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**OF THE**

**THIRD PRIVATE SECTOR**

**CONFERENCE**

**MAY 22-24 1994**

**FRANCISTOWN**

**BOTSWANA**

Under the:

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BOCCIM wishes to thank all those who made it possible for this Conference to be the success it was and would like to acknowledge the assistance of the following people in particular:

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His Worship Mr. I. Ebrahim  
Mayor of Francistown and BOCCIM Vice President

**Opening Remarks**

Mr. K.G. Kgoroba  
President of BOCCIM

**Opening Address**

His Excellency the President, Sir Ketumile Masire

**Keynote Addresses**

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**Closing Address**

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## INTRODUCTION

This Conference was the third of the Private Sector Conferences which started in 1988<sup>1</sup>. The Conferences bring together representatives of Government and the private and parastatal sectors to address issues pertaining to private sector development.

This Conference took place at a momentous time in the history of Botswana. The high economic growth rates which characterised the last two decades appear to have ended and the country is struggling to cope with the effects of an economic slowdown precipitated by the global recession. These circumstances have brought to the fore the urgent need to diversify the economy and to find and start alternative engines of growth. This Conference was about defining those new engines of growth, hence the theme "**Botswana: Developing a Competitive Advantage**". His Excellency the President, Sir Ketumile Masire, set the stage by observing in his opening statement that Botswana's continued economic success depends upon the private sector's ability to establish and operate firms that are competitive locally and also in the regional and international markets. He further observed that Government has a critical role to play in this effort as a facilitator and promoter. The Government's promotional role was well recognised in the Conference and, indeed, Government was called upon to create an environment which will enable the private sector to achieve fully its role.

The momentous changes taking place in the region and elsewhere require that we redouble our efforts and create the necessary vision and capacity to place the country in a position to compete successfully in the regional and international markets. Southern Africa has been undergoing fundamental economic and political changes. The obnoxious apartheid system in South Africa has been replaced by a government elected by the majority of South Africans. As a result, major economic and social changes in South Africa are in prospect. These will impact on the rest of the region, given South Africa's close economic ties with its neighbours, particularly Botswana. In Eastern Europe and other African countries, the old order of a 'command' approach to the management of national economic affairs has been replaced by more market-oriented policies. In the economic sphere, there has been a global trend towards regionalism or the creation of regional economic blocks which are seen as a necessary response to the fluid and competitive business world.

BOCCIM, therefore, welcomes an opportunity such as the one this series of Private Sector Conferences provides. The Conferences have become a focal point for addressing not only problems and concerns of the private sector, but issues of national interest. BOCCIM would like to see the partnership that has developed through these Conferences between the private and public sectors continue to grow from strength to strength.

In a statement at the opening of the Conference, His Excellency the President, Sir Ketumile Masire observed that the Conferences had provided valuable advice to the Government and had influenced the formulation of industrial and commercial policies in the country. Since the beginning of these Conferences, a number of recommendations have been put to Government and some have been implemented. The government has committed itself to continue the dialogue with the private sector. To this end, BOCCIM will submit the Conference recommendations to Government for consideration and action.

About 130 delegates from the private and parastatal sectors and the Botswana Government participated in the Conference. The Minister of Foreign Affairs, Honourable G.K.T. Chiepe and the Minister of Commerce and Industry, Honourable P.H.K. Kedikilwe were among the senior government people who attended the Conference. His Excellency Mr H. Jeter, the Ambassador of the United States of America, His Excellency Mr R. Rasmusson, the Ambassador of Sweden, Her Excellency Ms L. Muvingi, the High Commissioner of Zimbabwe and His Excellency Mr A. Mwanza, the Acting High Commissioner of Zambia also attended as observers. Other observers represented NORAD, USAID, the Embassies of India, Libya, Russia, the United States Information Service and the Botswana Private Enterprise Development Project (BPED).

The Conference was co-chaired by Mr B. Gaolathe, the Managing Director of Debswana (Pty) Ltd. and Mr E.W.M.J. Legwaila, the Permanent Secretary to the President.

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**Note:** 1      The second of these Conferences was held in 1991. All three Conferences were held in Francistown.

