>	<p>MTI(DTI), MFDP, MCS&amp;T, NGOs, BOCCIM, EAOB</p>	<p>√</p>	<p>√</p>

	<i>at a regional level through SACU and SADC in order to strengthen its enforcement.</i>		
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## **CHAPTER TEN**

### **CONCLUSIONS AND RECOMMENDATIONS**

Trade policy plays a key role in the flow of goods and services both within and between countries. The evolution of trade policy shows that the dichotomy that existed between the restrictive mercantilist trade policies and the laissez faire trade policies of the classicals have become narrower over the years. Indeed, with the exception of a few countries, the whole world is now advocating for the market economy in which the dominant trade policy is that advocated by the neo classical economists.

Because of the above changes in trade theory, there are now multilateral, regional and bilateral efforts to achieve free trade. At the forefront of multilateral free trade negotiations is the WTO which is responsible for the creation of rules that govern global trade and their enforcement as well as global economic integration. Along with the WTO process there are also other important regional trade agreement such as the EU, NAFTA, among industrialised countries and SADC and SACU in Southern Africa.

The main objective of this study is to do a Zero Draft Trade Policy that will be a major input into the formulation of Botswana's trade policy. The position of Botswana in the global economy is shown by the share of the region in world trade. The average share of Africa in total world exports is about 2 percent while that of SADC is less than 1 percent, indicating that Botswana's share in world exports is indeed very small. It is for this reason that the envisaged trade policy will have to address the issue of achieving an increased share of Botswana's exports in world exports. This therefore means that Botswana's internal and external trade policies will be very important to achieve this trade policy objective. To this end, the study has defined trade policy objectives that the country should pursue in order to realise its export-led economic growth strategy. These include:

- NDP 9 states the two main objectives of trade policy for Botswana as (i) Achieving the broadest possible free and reliable access to markets for Botswana's exports of goods and services, especially within the Southern African region, and (ii) enabling producers and consumers to have access to the widest choices of international goods and services on the best possible terms;

From other sources, we propose that Botswana's trade policy objectives should include the following:

- Opening market access abroad through bilateral, regional and multilateral trade agreements to reduce and/or eliminate tariff and non-tariff barriers;
- Negotiating and putting in place anti-dumping, safeguard and countervailing duty measures to protect domestic producers and consumers;
- Reducing barriers to trade in goods and services for all bilateral, regional and multilateral trading partners through greater implementation of international trade policy standards, instruments and agreements entered into through trade negotiations;
- Developing and maintaining effective international trade policy instruments, norms and standards in line with the needs of the ever changing global economy;
- Promoting the value and effectiveness of trade facilitation instruments and standards in trade and economic development;
- Achieving economic Integration among regional trading partners as well as non-regional trading partners through the application of trade policy instruments, norms and standards;

- Achieving an export-led economic growth through the application of trade policy;
- Facilitating trade policy development through the provision of an open international platform for the exchange of views, particularly for the benefit of regional trading economies such as SACU and SADC.

These policy objectives are meant to achieve the country's trade policy targets of sustainable economic growth that should average 8 percent for the twenty years to the end of Vision 2016. Further, the policy should achieve industrial development that will result in economic diversification, employment creation and poverty reduction in the country.

To realise these targets, it is important that the challenges that often impede the success of the export-led growth strategy are addressed. These include the enabling business environment, capacity development, infrastructure development, domestic market demand challenges as well as regional and international trade factors. This study discusses these issues as well as indicating the trade policy strategies that should be pursued in order to ensure that trade policy results in tangible outcomes for the country. To this end, the following policy strategies are suggested:

- Against the background of SACU and the limiting factors imbedded in it, Botswana has to take full advantage of the democratisation of SACU and the ongoing negotiations between SACU and other countries and other trading blocks and ensure that the developmental interests of the country are identified and taken aboard the negotiations. This can be achieved through timely and thorough research to identify industries of strategic importance in order to lobby for conditions that will ensure their sustainable development. The identification of these strategic industries will lead to the identification of specific products that need to be given treatment that is conducive for their development and the country's position would be coined accordingly and taken aboard by the negotiators;

- The New SACU Agreement has resulted in the creation of SACU democratic institutions. However, it has left the SACU tariff structure intact with its price-raising effects and industrial polarisation effects. Given this, Botswana trade Policy should:
  - Insist that, even though Botswana is a Middle Income developing country, she should continue to be adequately compensated under the new arrangement;
  - Aggressively seek and advocate for policies that will lead to equitable industrial distribution in SACU;
  - Review the current SACU tariff structure with a view to (i) identify those that have more adverse effects on the sensitive commodities of high export potential for the BLS countries and (ii) suggest a review of such tariff structures.
- Since the New SACU Agreement (*Article 31:30*) emphasis that “*No Member State shall negotiate and enter into new preferential trade agreement with third parties or amend existing agreements without the consent of other Member States,*” Botswana should advocate for the need to collaborate and form a consensus on issues of trade before going into negotiations such as those of the WTO and the SADC-EPA negotiations.

In the area of trade policy instruments, the study shows that Botswana’s trade policy is highly governed by the SACU agreement. In fact even the new SACU Agreements is still using the 1969 tariff and non-tariff structure. This therefore means that Botswana still suffers the problems of the price-raising effects of the South African tariffs as well as their industrial polarisation effects.

As for the SADC Trade Protocol, two major constraints were identified. First, SADC lags behind when it comes to implementation of its trade policies. Botswana should therefore use her influence as one of the most economically strong and politically



stable members to influence the policy pace in the SADC. Second, the overlapping membership of SADC countries to regional groupings has significant impact on the implementation of the Protocol, more especially the issue of common external tariff.

The study has also raised pertinent issues of trade policy and market access in relation to priority Sectors for Botswana. These include the primary sectors, namely minerals and agriculture, which are seen to have potential, especially when it comes to the issue of beneficiation of minerals and commercialisation of agriculture under NAMMPAADD. The Manufacturing Sector and the services sector are important for economic diversification and employment creation.

Cross-cutting issues also raise points of interest in relation to trade policy and the environment especially when it comes to mining, tourism and agriculture. The study shows that trade policy has to address problems of air pollution, disease and degradation of landscape through soil erosion and mine pit shafts.

Further, the study shows that even though trade may lead to positive economic growth, this need not result in poverty reduction unless there is a deliberate standing policy to do so. Hence, Botswana trade policy should ensure that the country achieves economic growth that is pro-poor where the benefits of growth are equitably spread across the country. The policy should also address social issues, in particular the impact of trade on vulnerable groups such as women (more especially single mothers and the unemployed) and the youth.

Finally, issues of intellectual property protection are also covered. This is important for Botswana to protect her medicinal and other valuable plants as well as traditional knowledge in general.

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## ANNEXURE I: Technological Infrastructure

The narrow definition of technological infrastructure covers telephone mainlines, personal computers and mobile phones. Effective telecommunications is a vital input in all economic activities. Effective telecommunications provide a low cost option for sourcing information and using it to access global markets. This is particularly important who may otherwise find it difficult to access global markets. Table 5.1 below shows the ranking of some of the indicators for technological infrastructure for selected countries.

**Table 5.1: Selected Indicators (Ranking) of Technological Infrastructure, 2003**

	Telephone Lines/ 100 people	Ranking	Personal Computer/ 100 people	Ranking	Internet Users/ 10,000 people	Ranking	Mobile Phones/ 100 people	Ranking
<b>Botswana</b>	<b>7.5</b>	<b>83</b>	<b>4.1<sup>1</sup></b>	<b>69</b>	<b>227</b>	<b>91</b>	<b>29.7</b>	<b>57</b>
Luxembourg	79.7	1	62	5	3,765	25	119.4	1
Sweden	76.6	2	62.2 <sup>1</sup>	4	6,300	2	98.1	5
Switzerland	72.7	3	74.2	1	3,985	23	84.6	19
Norway	71.3	4	52.8 <sup>1</sup>	10	3,457	27	90.9	12
Denmark	66.9	5	57.7 <sup>1</sup>	7	5,410	8	88.3	15
South Africa	10.4	78	7.31	58	682 <sup>1</sup>	67	36.4	52
Namibia	6.6	87	9.9	49	338	87	11.6	84
Mauritius	28.5	39	14.9 <sup>1</sup>	40	1,229	52	26.7	63
Taiwan	59.1	12	47.1	13	5,194	12	114.1	2
Korea	53.8	17	55.8	8	6,097	3	70.1	30
Singapore	45.2	27	62.2 <sup>1</sup>	3	5,088	13	82.9	21

**Source: Global Competitiveness Report, 2005/6**

<sup>1</sup> 2002

Botswana occupies a very low ranking in all the indicators but is comparable with most countries in the SADC region. However, it lags far behind developed countries and some developing countries in Asia.

In terms of telecommunication costs, the World Trade Organisation (2004) indicates that the average price of three minute call in low income countries stands at \$0.11 compared with \$0.05 in high income countries. The BIDPA and World Bank (2005)

study rated Botswana as being among the highest, in telecommunication costs in the SADC region.

In the National Development Plan (NDP) 9, Government has shown commitment to identifying information technology needs and gaps as well as modernising the national information and infrastructure. The Budget Speech (2006) outlined some efforts aimed at improving Botswana's international connectivity and more reliable telecommunication linkages within the country and region as well as proposed policy geared towards development of e-business and e-government.

These developments in ICT are commendable but should be intensified to ensure that technological infrastructure is developed to levels comparable to the OECD and some East Asian countries. Trade via the internet has become an intrinsic part of doing business and the benefits to small and medium enterprises may be substantial.

Some studies (e.g. the Australian Productivity Institute) have concluded that the more restricted is foreign entry, the lower the mobile teledensity. This suggests liberalisation of the telecommunications sector has the potential to increase access to telecommunications. Given that telecommunications is a vital input some goods and services, its liberalisation may enhance the efficiency of other sectors and improve the performance of the economy.

### **5.3.2. Other Infrastructure**

The broader definition, of infrastructure covers electricity, transport, clean water, etc. The quality, cost and reliability of these services facilitates the operations of firms.

#### **(a) Electricity and Water**

Table 5.2 below shows ranking on the quality of infrastructure in selected countries.

#### **Table 5.2: Ranking on Quality of Infrastructure of Selected Countries**

Country	Overall Infrastructure	Railroad Infrastructure Development	Airport Infrastructure Quality	Quality of Electricity Supply	Postal Efficiency	Telephone/fax infrastructure
Botswana	42	47	68	51	42	92
Denmark	1	5	6	4	3	5
Singapore	2	7	1	13	6	4
Germany	3	4	3	2	4	1
Switzerland	4	2	21	8	5	6
France	5	3	7	6	16	8
South Africa	26	43	13	49	81	79
Namibia	37	35	45	54	74	70
Mauritius	46	89	43	46	44	55
Korea	23	12	31	27	24	38
Malaysia	14	10	15	31	31	45
Taiwan	20	15	20	28	11	23

**Source: Global Competitiveness Report, 2005/6**

Compared with the rest of SADC, Botswana's infrastructure is well developed. However, Botswana still ranks low compared to some developed countries such as Denmark, Germany, Switzerland and France and some developing countries such as Singapore, Korea and Taiwan. Botswana needs to pay particular attention to areas such as telephone infrastructure. It is essential to upgrade telephone infrastructure to support the technological infrastructure discussed earlier. For firms importing from and exporting to international markets, development of technological infrastructure is very important.

In terms of utility costs of key infrastructure services, Botswana has the highest costs for electricity and water (Table 5.3). The government is a monopoly provider of key utilities such as water, telecommunication and electricity.

**Table 5.3: Comparative Cost of Freight, Electricity, Water (US\$)**

	Botswana	Kenya	Mauritius	Mozambique	Namibia	South Africa	Zimbabwe
Air Freight (per kg)	1.84	1.7	2.57	2.18	2.33	1.17	2.22
Sea freight to Europe (20 ft container)	2	1.4	1.8	1.5	1.08	1	2
Electricity (per	0.096	0.02	0.076	0.036	0.036	0.064	0.048

kwh)							
Water (per m3)	1.02	0.35	0.52	0.35	0.67	1.3	0.34

**Source: UNCTAD (2002)**

The high costs of utilities are largely due to the country's geographic, geological and climatic conditions which affect power, water and telecommunications. In view of the monopoly status of the utility providers, it is possible that inefficiencies may also contribute to the high costs. While the geographical, geological and climatic conditions are policy insensitive, privatisation of utility providers and the use of low cost utilities from neighbouring countries should be explored to reduce inefficiencies.

With regard to power, NDP 9 does specifically address the need to privatise or liberalise the electricity sector. The main policy thrust is on achieving a balance between imports and local generation; improving efficiency; increasing access to electricity as well as improving commercial operations of the electricity sector.

On water, the high cost has been largely due to scarcity. However connection charges are comparable with countries in the region (BIDPA and World Bank, 2005). Water is a vital input in agriculture and industry. With regard to industry, one of the heavy users of water is the textile and apparel sector, especially the dyeing process. An alternative exists, for the textile and apparel sector to use raw and untreated water but this is frustrated by prohibitive costs of reticulation.

## **(b) Transport**

As a landlocked export-driven economy, efficient transport systems are important to support export growth and competitiveness. The competitiveness of exports from landlocked countries is undermined by high transport costs which increase product prices and make it extremely difficult to withstand fierce competition in international markets.

This section discusses land transportation (shipping, rail and road transport) and air transport.

### **(i) Shipping Costs**

Shipping costs and the efficient port procedures play a vital role in supporting export growth and diversification. Shipping costs can push products costs up and increase the export price of products.

UNCTAD estimated that in Africa, freight costs as a proportion of total import value stood at 12% compared to 8.21 for all developing countries and 4.5% for developed countries. Yeats (1995:8) estimated that on average, transport costs as a proportion of the value of total exports increased from 11 to 15% during 1970-1990 in sub-Saharan Africa while in all developing countries, the share of transport costs decreased.

Botswana ships nearly all its non-diamond exports. Table 4 shows land and sea transport costs for a refrigerated container (25 metric ton 12 metre high) from Gaborone to Antwerp (Belgium). While the sea trip is 7 times longer than the 1,500 km road trip to Walvis Bay, road transport cost is 38% of the sea transport cost to Antwerp. The per kilometer cost of the road transport is therefore higher than the per kilometer sea transport cost. Being landlocked high road transport costs have adverse implications on the competitiveness of Botswana exports as they push per unit cost of products up and may limit the success of export diversification efforts, particularly for bulky products.

**Table 4.4: Land and Sea Transport Costs: August 2002**

	Total Cost (Pula)	Total Cost (Euro)	Pula/kg	Euro/kg
Road Transport to Walvis Bay	14,110	2,229	0.56	0.09
Sea Transport to Antwerp	37,240	5889.94	1.45	0.23
Transit and Export Credit Insurance			0.07	0.01
Total Cost Per Kilogram			2.08	0.33

**Source: Imani Consulting**

Naude (2001) estimated shipping costs from South Africa to be significantly above world prices. He further indicates that despite the general reduction in shipping costs worldwide, costs in South Africa have risen, largely due to seaport inefficiency. According to Naude (2001), the turn around time in South Africa's ports is 5 times longer than that of competitors and port clearance took an average of 2 to 3 days. This caused delays and complaints about congestion, especially in Durban.

Despite its distance from Gaborone, 1600 km compared to 1100 km to Durban, Walvis Bay offers Batswana exporters with an alternative shipping route. Relative to Durban, Walvis Bay offers exporters, particularly those destined to Europe and the East Coast of the United States a reduction in shipping time of about a week. In addition, Walvis Bay Port is considered more efficient and has spare capacity. The quality of Trans Kalahari Corridor, the extension of border hours between Botswana and Namibia and Botswana and South Africa provide added advantages of using Walvis Bay an alternative port. Shipping schedules to Europe and the United States of America offered by Walvis Bay are shown in Table 5.5.

**Table 5.5: Walvis Bay Shipping Services to Europe and the US**

Walvis Bay	Frequency	Sailing Route	Transit Times (Minimum-Maximum)
To Europe	Biweekly	Direct	18-21 days
From Europe	Weekly	Direct	18-21 days
To US	Weekly	Via Cape town/Durban	20-23 days
From US	Weekly	Via Dakar	38-43 days
To US	Biweekly	Via Dakar	+/- 18 days

**BIDPA/World Bank**

Despite the advantages offered by Walvis Bay route, uptake by Batswana exporters has been slow. This is due to;

- Reluctance by shipping companies to extend services e.g. direct shipping to the US because of inadequate export volumes.
- Lack of haul-back freight, making trucks taking export products to Walvis Bay to return empty. This raises transport costs.
- The US Customs Service has not designated Walvis Bay a safe port, therefore direct sailings to the US have to go through designated safe ports such as Durban and Cape Town;
- Lack of market knowledge and conservativeness on the part of transporters limits the potential to take full advantage of the Trans Kalahari Corridor.

In order to fully exploit the potential offered by Walvis Bay as an alternative port for Botswana exports trade policy should consider the following;

- Concerted and aggressive efforts to market Walvis Bay to encourage its use.

- Government should develop an index of Cost, Insurance and Freight (CIF) and Free on Board (FOB) values for Botswana to enable monitoring of shipping costs.

In light of its dependence on South African ports for shipping exports Botswana is, relative to other developing countries and the rest of the world, faced with high shipping costs, largely due to inefficiencies in port clearance. High shipping costs have adverse implications on the competitiveness of existing exports as well as the possibility of venturing into new ones. Opportunities exist to reduce shipping costs through the use of the Walvis Bay port. However, uptake by exporters is still very low. Trade policy should look into aggressively promote Walvis Bay to stimulate uptake by exporters.

## **(ii) Land Transportation**

As part of the transport chain, land transportation plays an important role in supporting export growth and competitiveness. High transport costs increase prices of products and may limit the potential of export growth and diversification. Studies (e.g. SWEPRO, 2003) find high transport costs, a serious limitation for landlocked countries to effectively participate in international trade.

### **Road Transport**

Road transport infrastructure in Botswana is, in relative terms, well developed and maintained. Road transport costs in Botswana are substantially lower than in Zambia and Zimbabwe but are relatively higher than other SADC landlocked countries (Table 5.6).

**Table 4.6: Transport Costs for Landlocked SADC Countries: 20 Foot Container**

	<b>Cost to Port (US\$)</b>
Botswana	1149
Swaziland	486
Zambia	3200
Zimbabwe	2400

**Source: Coughlin, et al (2001)**



With the exception of passenger transport, there are no restrictions to entry in the road transport sector in Botswana. However, as it is the case with other SADC countries, there are restrictive cabotage laws which contribute to high transport costs. The cabotage laws restrict loading at delivery destinations except those destined for the carrier's originating country.

Trade policy should consider a more coordinated approach on transport issues within SACU and SADC in order to address the high transport costs. The current practice of SACU members increasing road user fees or introducing new ones without adequate consultation with other members has potential to frustrate efforts to reduce transport costs. For Botswana, transport costs play a major role in the competitiveness of exports. Given its landlocked nature, high transportation costs may not only undermine the competitiveness of existing exports but may also frustrate efforts aimed at diversification into new products as well as new markets. It is crucial that road user fees and charges facilitate rather than frustrate the free flow of goods and services; are based on actual service provided by the Government and are not designed to meet other objectives.

### **Rail Transport**

As it is the case with other modes of transport, efficient rail transport systems form part of an efficient transport system. Inefficient rail transport does not only raise product prices but is an impediment to a country's integration with the world economy.

There is a single railway 6,041 km main line in Botswana which links Botswana with South in the South and Zimbabwe in the North East. Two factors have made freight traffic unstable; increasing competition from road traffic; and, the construction of Beit Bridge rail line to Bulawayo which links Zimbabwe and South Africa and provides a shorter alternative between the two towns.

Soda ash and raw materials for the apparel sector rely on rail transport. There are concerns that Spoornet, a South African monopoly and parastatal provider of rail

services to Botswana's soda ash industry has enjoyed monopoly rents for the service it provides. In addition, the lack of competition in rail services may affect the efficiency of the service and have adverse effects on the competitiveness of soda ash exports.

The textile and apparel sector has expressed concern that relative to road transport, rail transport is not reliable and delivery schedules can vary by up to 2 days. In addition, rail trips to Durban take between 4 to 7 days compared to 1-2 days by road.