## EXECUTIVE SUMMARY

The third Private Sector Conference took place at the Thapama Hotel in Francistown on the 22-24 May 1994 under the auspices of the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM). The theme of the Conference was "***Botswana Developing a Competitive Advantage.***"

The conference was opened by His Excellency the President, Sir Ketumile Masire. It was closed by His Honour the Vice President, Mr F.G. Mogae. His Worship the Mayor of Francistown and Vice President of BOCCIM, Mr I. Ebrahim, welcomed the delegates to the Conference at a reception. The President of BOCCIM, Mr. K.G. Kgoroba gave some opening remarks. Two prominent personalities, Dr. C. Stoneman and Professor G. Maasdorp of the Universities of York (England) and Natal (South Africa) respectively, gave keynote addresses on two topical issues. The former spoke on the competitiveness of Botswana in a regional and global context and the latter addressed the issue of the implications for Botswana's competitiveness of the Southern African Customs Union (SACU). Professor M. Porter of Harvard Business School, a renowned industrial strategist and a renowned authority on the competitiveness of nations, gave a lecture on how Botswana could develop a competitive advantage. Mr R.N. Mannathoko, former BOCCIM president, gave a vote of thanks.

The speeches and addresses were followed by nine simultaneous workshop sessions covering wide ranging topics with a resonating theme of how best to create a competitive advantage for Botswana. In addition, two panel discussions were held - one focusing on the conduciveness of the current investment environment in Botswana and the other seeking to map out the new engine(s) of growth given that the long-time mainstay of the Botswana economy, diamonds, is unlikely to continue to generate the kind of economic growth rates Botswana have become accustomed to.

### **Opening Remarks by Mr. K.G. Kgoroba**

In his opening remarks, the President of BOCCIM, Mr. K.G. Kgoroba congratulated the Government for implementing some of the recommendations adopted in the 1991 Private Sector Conference, but

also pointed out that a number of very important recommendations remained to be implemented. Among these recommendations is the call for the establishment of a high level council chaired by His Excellency the President. Furthermore, he said Government response is still awaited on several key areas identified as major constraints to business, namely, a lack of long-term finance; low productivity and inadequate incentives to reward productivity; under-developed human resources; high utility costs; a lack of venture or risk capital for Small and Medium Scale Enterprises (SME) as well as the absence of loan-guarantee schemes; and the slow decentralisation of business and industries to rural areas.

In conclusion, Mr. Kgoroba pointed out that current economic policies were not generating high levels of growth as in the past and that Botswana could learn some valuable lessons from the experiences of countries such as Mauritius and Singapore.

#### **Keynote Address - Dr. Colin Stoneman**

Dr. Stoneman spoke on the subject ***Competitiveness: Botswana in a Regional and Global Context***. Dr. Stoneman suggested that Botswana should take a co-operative approach given her geographic circumstances and the small size of the domestic market.

According to Dr. Stoneman, the country should follow a strategy of manufacturing for export in areas where there is potential growth in international demand. Citing the examples of South Korea and Taiwan, he emphasised the key role of the state in any industrial development strategy. In particular, he noted the need for the state to respond timeously to the demands of the private sector and to use the private sector in the implementation of its programmes. Furthermore, he underlined the need to:

- ▶ emphasise the manufacturing industry, with a focus on small companies and on exports. Such export oriented industrial development must be in the context of Botswana's integration in a growing region linked by mutual benefit to the European Union and other industrialised countries;

- ▶ expand exports by diversifying both markets and products. Exported products should be those for which demand is growing in world markets, whether or not Botswana has a comparative advantage in them at present;
- ▶ pay more attention to the direction and quality of public expenditure in order to ensure that this expenditure has the most impact on the national economy;
- ▶ emphasise the mobilisation of domestic capital over foreign investment without detracting from the important and catalytic role that foreign investment plays in a developing economy;
- ▶ appreciate that competitiveness is not incompatible with selective protection; and
- ▶ study the domestic resource cost of production as a basis for determining which areas will bring the most benefit to the country and therefore deserve support by the state.

### **Keynote Address - Professor Gavin Maasdorp**

The second keynote speaker, Professor Gavin Maasdorp, addressed the subject of ***The Southern African Customs Union: Implications for Botswana's Competitiveness***. He pointed out that for the Southern African Customs Union (SACU) to succeed, it was important that the South African economy return to health. He noted that if the South African economy had been growing these past years, all of the member states would have seen increasing revenue. He added that in a climate of economic expansion, South Africa's concern that SACU is a burden on its economy would have been more muted.