The modern business environment emphasizes "just-in-time" production techniques and makes fast and predictable delivery of raw materials extremely important. The phasing out of quotas under the Multi-Fibre Agreement has further intensified competition in the textile and apparel sector. In order to maintain their competitive edge and diversify export products, exporters require efficient and predictable delivery of raw materials. It is necessary to improve rail delivery systems in Botswana to facilitate the timely movement of goods.

### **Transport and Access to Tourist Areas**

The transport sector forms part of the backbone of the economy. Efficiency in the transport sector is beneficial to the rest of the economy because it is vital to the production of other goods and services e.g. tourism. Efficient transport systems, can contribute to the expansion of tourism exports.

The BIDPA and World Bank (2005) study highlighted that access to a significant part of the main tourist attractions in Botswana is by gravel roads. While conservation and the need to maintain flora and fauna in some areas could be valid reasons to limit access to some tourist areas, it has also limited the potential of the tourism sector to diversify its product range and market opportunity (e.g. self-drive tourists).

It is clear from the previous paragraph that transport infrastructure such as good road networks do not only contribute to efficiency in the transport system but may in turn stimulate growth in sectors such as tourism and contribute towards export growth and diversification.

Continued reform and efficiency improvements in land transportation are a key component to enjoying benefits associated with trade facilitation. To improve efficiency on land transportation, trade policy should focus on;

- (i) A review on the impact of restrictive cabotage laws in SADC with a view to initiating a coordinated effort to liberalise these restrictions.
- (ii) Government of Botswana should, in consultation with other SACU members, consider reviewing road user charges introduced in 2004, with a view reversing them.
- (iii) Government should encourage greater consultation and intra-SACU dialogue on transport issues, through, among others, establishment of a transport desk within SACU.
- (iv) Botswana should take up Spoornet pricing issue with SACU and based on the provisions of South Africa competition laws consider lodging a complaint on Spoornet's pricing on soda ash.
- (v) Government should investigate the possibility of upgrading some gravel roads and as a measure to accommodate increased tourist flows, improvements in infrastructure in selected high density areas.

## **Air Transport**

Despite that a high proportion of Botswana's exports are transported either by sea or land, air transport is important particularly for perishable exports and also facilitates exports of tourism, education and health, where the consumer of the service moves to consume the service in the source country. This section discusses goods and services exports and air transport and tourism and air transport.

### **(i) Goods and Services and Air Transport**

The BIDPA/World Bank (2005) study indicates that air travel costs are high and have increased by 36% between 1996 and 2000 and 46% between 2000 and 2004. This study argues that high and increasing air transport costs are likely to have a negative impact on tourism, business and financial services exports.

Compared to road transport, there are market access restrictions in air transport in both scheduled domestic and international flights. Air Botswana, a parastatal airline, is the only designated scheduled airline in Botswana. Botswana has bilateral agreements with other countries on air access. The agreement with South Africa has a significant influence on access, frequency and prices of air transport in Botswana. Some features of the bilateral agreement between Botswana and South Africa adapted in 2004 are as follows;

- A 3 year phased approach to open skies and multi-designated aviation regime;
- Each country is allowed three entry points. This has enabled Air Botswana to introduce, the already existing Johannesburg-Gaborone route, a very important route, Cape Town-Maun;
- New routes to any destination in Botswana could be introduced from any point in South Africa other than Cape Town and Johannesburg; and,
- All restrictions on seat capacity and cargo to be lifted.

The above developments, particularly on open skies, are expected to introduce greater competition on passenger air transport in Botswana and are likely to improve service levels, flight frequencies and reduce prices. This is important to ensure successful expansion of the tourism and financial industries.

Unlike passenger services, cargo prices for international routes are determined by market forces. Air Botswana has a dedicated cargo service. The BIDPA and World Bank study (2005) made the following observations on air cargo;

- Cargo, most of which was imports, increased from 259,910 to 529,979 kilograms between 1995 and 2000.
- Demand for export of air cargo was low largely due to the close proximity of the Johannesburg airport (a bigger and busier airport) from Botswana border with South Africa.
- The lack of cold room facilities in South African airports was not considered an impediment to Botswana exports.

## **Tourism and Air Transport**

Based on the findings of a background study on tourism, the BIDPA/World Bank study highlighted that;

- Transport cost share in total holiday cost in Botswana is significant. Relative to long distance internal flight costs in South Africa, for example, Cape Town to Johannesburg, air transport costs between South Africa and Botswana are, on average, high.
- A majority of tourist industry participants interviewed considered the Air Botswana monopoly a major factor in high air fares and limited availability of air service and as such, a constraint to tourism development. Diversification of tourism to less frequently utilized tourist areas of the Central Kalahari, Western Delta, the Pans, etc could be greatly enhanced by affordable and easy air access.
- Private charter flight facilities from Maun to remote tourist facilities usually forms part of fully inclusive tourist packages but still occurs on a small and uncoordinated scale. Scope exists to increase this facility and therefore the number of tourists, through among others, a coordinated approach between Air Botswana, National Parks, Tourism Department, etc.
- Improvements in airports infrastructure are vital in the tourism value chain. However their success depends on its links with other elements. Expansion airport facilities should be accompanied by commensurate improvements in national parks and other tourist areas infrastructure.
- The scope and location of airport expansions should be preceded by detailed environmental impact assessments to determine among other major environmental concerns, possibilities of noise and air pollution.

The BIDPA/World Bank (2005) study recommends intervention in the following areas;

- Close monitoring of agreement on open skies to ensure implementation within planned timeframes.
- The Government of Botswana should set a new target date for the privatisation of Air Botswana.

This section has shown that Botswana is faced with high costs in all the modes of transport. These are likely to undermine the country's competitiveness. There is scope

to lower shipping costs, through diverting sea freight to Walvis Bay port, which is, relative to South African ports, more efficient. Road transport costs can be reduced through a more coordinated and harmonized regional approach. The lack of competition in the rail service for soda ash exports negatively affects efficient service delivery. Reliability of delivery is a major issue in rail transport, particularly for textile and apparel exports. This should be looked into to improve timely and reliable delivery. Transport and transport infrastructure have to be improved to increase efficiency in transport services, especially in major tourist attractions. Efficiency in air transport could be improved, through among other measures, increased competition.

### **(c) Finance**

The financial sector plays a key role in facilitating macro-economic stability as well as the international flow of trade. Given its importance in international trade transactions, the price and quality of financial services is a key component in the transaction costs incurred by firms and therefore their competitiveness.

WTO (2004), used International Monetary Fund (IMF) financial structure data for 2001 such as credit to private sector as a proportion of GDP, overhead cost as a share of total assets and the interest margins to measure the performance of financial services in selected countries. The data revealed the following;

- Credit to the private sector, overhead cost and net interest rate margins are correlated. High overhead costs are manifest in high interest margins and high costs and interest margins are reflected in low credit volumes.
- Countries where credit to the private sector was almost non-existent were least developed countries (Table 4.7). WTO (2004) warns that a high ratio of private sector credit should be interpreted with caution because it may still be high in countries where risk assessment is weak or credit allocation is made based on criteria other than return and risk of projects being financed.
- Mauritius is one of the top 10 countries with the lowest share of overhead cost to total assets because of an efficient and modern financial sector. The Republic of Congo and the Latin American countries had the highest share

of overhead costs in total assets. However, WTO (2004) indicates that a low ratio may be a reflection that credit is allocated administratively rather than high levels of efficiency. For example, the financial sector in Cuba and China is highly centralised and credit allocation is largely administrative hence low overhead costs.

- Luxembourg, Ireland, Thailand, New Zealand and Egypt had the lowest interest rate margin while the Republic of Congo, Turkey, Venezuela, Nicaragua and Zimbabwe had the highest. However, the results should be interpreted with caution. WTO (2004) indicates that differences in interest rate margins do not always reflect differences in real interest rates that firms pay when they borrow because differences in inflation rates and subsidies may be more important determinants of the real interest rate the firms face.

**Table 5.7: Financial Sector Performance Indicator in Selected Countries, 2001**

Credit to private sector % of GDP	Overhead cost as a % of total assets	Net Interest Margin
<b>Top 10 countries</b>		
Switzerland	161	Cuba 0.6
Hong Kong, China	157	Ireland 0.6
United States	145	Bahamas, The 0.9
Denmark	138	Kuwait 1.1
Portugal	138	China 1.1
Malaysia	138	Chinese, Taipei 1.3
Netherlands	138	Luxembourg 1.3
Korea, Republic of	133	Netherlands 1.4
United Kingdom	132	Mauritius 1.4
Singapore	122	New Zealand 1.5
<b>Bottom 10 countries</b>		
Angola	2.0	Congo, Rep. 13.3
Chad	3.7	Paraguay 11.8
Kyrgyz Republic	3.7	Argentina 10.5
Central African Republic	4.5	Venezuela 10.5
Niger	4.6	Colombia 10.5
Congo, Rep.	4.7	Malawi 9.9
El Salvador	4.8	Kyrgyz Republic 9.8
Guinea Bissau	5.8	Zambia 9.8
Romania	6.3	Cambodia 9.7
Lao PDR	7.9	Sierra Leone 9.5

Source: IMF, cited in WTO (2004)

With regard to Botswana, financial structure database from the World Bank<sup>1</sup> indicate that in 2001, credit to the private sector as a percentage of GDP stood at 16.2, while

the overhead cost as a percentage of total assets and the net interest margin were 4.5 and 6.5 respectively.

While it may be difficult to draw definite conclusions when comparing Botswana data with that in Table 4 because of differences in data sources, it provides an indication that while Botswana may not be among the worst in terms of these performance indicators, there is still scope to improve the financial sector to enable firms to take advantage of market opportunities resulting from trade liberalisation.

NDP 9 recognises the importance of financial sector efficiency, service quality and innovation, technology and the growing internationalisation of financial services and the role of policy, particularly on regulation supervision to maintain financial sector stability and growth. The focus of NDP 9 is supervision and regulation; development of markets; consumer protection and the national payment system.

The infrastructure development review has revealed that costs of key service sectors such as telecommunications, power and water in Botswana are among the highest in the region. These infrastructure services are the backbone of the economy and their efficiency has ripple effects on the economy as a whole. The national trade policy should focus on issues such as upgrading of telecommunications infrastructure, possibilities of liberalisation telecommunication further, assessment of the possibility to restructure and privatize water and power.

### Policy Strategy

The Government should intensify the development of technological and other infrastructure. Measures aimed at developing infrastructure should include;

- Expedite the adoption of and the implementation of the Information and Communications Technology (ICT) Policy which forms the basis for taking full advantage of the ICT revolution to build a competitive economy.
- Maintain the momentum of continuously modernising the telecommunications infrastructure to create a more reliable telecommunications network.



- Explore the possibility of further liberalising the telecommunications sector given its potential to increase competition and reduce prices.
- Establish a regulatory body to regulate communications markets (Postal Services, Telecommunications, Broadcasting, etc).
- Explore the possibility of restructuring and privatisation of utilities, power and water.
- Consider the possibility of establishing a power and power regulator to ensure interests of consumers, universal access, etc and taken care of.
- Promote the use of Walvis Bay as an alternative port
- Consider a regional approach to road transport.
- Look into reliability and competition issues on rail transport
- Enhance efficiency in air transport, through, inter alia, increased competition.
- Expedite the establishment of non-bank financial institutions regulatory authority.
- Continue the periodic review of legislation on financial services to keep pace with the dynamism in the financial sector.
- Continue measures to develop and deepen the financial sector through, inter alia the development of capital markets.

## **ANNEXURE II: Potential Regional Demand for Botswana**

Regional integration serves as a mechanism that countries can use to expand their internal domestic market size to strengthen their capacity to participate in world trade (Economic Commission for Africa, 2004). Regional integration creates opportunities for countries to overcome their limited domestic market size to enabling countries to realize greater economies of scale. Cooperation in areas such as tariff reduction and harmonization, legal and regulatory reform, investment incentives and tax system harmonization, and labour market practices enables participating countries to pool their resources together to attain a level of technical and administrative competence that would not be possible at country-level. Examples of regional integration initiatives include the European Union, NAFTA, MERCOSUR, ASEAN, and APEC.

The European Union is an example of north-north integration, while the American and East Asian experience are examples of north-south experience. Examples of south-south integration particularly in Africa include African Union, COMESA, ECA, NEPAD, SADC, and SACU.

Botswana is a member of several regional integration bodies including SACU and SADC. Under SACU Botswana applies a common custom duty, including tariffs and excise duties with other members. SADC is also used as a vehicle to increase Botswana's domestic market access in the region. One of the main objectives of SADC is to create a free trade area by 2008. This will lead to increased market access in particular for Botswana's services sector (NDP, 9). Through deeper regional integration Botswana is also likely to benefit from access to much needed modern technology and technological processes and efficient management systems.

Table 5.8 illustrates Botswana's potential markets in SACU and SADC. According to the UNDP Human Development Report (2005) out of 14 SADC countries nine are classified as low-human development countries (Angola, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mozambique, Swaziland, Tanzania, and Zambia). The remaining five are classified as middle-human development countries (Botswana, Namibia, Mauritius, South Africa, and Zimbabwe). Three of the countries classified as middle-human development countries are members of SACU (Botswana, Namibia, and South Africa).

**Table 5.8: Botswana's Potential Markets in SACU and SADC**

	Population (2005) (million) <sup>a</sup>	Urban Population (2003) (%) <sup>b</sup>	GDP per Capita (2003) (PPP US \$) <sup>b</sup>	Gini Index <sup>b</sup>	Population below income poverty line (%) <sup>b,c</sup>
<b>SACU</b>					
<b>Botswana</b>	<b>1.8</b>	<b>51.6</b>	<b>8,714</b>	<b>63.0</b>	<b>23.5</b>
Lesotho	1.8	18.0	2,561	63.2	36.4
Namibia	2.0	32.4	6,180	70.7	34.9
South Africa	42.6	56.9	10,346	57.8	10.7
Swaziland	1.0	23.6	4,726	60.9	40 <sup>e</sup>
<b>Rest of SADC</b>					
Angola	14.3	35.7	2,344	g	70.0 <sup>e</sup>
Democratic Rep Congo	57.5	31.8	697	g	g
Madagascar	18.6	26.6	809	47.5	61.0
Malawi	12.9	16.3	605	50.3	41.7
Mauritius	1.2	43.3	11,287	37.0 <sup>f</sup>	10.0 <sup>f</sup>
Mozambique	19.8	35.6	1,117	39.6	37.9
Tanzania	37.4	35.4	621	38.2	19.9
Zambia	11.7	35.9	877	56.6	63.7
Zimbabwe	13.0	35.0	2,443	56.8	56.1

**Notes:**

- a Country Reports, Economist Intelligence Unit Estimates, 2006
- b UNDP Human Development Report, 2005
- c Refers to most recent data available during the period 1990-2003
- d African Development Indicators, World bank, 2003
- e National poverty line estimate for Swaziland UNDP figures for 1990-2002 and for Angola 2001 estimate World Fact Book, 2004
- f Gini-index 1987 estimate and poverty line 2001 estimate, World Fact Book, 2004
- g Figure are not available

The population size in five countries is not greater than 2 million while only three countries have a population size greater than 30 million. The population size in the remaining six countries ranges between 11 million and 20 million. With the exception of South Africa will a population size of 42.6 million, the populations in SACU countries are not greater than 2 million. On the other hand, the populations for the rest of the SADC countries are greater than 10 million (with the exception of Mauritius).

South Africa and Botswana (who are both SACU members) have more people living in urban cities than rural areas, 56.9% and 51.6% respectively. The rest of the SADC populations are concentrated mostly in the rural areas. Malawi (16.3%) and Lesotho (18%) have the least urban populations. After South Africa and Botswana, Mauritius has the third highest urban population (43.3%).

There is great disparity in GDP per capita amongst SADC members. Ten countries have GDP per capita less than the world average of \$5000. Five non-SACU members have GDP per capita less than \$1000 (Democratic Republic of Congo, Madagascar, Malawi, Tanzania, and Zambia). Of the four countries with GDP per capita greater than \$5000 three are SACU members. Mauritius is the other country with GDP per capita greater than the world average measured at \$11,287 for 2003.

The remaining socio-economic indicators in Table 1 suggest that in general SADC countries have a high degree of income inequality, high levels of poverty and HIV/AIDS. However, greater skewed incomes and HIV/AIDS are prevalent in SACU countries, while more people in the rest of SADC earn income below the poverty line.

The following conclusion is drawn from the above analysis. The potential for Botswana to expand its market access in SADC and SACU is constrained by low urban populations, low GDP per capita, high income inequalities, and high poverty and HIV/AIDS rates. However through regional initiatives and programmes this trend will be reversed in the long term.

### Policy Strategy

To enlarge Botswana's domestic market, the following issues must be addressed to promote trade and market integration in the region:

- Greater convergence of macroeconomic policies and domestic regulations in order to promote an enabling business environment;
- Collaborative efforts to eliminate poverty, promote income equality, and fight HIV/AIDS;

- Removal of trade impediments to enhance movements of goods and services across countries;
- Improved competitiveness through the harmonisation of quality standards and better information sharing;
- Diversification of products to more value-added products; and
- Creation of a trade database especially on market trend information.

## **ANNEXURE III: Opportunities and Challenges for Trade Policy**

### 1. INTRODUCTION

Even though Trade policy is important for all countries and is desirable for any country to be successfully integrated into the global economy as both an effective participant and beneficiary, the benefits of trade are not always fully realised because trade policy generally faces challenges relating to the enabling business environment, capacity development, infrastructure development, domestic market demand challenges as well as regional and international trade factors.

The enabling business environment covers issues such as good governance, which is anchored on the principles of democratic practice, human rights, political freedom and the rule of law. Enabling environment also incorporates the macroeconomic environment which must be characterized by appropriate fiscal and monetary policies that are supportive of private sector investment initiative. In addition, an appropriate legal and regulatory framework is also essential for business because it defines the level of protection of businesses as well as individual consumers. An appropriate enabling environment must also have positive economic regulation and competition policy in order to curb and bring under control unfair and uncompetitive pricing practices that often stifle honest business ventures in many development countries.

Capacity constraints refers to a situation in which a country is not able to achieve its policy objectives due to shortage or lack of certain fundamentals that must be available for a country to achieve desired levels of output. The formulation of trade policy will thus emphasize the need for capacity development in the area of human skills development, especially in relation to skills in sectors that are deemed to be actual and/or potential engines of growth in the global economy; private sector development to take advantage of the emerging business opportunities that government identifies and provides incentives for their development; institutional capacity building will involve assisting the Ministry of Trade and Industry to achieve its mandate in policy formulation and implementation with financial resources,

infrastructural resources and humans resources. Capacity building also covers issues of market demand in terms of the market size and the ability of businesses, households and individual consumers to purchase the goods and services that are being produced. The later may be achieved through international trade cooperation or regional trading blocs.

## 2. Enabling Policy Environment

An enabling policy environment, which aims to ensure that both the policy and the economic environment within which economic agents operate, is critical for the realisation of long-term developmental objectives.

The key elements at the core of the enabling policy environment are embedded in:

- the macroeconomic policy framework which should pursue policies consistent with private sector development initiatives and long term economic policy priorities
- the adoption of good practices of good governance
- The pursuit of a friendly and positive business and market oriented regulatory and legal framework as well as competition laws that promote private sector development and would not stifle competition and growth of industries
- The availability of trained human skills and required capacity in the implementation of policies
- A business environment with the key components described above, is essential to supporting the efforts of entrepreneurs and to ensure that exporters succeed in the highly competitive international market

Below is a brief discussion of the key elements in the creation of an enabling policy environment as well the proposed key strategies for the successful implementation of Botswana's national trade policy.

## 3. Good Governance

Good governance has long been a topic of discussion in the international arena, particularly the role it plays in the attainment of national developmental objectives and the development process. The principles of good governance largely entails the exercise of authority, either, political, economic, administrative or otherwise to manage the resources and affairs of a country in a manner that is open, transparent, accountable, equitable and is responsive to the needs of people and the society at large. It is therefore an essential precondition to the attainment sustainable development as well as in the creation of an enabling policy environment.

Botswana has an enviable reputation for good governance and is regarded as the least corrupt nation on the African continent. Of the total number of countries listed in Transparency International's Corruption Perception Index, Botswana ranks significantly higher (less corrupt) than any other African country. Botswana also compares well with developing countries in other parts of the world. The Country Risk Report for 2000 published by the Economist Intelligence Unit rated Botswana as the seventh least risky country out of 93 "emerging market economies" surveyed.