He pointed out that Botswana was South Africa's most important trading partner in the region and the sixth most important in the world. This status accords Botswana a position of relative strength from which to take initiatives in reforming SACU into a more democratic organisation that addresses the development needs of its less well off members. He identified key points in the renegotiation of the SACU agreement as:

- ▶ democratisation of the South African Board of Tariffs and Trade - in order to mitigate the loss of fiscal sovereignty experienced by the BLNS countries, the South African Board of Tariffs and Trade should become a SACU Board of Tariffs and Trade with representation from each country. A multilateral Authority, independent of any government, should be established to administer the Agreement.
- ▶ establishment of an industrial and location policy - to mitigate the problem of industrial polarisation, South African subsidies to industries under the Regional Industrial Development Programme should be abolished or a common industrial and location policy should be adopted by the entire SACU.
- ▶ The articles relating to infant industry protection in the BLNS countries, the designation of industries of special importance to BLNS, and the protection of their agricultural producers should be re-examined. Other items for study include the Secret Memorandum of Understanding and its contents, competition policy, and the operation of non-tariff barriers.

#### **Video Lecture - Professor M. Porter**

Following the keynote addresses, the Conference listened to a video lecture by Professor Michael Porter. After the lecture, the delegates had a chance to put questions directly to Professor Porter through a telephone hook up.<sup>1</sup>

Professor Porter made the following important points:

- ▶ while good macroeconomic management is essential, it is the actual strength and capabilities of firms and industries within the economy that will determine the competitive success of a nation;
- ▶ to create a high standard of living and wealth depends on increasing the productivity of labour and capital;

- ▶ competitiveness does not occur in an economy as a whole. It tends to be restricted to a small number of industries where the nation is uniquely good;
- ▶ traditional sources of competitiveness, such as natural resources and low labour cost, are becoming less important in developing international competitiveness. Sophisticated production and marketing techniques need to be brought into Botswana's traditional export sectors, particularly livestock.
- ▶ It is difficult to compete in industries unless you have the raw materials and an appropriate labour cost. However, more advanced inputs, such as technology and management skills, should also be created to supplement these.
- ▶ the development and strengthening of supplier-buyer relationships should be encouraged as they create and sustain competitive industries;
- ▶ a stringent home market demand enables a country to anticipate the needs of other countries and to develop its capabilities so as to compete internationally. Local competition and rivalry among domestic firms also fosters innovation and upgrading of products as companies are pressured to adopt more sophisticated ways of doing things.
- ▶ nations succeed by building on what they have rather than trying to create something completely new.
- ▶ countries that rely solely on foreign investment, without building up an indigenous base of companies and capabilities will not be prosperous in the long run;
- ▶ the attraction of foreign investment should be focused into areas where Botswana can develop a competitive advantage, instead of the "bambazonke" approach.
- ▶ the role of government is to provide infrastructure, promote the up-grading of productivity, enhance skills,

improve economic sophistication, and create a competitive environment by breaking down cartels and monopolies and supporting the formation of clusters.

- ▶ Government should also create a stimulating and challenging economic vision for the country and articulate a standard towards which the whole nation can stretch.

### **Panel Discussions**

Two panel discussions followed. The first panel discussion addressed the question of ***Which Way Botswana: Defining the New Engine of Growth.***

It was observed that unlike in the past, future economic growth will not come about as a result of having found one big engine, but will most likely be generated by a number of smaller engines. Three areas were identified as potential sources of this growth and these are manufacturing, tourism and financial services. The Conference agreed that the successful promotion of manufacturing depended on obtaining a predictable and unimpeded access to the regional market particularly the South African market.

The second panel discussion addressed the subject ***The Environment for Investment: Are Incentive Packages Necessary?*** The question was whether in light of the inherent difficulties of doing business in Botswana there was a need for government to provide subsidies and other incentives. In the discussion that ensued, the following concerns and recommendations emerged:

- ▶ there is too much emphasis on the foreign investor to the neglect of the potential local investor;
- ▶ the Trade and Investment Promotion Agency (TIPA) lacks executive powers and so can help the prospective investor only to a limited extent;
- ▶ Botswana should reduce company and personal taxes even further especially as these represent only a small percentage of the government revenue;

- ▶ Botswana needs a clearer long-term vision to whose realisation all efforts of the nation can be directed. In this regard a high level consultative machinery involving the government, the private sector and other major players was called for, to develop such a vision of the future and to maintain a continuous dialogue in between the biannual Conferences.