Botswana has its own Directorate on Corruption and Economic Crime, established in 1996. A review of legal policies, laws and institutional capacity to combat corruption are generally adequate though there is still room for improvement in the administration of justice relating to cases of corruption.

Botswana's procedures and practices of economic management and governance have evolved over time, in line with perceived needs and best international practice. The formulation of macroeconomic policies on the basis of solid multi-disciplinary policy analysis has been a key input to the decision making processes. The strict adherence to sound financial management processes and procedures has also been key to ensuring that decisions, once taken, are implemented effectively, and that the resources required are efficiently allocated and properly accounted for. The economic management and governance processes provide for broad consultation and consensus building before decisions are made and policies, programmes and projects are implemented.

Policy Strategy



While the efforts and progress that Botswana has achieved on attaining good governance are commendable, it still remains essential that the Government continues to play a leading role in advocating for good governance practices given its strong link to sustainable development. Further efforts and initiatives are required by way of educating and making the private sector and other civil society organisations about the role they can play in ensuring that Botswana maintains the good governance record. The Government should keep its procedures and practices in line with international best practice to benefit maximally on effective economic management and the stable environment needed for successful trade policy implementation.

#### 4. Macroeconomic Policy Environment

Macroeconomic policies, which constitute the fiscal and monetary policy objectives of a country, broadly aim to achieve the key developmental objectives of an economy within a stable economy. Key to the formulation of macroeconomic policies, is the need for an effective national planning process which takes into account the resources available, development priorities of the country and institutions that can implement policies intended to move forward economies on a future sustainable path of growth and development. A stable macroeconomic environment is one of the core cornerstones in attaining an enabling policy environment, which is a key requirement for successful implementation of trade policies.

Botswana's macroeconomic policy framework is generally supportive of the private sector and market-oriented development. Government has maintained a sound and stable fiscal position, running budget surpluses over most of the past two decades and accumulating substantial long-term savings, which are reflected in the nation's relatively high level of foreign exchange reserves. The country has maintained a relatively stable and, in the view of many analysts, a reasonably competitive real exchange rate vis-à-vis its major trading partners.

Sound monetary policy has kept inflation fairly low and stable. It also seeks to achieve a stable real exchange rate at a level which is supportive of the international competitiveness of local producers. Exchange rate policy, which relates to both

monetary policy and trade policy (and even fiscal policy) is directed at achieving an equitable balance between maintaining the competitive position of domestic producers, especially producers of non-traditional exports, and avoiding monetary instability and high inflation. A key aspect of this approach is to have the rate of inflation in Botswana below that of the average of its trading partners. In addition, monetary policy aims at maintaining healthy and prudential levels of international reserves and unrestricted access to foreign exchange for international transactions.

On the fiscal policy front, and because of the high variability of its major revenue source (i.e., mineral revenues from diamonds), and the need to avoid having a pro-cyclical fiscal policy, the Government has traditionally adopted a fiscal strategy of achieving a balanced budget over the medium term horizon; e.g., a national development plan period.

Trade policy, which is a priority in macroeconomic policy formulation in Botswana, has been oriented towards having a relatively open-economy, with prices and costs in line with international norms. Botswana's major sectors have typically experienced large fluctuations in output and prices, which, in turn, have resulted in large fluctuations in incomes, foreign exchange earnings, government revenues and even the need for compensatory government expenditures (e.g., drought relief).

## 5. Policy Strategy

It remains critical for the Government to continue playing the leading role in the diversification process and to provide an environment that is conducive for private sector initiatives and innovations to take effect and be successful. In this respect, Government should continue maintaining favourable macroeconomic conditions in terms of competitive exchange rates, low tax rates, an environment free of exchange controls, easy access to credit and price stability.

Government should continue with more rigour on the route taken which emphasises that long-term solutions to the economic challenges facing Botswana, the main economic policy objectives which broadly aim at attaining the long-term sustainable

growth of the economy, economic diversification, job creation and poverty reduction as well as private sector development, through various policies, including trade expansion, can be achieved within a stable economic environment and through rigorous initiatives on the part of Government in ensuring that the economic environment is conducive for the successful implementation of the policies. Government policies in Botswana should consistently aim at providing an enabling environment for the development of the private sector and maintain it amongst its highest priorities.

## **6. Legal and Regulatory Framework**

An appropriate legal and regulatory framework facilitates private sector development and allows for easy market access by business entities and a fair playing field. The legal and regulatory issues mainly entail the rules governing the market entry requirements, and criteria to meet to operate and participate in the market with other players. Another aspect is the protection and rights that rules and laws give to participants in the market or the country which should be fair and transparent and well encompassing. It is therefore, important that the prevailing legal and regulatory framework support trade policy for effective participation of the private sector in global trade.

Botswana has adopted legislation and regulatory practice governing the security of private property, including land and other assets, as well as economic freedoms to trade and do business anywhere in the country with a view to promoting private sector development and providing an enabling environment for economic agents. Botswana has also established an effective judicial system that allows for the enforcement of contracts, as well as suitable regulatory structures to allow for effective regulation of business entities and economic agents in the market. Botswana has received favourable assessments and ratings by Transparency International, Moody's, Standard and Poor's, the World Competitiveness Report, the Economist Intelligence Unit and the World Bank that attest to the fact that Botswana has established reasonably efficient processes and procedures that support having a private sector-friendly environment (UNDP, 1998). Botswana's macroeconomic and fiscal policies

generally have been directed at promoting business start-up and development, for both citizen and foreign investors.

The Government of Botswana has developed open and systematic procedures for public consultation, with all of its stakeholders, including local authorities, private sector representatives and independent community service organisations (CSOs), regarding government policy and legislation. The four main national consultative mechanisms have included the Rural Development Council, the National Employment, Manpower and Incomes Council, the High Level Consultative Council and the Vision 2016 Council (Botswana Government, 1997). A number of other national councils have been established to address key stakeholder issues, such as population and development, women and development, youth, HIV/AIDS, tertiary education, etc. The Government also consults bi-annually with the private sector (and other stakeholders) at the National Business Conference which is held bi-annually in Francistown. Such procedures for consultation serve to ensure that all relevant interests and views are taken on board in formulating policy and legislation, which improves the effectiveness of policy implementation.

## **7. Policy Strategy**

A number of efforts are already and various stages of implementation or processes by Government aimed at stimulating competitiveness notably the continued review of procedures and bureaucratic processes that may raise transaction costs for business entities and continued effects to facilitate private sector participation in attaining more effective legal and regulatory practices, which are a step in the right direction. Further efforts should also continue to focus on strengthening the regulatory institutions and promoting their institutional capacities for effective implementation of the regulatory practices.

## **8. Economic Regulation and Competition Policy**

Regulatory and competition policies have to facilitate market entry and exit, increase the mobility of factors of production, offer a level playing field, and reduce

transaction costs. The challenge for Government is to create incentives for firms to invest and compete in the market and to provide the means to do so. This means encouraging domestic and foreign investment and applying simple regulations openly and expeditiously supported by an efficient infrastructure (BIDPA, 2001).

The desire to achieve economic efficiency and increase productivity is the main objective of privatisation in Botswana. Therefore, the promotion of competition should be given a high priority on the policy agenda, since competition provides incentives for wealth creation and greater opportunities for efficiency gains. Hence, there is a need for a Competition Law. The Competition Law should delineate clearly what the powers, rights and responsibilities of a monopoly entity are and what the rights and responsibilities of competitive entities are. It is necessary that regulatory rules are set clearly in advance and that mechanisms are in place to ensure application of these rules prior to privatisation. Conflict resolution mechanisms must also be established.

Public policy issues involving anti-competitive practices need to be considered in relation to the privatisation process. This is because once a public enterprise has been privatised, its subsequent behaviour, as well as the behaviour of other private sector business units in relation to mergers and acquisitions, needs to be within the regulatory framework addressing critical issues in this area. Measures and institutions to regulate anti-competitive behaviour of firms need to be in place. The development of an effective system of regulation for the post-privatisation environment is one of the more complex tasks associated with privatisation and corporatisation. This is especially important in situations where a public utility monopoly is transferred to the private sector as a private monopoly.

In view of the above, it has been increasingly realised that while Botswana may not have needed a competition policy in the past, it is important to have one now, one which is designed to take appropriate account of its level of development and its long-term objective of sustained economic growth. The change in the international and regional trade environment, especially the continued reduction of trade barriers between countries, means that there is greater need to improve productivity and efficiency to maximise the benefits from trade and exchange. This can only be

achieved through the promotion of competition. Competitive market pressure encourages firms to operate efficiently in order to survive. Competition policy therefore plays a crucial role to help ensure the proper functioning of the economy. Competition policy should also be consistent with other policies, such as industrial development policy, privatisation policy, SMME policy and other policies.

## **9. Policy Strategy**

The process for the implantation of the Competition policy legislation should be speeded up and further, the institutions that would have the mandate to implement the policy should be put in place. The implementation of the Privatization policy is also another step in the right direction with regard to promoting competition. It is important that Government continues to give these policies high priority in the policy agenda given the role they can play in the realisation of opportunities for efficiency gains especially on the trade expansion front.

## **ANNEXURE IV: SERVICES PRIORITY SECTORS**

### 7.4 Services Priority Sectors

#### 7.4.1 Introduction

Services play a vital role in economic growth of both developed and developing countries. They contribute to economic growth and create employment. Services account for large shares of production and employment in most economies in the world. According to the World Bank, the share of services sector employment in total employment in developed countries lies between 60 and 70 per cent. The European Union (EU) estimates that the services sector accounts for about three quarters of gross domestic product (GDP) in the EU and on average, 50% of GDP for developing countries.

An efficient services sector is important for the overall economy because services do not only contribute to employment and income they also serve as a vital input for the production of goods and other services e.g. telecommunications, banking, transport, etc. The competitiveness of producers and exporters depends in part, on access to efficient banking, insurance, telecommunication or transport systems.

It is widely believed that liberalization of service sectors will improve the efficiency of service sectors. However, despite this potential benefits, countries have used restricted entry into service sectors through government regulation. Reasons for restricting entry into service sectors have ranged from historical practices and the nature of some services, which if left to market forces, may not produce desired.

This section reviews the services sector in Botswana with a view to providing input in the National Trade Policy. In order to achieve this, the section assesses export trends of service sectors and analyses measures that affect trade and identify areas for reform in some of the sectors. Services cover a wide range of sectors. These include, tourism, financial, business, communications, transport, construction, recreation, environment, distribution, health and education. This section only covers tourism, financial services and education. This is because, communications and transport were covered in

chapter 4 and paucity of data in other sectors makes it difficult to make any meaningful assessment. The section is organized as follows; Section 2 discusses the global trends in trade in services; Section 3 discusses barriers to trade in services; Section 4 provides an analysis of selected service sectors. The analysis include performance and measures affecting trade in these services; Section 6, provides an overview of services liberalization in SADC, World Trade Organisation (WTO), etc; Section 7 concludes and provides recommendations on strategy for trade in services in the National Trade Policy.

#### 7.4.2 Trends in Trade in Services

Until about two decades ago, services were considered non-tradable. As a result, trade theories did not pay explicit attention to services. The past two decades have witnessed rapid growth in trade in services. The WTO indicates that during the period 1980 to 1999, the value of commercial services has grown sevenfold while trade in goods has grown fivefold.

While developed countries are still major players in global trade and investment in services, studies conducted by OECD show that some developing countries increasingly becoming successful and specialized in some sectors. According to OECD (2005);

- In port services, of the world's top 20 container terminals in terms of throughput, Singapore, Chinese Taipei, Korea and Hong Kong are among the top 5.
- In construction services, in 2004, 51 of the world's top 150 companies (measured in terms of the amount of revenue generated outside their home market)) came from developing countries such as China, Turkey, South Korea, Brazil and Egypt.
- With regard to health service exports, South Africa has become a major destination for plastic surgery services. In addition, clinics in Costa Rica reported increasing numbers of clients from the United Kingdom (UK), Norway, Canada and the United States.

The rapid growth in trade in services has been largely attributed to;



- Technological progress, especially in telecommunication and information technology. The internet revolution has made it possible for service providers to deliver a wide range of activities electronically.
- Regulatory reform/ liberalization (unilateral, bilateral and multilateral) of services which has been undertaken by different countries. Countries are increasingly embracing privatisation and competition, especially in key infrastructure service sectors such as telecommunications, transport and finance.

#### 7.4.3 Barriers to Trade in Services

Despite the rapid expansion in trade in services some barriers are still in place that restrict trade in services. Countries have restricted trade in services based on the following grounds;

- Restrictions protect emerging service industries from competition. Countries whose services industries are still at a nascent stage, may regulate the market to allow their service industries to mature before exposure to fierce competition.
- Regulation of service industries as a result of market failure. This is justified by the view that if the market is left by itself it does not guarantee adequate supply of goods or services and may lead to deficiencies in the provision of essential services. In addition market forces may be too high and undermine access to these services.
- Regulation to guarantee competition. While competition is necessary for a well functioning market, it has been argued that it is not always a stable condition and may abolish itself. A strong market participant will try to shallow competitors and therefore cause market concentration. Regulations therefore need to be established to protect weaker market participants as well as set rules for industry players which ensure monitoring of competition.
- Markets for basic goods such as food and housing may be regulated to ensure safety of consumers as well as ensure that the market does not make it difficult to access these essential needs. For example, the control of food distribution to ensure good hygiene.

- Restrictions and regulation of service industry may be due to meeting other social goals. For example, environmental standards to ensure environmental protection and the control of book prices to ensure universal education.

Based on the reasons discussed above, countries have put in place measures that restrict trade in services. Policy instruments that restrict trade in services include measures such as quotas, local content restrictions, prohibitions, subsidies, tariffs, taxes, technical standards, licensing and procurement.

Banga (2005) highlighted the following barriers to trade in services;

- (i) Regulations and Discriminatory Requirements on Movement of Service Providers or Consumers.

It is characteristic of some service trade that a provider or consumer has to move temporarily to another location either to provide a service or consume one. Restrictions on services arise from regulations and discriminating requirements regarding this temporary movement. However, these barriers are difficult to identify because they are not border barriers. Some service industries are highly regulated by Governments such that barriers may be specifically designed to exclude foreign competition. In some cases, foreign suppliers may be required to pay a fee e.g. visa fee, entry-exit tax, etc to enter the domestic market. In some instances, market access restrictions are imposed on foreign suppliers of services.

- (ii) Prohibitions and Restrictions on Trade in Services

In some cases, trade in services is prohibited while in others restrictions are imposed. Prohibitions occur where foreign access to service markets is forbidden. For example, prohibitions are often imposed on transportation of goods within a country and on provision of basic telecommunications.

With regard to restrictions, they can either be quantitative or are in the form of price controls all of which act as barrier to trade in services. But unlike in trade in goods, quantitative restrictions are applied to providers of services rather than services per se.

Price controls on the other hand, are used to ensure prices are not set by market force or are monopoly prices. Examples of services subject to price controls are financial, telecommunications and air transport.

(iii) Tariffs

Tariffs are an indirect barrier to trade in services for services that are embodied in goods such as films, television programmes, etc or goods that are a necessary input in the production of services such as computers, telecommunication equipment, etc. If tariffs for goods that embody services or are a vital input in the production of services are high, this is likely to restrict trade in services.

#### (iv) Subsidies in Service Industries

Some services industries may enjoy explicit and implicit subsidies to meet some government objective. Services such as construction, communication and transport often enjoy subsidies which make it difficult for trade in services to prosper.

#### (v) Standards/licensing

Standards, provision of licences and procurement are some of the important barriers to trade in services. With regard to standards, these include non-recognition of imported services or services procured abroad. For example, educational qualifications (diplomas and degrees) obtained from a foreign country. In some cases, environmental standards may be a key factor in trade in services such as transportation and tourism. Some services, particularly professional and certain business services certification or licensing may be required and this may limit entry into certain service industries. These licences are usually issued by the government or professional bodies. The government procurement policy may also be designed to discriminate in favour of domestic service industries. For example, in the US, studies (e.g. Francois, Nelson and Palmeter, 1997) concluded that government procurement regulation was an important factor in trade in education, data processing and non-medical professional services.

### 7.4.4 Sector Analysis

#### *4.1 Financial Services*

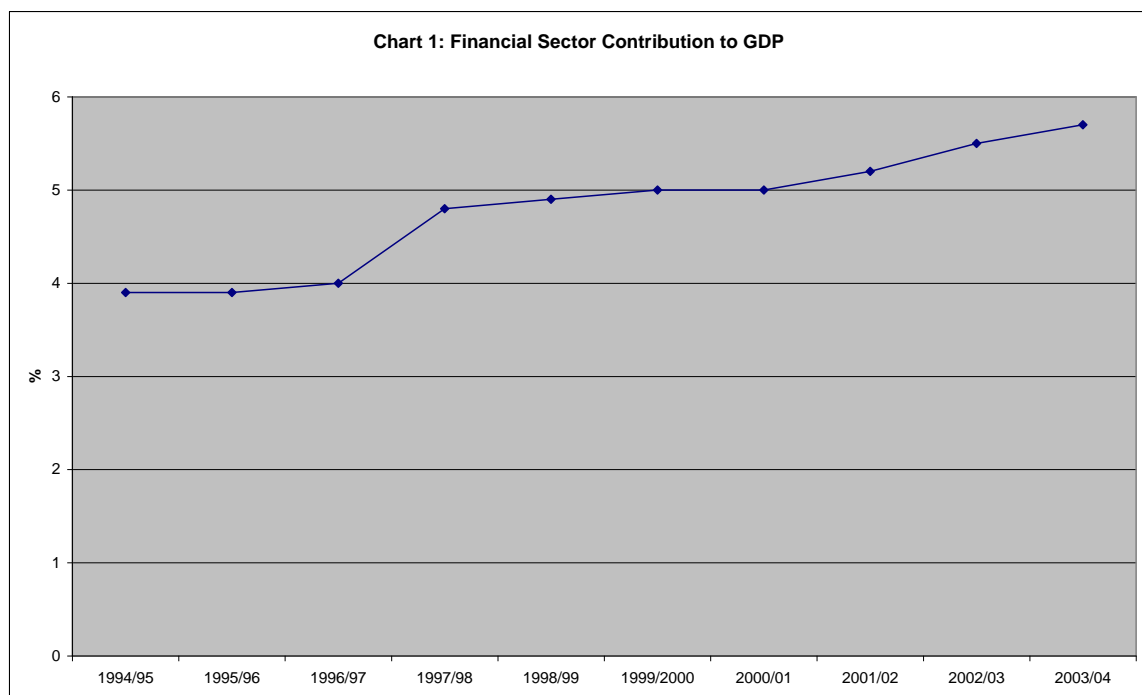
The financial sector is one of the key infrastructure services and plays a key role in facilitating macroeconomic stability as well as facilitating the international trade transactions. Some studies (e.g. IMF, 2002; Tornell, 2004) have concluded that financial openness and openness to international trade are correlated in both developed and developing countries. This is because of the complementarity between trade and trade financing and between trade and the need to hedge the risk of trade flows (WTO, 2004).

The cost of financial services is part of the transaction costs of international trade therefore a negative relationship exists between financial costs and the volume of trade. If the high financial costs are a barrier to access to credit such that it negatively affects the volume of credit, it acts as an impediment to international trade.

The financial services sector comprises of banking, insurance, asset management and the securities market.

#### 4.1.1 Financial Sector Performance

Between 1994/95 and 2003/04, the financial services sector contribution to GDP (as measured by banks and insurances) increased steadily. In 1994/95, the financial sector share in GDP stood at 3.9% and increased to 5.7% in 2003/04 (chart 1).



Source: Bank of Botswana

The performance of the financial sector was influenced by;

- (i) Changes in the number of and range of players and products

The period between 1976 and 1988 was characterized by a resistance to licencing additional commercial banks, imposition of floors on deposit rates and exchange controls. Bank of Botswana initiated the process of liberalizing the financial sector between 1989 and 1994. This was done through the removal of controls on interest rates and introduction of measures geared towards long-term interest bearing deposit facilities. Exchange controls on current account were removed in 1995. Capital account controls were gradually removed and totally eliminated in 1999. In addition, a competitive environment was introduced through a new licensing policy which allowed entry of new commercial banks.

(ii) Changes in the institutional and regulatory framework.

Changes in the institutional and regulatory framework have made setting of transaction fees, brokerage and consultation fees become more transparent and competitive. For example, the National Clearance and Settlement Act of 2003 brought Botswana's financial settlement system and systematic risk management in line with international practice.

(iii) Technological advancement

Technological advancement has made it possible to introduce more products and services particularly in the banking sector, e.g. automated teller machines, debit cards, etc and increase efficiency in the financial sector.

#### *4.1.2 Regulatory Framework*

The Bank of Botswana is the regulator of financial institutions and was established by the Bank of Botswana Act of 1975. The Act was amended in 1996 and again in 1999. The latest amendment gave Bank of Botswana responsibility to licence bureau de changes and the selling and buying of foreign exchange. The Collective Undertaking Act was also introduced in 1999. Both the Bank of Botswana and the Collective Undertaking Act give the Bank of Botswana powers to regulate and supervise the International Financial Services Centre (IFSC) companies (with the exception of insurance companies).

The Financial Institutions Act of 1975 which was the first legal framework for licensing, control and regulation of financial institutions was replaced by the Financial Institutions Act in 1986. The latter made it mandatory for Bank of Botswana to inform the Ministry of Finance and Development Planning (MFDP) of applications for bank licences for final approval. The Financial Institutions Act of 1986 was replaced by the Banking Act and Banking Regulations in 1995. The Banking Act and Bank Regulation Act transferred the licencing function from MFDP to Bank of Botswana and also gave Bank of Botswana regulatory authority of commercial banks, investment banks, credit institutions, non bank financial institutions and discount houses.

The legal framework for commercial banks prohibits them from participating in non-bank activities. However, the Botswana Savings Bank Act and the Act establishing the National Development Bank permit these two institutions to engage in banking activities. As a result, non-bank financial institutions can compete directly with commercial banks without being subjected to the same regulatory conditions.

With regard to insurance, pension funds and Stockbrokers, they are regulated by MFDP through the Insurance Industry Act of 1987 for insurance, Pension and Provident Funds Act of 1987 for pension funds and the Botswana Stock Exchange Act of 1994 for stock brokers. Other pieces of regulatory requirements for stockbrokers include the Botswana Stock Exchange Regulations of 1995, the Botswana Stock Exchange Listing Requirements of 1999 and the Botswana Stock Exchange Members' Rules of 1996.

The fund and asset managers, micro-lenders and other non-bank financial institutions are currently not regulated. However, according to the Budget Speech (2006) plans are underway to establish supervisory and regulatory system for non-bank financial institutions.

The Budget Speech (2006) proposes that Botswana Stock Exchange Act be repealed and replaced by a Securities Act and make the Stock Exchange Legislation in line with international best practice. The new legislation will provide for trading for all types of bonds in the Stock Exchange; modernize trading through the introduction of

electronic clearing, settlements and record storage, streamline the governance of the Stock Exchange and introduce provisions to deter market manipulation and inside trading.

The National Development Plan (NDP) 9 envisages the following developments which are also geared towards ensuring Botswana's financial sector is in line with international practice. These include;

- Establishment of a deposit protection scheme and a national contingency plan to support the financial system in the event of a financial crisis.
- Strengthening of financial and money markets operations
- Development of offshore regulation.
- Strengthening the IFSC framework by placing it under a relevant government agency; and,
- Creation of a Central Securities Depository to clear bonds and equities.

#### 4.1.3 Market Access in the Financial Sector

Studies (e.g. Levine, 2001) have concluded that entry of foreign banks in local markets appears to improve efficiency but also where regulatory capacity is weak it may destabilize the financial sector.

There are no market access restrictions for foreign services providers in the financial sector in Botswana. BIDPA (2005), indicates that the entry of firms in all the sub-sectors of the financial sector (banking, insurance and securities), is determined by the entrant firms ability to satisfy requirements set by the regulator. There are no foreign equity restrictions. For example, the three major commercial banks (Barclays Bank, Standard Chartered Bank and First National Bank) are all 100% foreign owned. The banking sector in particular, is subjected to prudential requirements irrespective of whether foreign or locally owned.

The regulatory capacity of the financial sector in Botswana is adequate. Continuous developments in the regulatory environment of the financial sector, demonstrates commitment to aligning the financial sector in Botswana with international practice



and also acknowledges the increasing complexity of international financial markets and the growing number of financial instruments. It is important to continually improve regulatory, supervision and surveillance capacity of regulators to ensure these are in line with developments in the financial sector.

The WTO (2004) indicates that the management of risk is still a challenge, even to developed countries. Despite the fact that regulatory systems in many developing countries are well equipped to deal with failure of individual institutions and analyse the risk of across institutions and markets at a point in time, the ability to analyse the development of risk over time and from broader macro-economic factors, including external shocks, appears less developed (WTO, 2004).

One of the major challenges the financial sector in Botswana faces is extending services to the rural areas in a cost effective way. Commercial banks in particular, have to explore innovative ways of reaching out a larger proportion of the population residing in rural areas.

#### 4.1.4 Financial Services and GATS Commitments

Some countries in SADC have made commitments at the General Agreement in Trade in Services (GATS) on financial services. Table 1 shows commitments by some countries in the SADC region.

Table 6.3: Commitments in GATS: Financial Services

	Commitment in Financial Services	Limitations to market access	Limitations in national treatment
Lesotho	AB	A:1-U; 2-N; 3-R; 4-H B: 1-U; 2-U; 3-R; 4-H	A:1-U; 2-N; 3-N; 4-H B: 1-U; 2-U; 3-N; 4-H
Namibia	NC	-	-
South Africa	AB	A: 1-U; 2-N; 3-R; 4-H B: 1-U; 2-U;	A: 1-U; 2-N; 3-N; 4-H B: 1-U; 2-U;

		3-R; 4-H	3-R; 4-H
Swaziland	NC	-	-

Source: WTO

Notes: A=Commitment in insurance; B=Commitment in banking; NC=No commitments; U=Unbound; H=Unbound except as indicated in the horizontal section; N=Bound with no restrictions; R=Bound with restrictions; 1=Cross-border; 2=Consumption abroad; 3=Commercial presence; 4=Presence of natural persons

Table 6.3 shows that Lesotho and South Africa have made commitments in financial services. Botswana has not scheduled GATS commitments. The failure to commit at GATS does not reflect the extent of autonomous liberalization that Botswana has already undertaken to enhance efficiency in the financial sector. It is important that Botswana makes commitments at the multilateral level to lock-in reforms that the country has undertaken in financial services.

#### *4.1.5 Issues for Trade Policy*

The financial sector plays a key role in economic growth in Botswana. Its share in GDP has increased over the decade. The increasing share in GDP is largely due to regulatory reform and technology which have increased the competition and the range of products and services in the financial sector. International experience indicates that liberalization should be accompanied by adequate regulatory, supervision and surveillance capacity. Botswana has adequate regulatory capacity in most areas. However, trade policy should ensure that capacity to manage risk is continuously developed. Evidence in developed countries indicates that analysis to analyse long-term risk is not well developed.

Given the increasing complexity and dynamism of the financial sector, Botswana should strive to keep pace with international best practice. Trade policy should ensure initiatives identified by NDP 9 and those contained in the 2006 budget speech are implemented as planned. These include;

- The establishment of supervisory and regulatory system for non-bank financial institutions.
- Government should expedite the repeal of the Botswana Stock Exchange Act and its replacement by Securities Act.

- Establishment of a deposit protection scheme and a national contingency plan to support the financial system in the event of a financial crisis.
- Strengthening of financial and money markets operations
- Development of offshore regulation.
- Strengthening the IFSC framework by placing under a relevant government agency; and,
- Creation of a Central Securities Depository to clear bonds and equities.

Finally, Botswana should make commitments of financial services at the GATS. This would lock in reforms that Botswana has made in the financial sector and provide signals to potential investors that policy reversal of the reforms made is unlikely.

#### 7.4.5 Education

##### 4.5.1 Introduction

Until in recent years, education was not part of the debate on globalization because it was widely believed that education was a non-trade service. It is now increasingly being acknowledged that education services is a major business in countries such as Australia, Canada, New Zealand, the United Kingdom and the United States of America. The major mode of supply in trade in education services has been consumption abroad. However, the information and communication technology is increasingly making it possible to engage in cross-border trade using electronic means.

This section reviews the education sector in Botswana with a view to identifying issues that trade policy should consider in trade in services.

##### *4.5.2 Trends in Trade in Education Services*

Statistics on trade in educational services are difficult to find because the data is often lumped with other activities. In Botswana, trade in services data is not available. An attempt is made to estimate exports of education services using enrolments at the University of Botswana. While this is a very rough estimate, it provides an indicator

(albeit rough) on the trends in exports of education in Botswana. Table 6.4 shows trends in estimates of tuition and fees paid to the University of Botswana by foreign students.

Table 6.4: Estimates of Tuition and Fees Paid to the University of Botswana by Foreign Students

	1999	2000	2001	2002	2003
Tuition	5,650,800	8,079,000	7,671,400	11,050,100	12,200,000
Other Fees	329,378	367,008	468,285	563,677	600,000
Living Expenses	4,838,044	5,840,116	5,959,221	8,621,835	9,240,000
Total	10,818,222	14,286,124	14,098,906	20,235,612	22,100,000

Source: BIDPA, 2005

Table 6.4 depicts an increase in exports of education services. However, figures for single financial year expenditure by the Department of Student Placement and Welfare on Botswana students studying abroad indicate that Botswana is a net importer of education services (table 6.5).

Table 6.5: Estimated Cost of Botswana Students Studying Abroad-2004/2005

Country	# of Students	Average Cost per Student	Total Cost (P)
Australia	550	160,000	88,000,000
UK	372	330,000	122,760,000
USA	185	340,000	62,900,000
Canada	137	215,250	29,489,250
Caribbean Islands	90	335,000	30,150,000
Cuba	10	271,000	2,710,000
Malaysia	241	77,000	18,557,000
Ireland	103	360,000	37,080,000
Norway	21	125,000	2,625,000
Grenada	30	347,000	10,410,000
Czechoslovakia	32	148,000	4,736,000
Kenya	2	72,400	144,800
Swaziland	120	37,285	4,474,200
Zimbabwe	10	35,000	350,000
Namibia	7	65,000	455,000

Uganda	1	71,000	71,000
South Africa	7,100	70,000	497,000,000
Total	9,011	101,200	911,912,250

Source: BIDPA

The BIDPA (2005) study on trade in education services concluded that;

- Training outside the Botswana was necessitated by shortage of places for tertiary training locally.
- The Government of Botswana spent a significant share of its education budget on training outside the country.
- Compared with training costs at the University of Botswana, it cost the country 5 times more to train abroad suggesting that there was scope to reduce the training costs if there were more local tertiary institutions.
- Opportunities existed to increase exports of tertiary education through establishment of institutions given a stable macro-economic and political situation. However costs of establishing these could be substantial.

#### 4.5.3 Regulatory Framework

The Revised National Policy on Education (RNPE) was introduced in 1994 and provides guidance on curriculum reform and other improvements in the education system. A National Council on Education was established to monitor the implementation of the RNPE and advise government on the development of education and training. The Tertiary Education Council was established in 1999 as part of the implementation of the RNPE. The Tertiary Education Council is responsible for coordinating development of tertiary education and to determine and maintain standards of teaching, examinations and research at tertiary level.

The Ministry of Education registers and monitors all schools including private ones to ensure that the quality education is maintained. The Ministry performs its regulatory and supervisory function in accordance with the Education Act. According to NDP 9, the Education Act will be reviewed to ensure proper regulation of private schools.

The Ministry of Education Strategic objectives include;

- Competent human resource

- Quality and relevance of training
- Open access to and equity in life-long education and training.
- Use of up-to-date technology in education and training.
- Responsive and relevant policies.
- Efficient and effective educational management
- An enabling learning environment, and,
- Effective partnerships and stakeholder satisfaction

Overall, the strategic areas are in-ward looking and do not have a deliberate effort towards increasing the consumption of local education by foreign consumers. While plans are underway to establish a second university, this seems to be geared towards meeting local demand than a deliberate step to increase tertiary education capacity to increase education exports.

#### 4.5.4 Education and Training

The education sector's priority is to universal access to education to 10 years of basic education. Enrolments rate for primary education are over 90%. The Government has demonstrated its commitment to universal access to basic education, by providing adequate resources for the education sector. For example, the education sector public expenditure averaged 15% per annum since 1997/98 (BIDPA and World Bank, 2005).

Growth in enrolments at the tertiary level is also impressive. For example, the University of Botswana recorded 13,000 students in 2002/2003 compared with about 4,000 in 1992/93 (BIDPA and World Bank, 2005). Due to limited local capacity in tertiary education institutions, some students are trained abroad and within the SADC region. The Government training budget in 2004/05 stood at around P1 billion. Despite this impressive growth in enrolments and continued government's commitment to education and training, BIDPA highlighted the following challenges.

- The training system in Botswana is supply driven with very limited input of employers in the development of the curriculum and training standards.
- There is no systematic human resource planning.
- Science and engineering enrolments stand at 20% of total enrolments.

- Like most sub-Saharan African countries, there is isolation of manufacturing enterprises from the formal vocational system.

There are attempts to tackle these challenges. Some of the initiatives aimed at addressing these challenges are;

- The National Policy on Vocational Education and Training of 1997 plans to create an integrated, national vocational education and training system; rationalize courses and qualifications through the establishment of a national qualifications framework.
- Establishment of the Tertiary Education Council to be in charge of the reform process.

#### 4.5.5 Issues for Trade Policy

The data on exports and imports discussed in earlier sections indicate there is a significant trade in services deficit. This suggests that;

- Trade policy should consider the potential to increase exports of education services through, among others, promotion of commercial establishments of education institutions, especially at the tertiary level by local investors, foreign direct investors, joint ventures and other arrangements. This would increase local capacity to absorb more local and foreign students; promote education exports and reduce the import of education.
- Given the potential to increase exports through commercial presence and the increasing modes of delivery of education services e.g. e-learning, the regulatory, supervisory and surveillance capacity should be improved to cope with the dynamism in the education sector arising from possibilities of e-learning to ensure better consumer protection against low quality programs.
- Trade policy should consider a more concerted and coordinated approach to increasing science and engineering technology enrolment. Innovation is increasingly becoming a vital component of competitiveness. If Botswana is to achieve export-led growth, the development of technological capacity should be pursued vigorously.

## 7.4.6 Tourism

The tourism sector is a liberal one. The sector is of export interest to Botswana because it is a source of foreign exchange and also a major source of employment. Tourism in Botswana is generally expected to be “Government led and private sector driven”. The responsibility of Government is to provide an environment that is conducive for private entrepreneurs to develop and expand their businesses.

### 4.6.1 Tourism Export Trends

The BIDPA and World Bank (2005) study highlighted the following;

- The number of tourists coming to Botswana increased by 196% between 1993 and 2000.
- More than 50% of the visitors were from South Africa, the rest of Africa 15.4%, Europe 17%, USA 3.7% AND Australia 2.4%.
- Between 1994 and 1998, the European market grew the fastest at 24.7%. This suggests there is potential for further growth.
- Since 2000, there has been a consistent decline in visitor numbers. Similar trends or very limited growth was recorded in Southern and Eastern Africa. The decline was consistent with global trends largely due to global events such as terrorist attacks, the Iraq war and SARS. Despite this global and regional declining trend, South Africa recorded considerable and moderate growth in 2001/02 and 2002/03, respectively. Given Botswana’s close proximity with South Africa, there is scope to capitalize on South Africa tourism growth.
- Overseas arrivals declined from 10% in 2000 to 6% in 2003.
- The political situation in Zimbabwe has had a negative effect on regional tourism. Tourist operators are increasingly excluding Zimbabwe from tour packages and this seems to be affecting Botswana negatively.
- The World Tourism Organisation indicates that there are signs of recovery in global tourism market. Botswana should be poised to take advantage of recent developments in tourism and should make concerted efforts to address all constraints to tourism in Botswana and take advantage of the opportunities that are emerging. These opportunities include; the development and



promotion of a network of trans-frontier conservation areas in Southern Africa; the expected improvements in the situation in Zimbabwe in the next few years and the visitors to the World Cup to be hosted by South Africa in 2010.

#### 4.6.2 Regulatory Framework

The Botswana Tourism Policy is based on principles that acknowledge environmental value and the vulnerability of the resource base. Some of the main initiatives in the Tourism Policy was the adoption of the Botswana Tourism Development Programme.

In addition to the Tourism Policy, there are other major policy and statutory framework which guides the Government's tourism strategy. These include;

- Botswana Tourism Master Plan, 2000; (final Report);
- Tourism Development Framework, 2001 (Draft);
- Botswana National Ecotourism Strategy, 2002 (Final Report).
- Botswana Tourism Act, 1992;
- Botswana Tourism Regulations, 1996.

Despite the existence of quality policy documents and other frameworks, the BIDPA and World Bank Study indicated that;

- Recognition to the sector policy making should be enhanced and align it sector support institutions more clearly towards a demand-driven tourism strategy.
- Despite the existence of excellent frameworks, these were not part of a clearly defined and prioritized implementation plan. As a result it was difficult to gauge and monitor implementation.

#### 4.6.3 Market Access and other Restrictions in the Tourism Sector

In general, the tourism sector is liberal. Licences for tourism related businesses for both local and foreign tourism service providers are required under the Tourism Act.

The act has no specific provision to reserve certain activities solely for citizen entrepreneurs. However, some tourism related activities such as hotels, bars and restaurants require a trading licence under the Trade and Liquor Act. Retail trading, smaller restaurants and bars are reserved for citizen entrepreneurs under the Trade and Liquor Act.

#### 4.6.4 Tourism Sector Issues for Trade Policy

These are discussed in turn below

##### (a) Transport and Access to Tourist Areas

The transport sector forms part of the backbone of the economy not only because as a service, it has the potential to be exported and contributes to export diversification but also as an input in the production of goods and other services such as tourism. Efficient transport systems, can contribute to the expansion of tourism exports.

According to BIDPA and World Bank (2005), access to a significant part of the main tourist attractions in Botswana is by gravel roads. While conservation and the need to maintain flora and fauna in some areas could be valid reasons to limit access to some tourist areas, it has also limited the potential of the tourism sector to diversify its product range and market opportunity (e.g. self-drive tourists). As a result, this has undermined further growth and diversification of tourism exports. Trade policy should consider measures to ensure this potential is fully realized.

It is crucial that continuous reform and efficiency improvements in land transportation be maintained. Trade policy should look into improving efficiency in land transportation, through;

- (i) Government should encourage greater consultation and intra-SACU dialogue on transport issues, through, among others, establishment of a transport desk within SACU.
- (ii) Government should investigate the possibility of upgrading some gravel roads and as a measure to accommodate increased tourist flows, improvements in infrastructure in selected high density areas

## (b) Tourism and Air Transport

Based on the findings of a background study on tourism, the BIDPA/World Bank study highlighted that;

- Hospitality, communication, entertainment and entrance costs are set by the market, but transport cost share in total holiday cost in Botswana is significant. Relative to long distance internal flight costs in South Africa, for example, Cape Town to Johannesburg, air transport costs between South Africa and Botswana are, on average, high.
- Almost all tourist industry participants interviewed considered the Air Botswana monopoly a major factor in high air fares and limited availability of air service and as such, a constraint to tourism development. Diversification of tourism to less frequently utilized tourist areas of the Central Kalahari, Western Delta, the Pans, etc could be greatly enhanced by affordable and easy air access.
- Private charter flight facilities from Maun to remote tourist facilities usually forms part of fully inclusive tourist packages but still occurs on a small and uncoordinated scale. Scope exists to increase this facility and therefore the number of tourists, through among others, a coordinated approach between Air Botswana, National Parks, Tourism Department, etc.
- Improvements in airports infrastructure is vital in the tourism value chain. However their success depends on its links with other elements. Expansion airport facilities should be accompanied by commensurate improvements in national parks and other tourist areas infrastructure.
- The scope and location of airport expansions should be preceded by detailed environmental impact assessments to determine among other major environmental concerns, possibilities of noise and air pollution.

To ensure efficiency improvements in air transport, the BIDPA/World Bank study recommends intervention in the following areas;

- Close monitoring of agreement on open skies to ensure implementation within planned timeframes.
- The Government of Botswana should set a new target date for the privatisation of Air Botswana.

Trade policy should expedite the implementation of the above recommendations.