### **Simultaneous Workshops**

The Conference divided into nine workshops each addressing a separate issue as follows:

1. The Proper Role of Government in Developing a Competitive Advantage
2. Fiscal and Monetary Policy and the Requirement for Competitiveness.
3. Stimulating Productivity: The Key to Botswana's Competitiveness;
4. Competitive Corporate Strategy: Clustering Opportunities;
5. A Vision for the Future: "Enterprise Botswana" as a Going Concern.
6. The Future of Parastatals: Privatisation or Commercialisation - The Competitive Options for Botswana.
7. Local Preference Scheme, Buy Botswana, and Protectionism: Can Competitiveness be Fostered?
8. The Current Environment: Is Botswana Competitive Enough?
9. Botswana's Role in a Regional Economy: How to Develop a Competitive Position vis-à-vis its Neighbours?

## **Major Conference Recommendations**

In closing, the Conference adopted the following recommendations:

1. **Create a High Level Consultative Council:** A high level Council comprising senior representatives of the public and private sectors and chaired at the highest possible level should be established. The purpose of such a Council would be to provide a forum through which the private sector can make a contribution to the formulation of national development policies and strategies and serve as a vehicle for addressing the concerns of the private sector on a continuing basis. In addition, advisory committees should be established in all ministries with representatives from the government and the relevant industries.
2. **Eliminate the Remaining Exchange Controls:** The recommendations of the BOCCIM/BDC Foreign Exchange Control Liberalisation Study should be implemented as a matter of urgency.
3. **Reduce Company and Personal Taxes:** There should be a further significant reduction of company and personal income tax rates to provide the needed impetus to stimulate local and foreign investment, and to help make Botswana competitive regionally and internationally.
4. **Strengthen TIPA:** TIPA should be strengthened by giving it additional field experienced personnel and greater autonomy such as the Selebi-Phikwe Development Authority has or converting it into a parastatal.
5. **Study the Provision of Venture Capital, Long-term Finance and Export Finance.**
6. **Review and Enforce the Implementation of the Local Preference Scheme:** The Local Preference Scheme (LPS) should be reviewed with a view to ensuring that the scheme is understood and implemented by all Government agencies including the District Councils.

- 7 **Reduce Utilities Costs and Hook-up Delays:** There is an immediate need for the Government to address the question of reducing the cost of services to industry, particularly power, water and telecommunications. Where these services are provided as a social service, the cost thereof should be isolated and paid for by Government instead of through cross-subsidisation which penalises industry. The relevant parastatals should be recapitalised and their accounting policies reviewed with a view to easing their loan repayment obligations and reducing pressure on tariffs. In addition, the feasibility of opening up the parastatal sector to private capital should be investigated. The process of getting telephone, power and water connections should be significantly shortened.
- 8 **Promote 'Hiving Off' of Some Public Services:** Government should identify and hive off activities or services in the parastatal sector and the relevant government departments such as the Central Transport Organisation, which are amenable to privatisation. In addition, the operations of the parastatal sector should be closely monitored through the setting of targets and standards of efficiency.
- 9 **Expedite the Provision of Serviced Land:** Government should urgently expedite the provision of serviced land and improve its allocation machinery both in the urban and rural areas. Government should also make serviced land available to a reconstituted TIPAs for allocation to deserving investors.
10. **Be Selective in Industrial Promotion Actions:** The Government industrial promotional efforts should be aimed at producing for niche markets and the promotion of "cluster" activities around established industries such as livestock production and mining, keeping in mind the need to support only the production of products with a potential growth in demand.
- 11 **Promote Productivity-Enhancing Policies:** Management should be trained to get more productivity out of workers. Performance-based incentives should be adopted in the work place, which will allow, among other things, piece rate systems.

12. **Address the Growing Problem of Alcohol Abuse:** Government should encourage and support the establishment of a counselling service in order to deal with the growing problem of alcohol abuse.
13. **Rationalise BDC:** BDC should divest and sell its businesses and a fund should be created to assist citizens to acquire these businesses. This is important to minimise the risk of all BDC assets falling into foreign hands.
14. **Strengthen Regional Trade and Investment Linkages:** Botswana should promote co-operation with other countries in the region in the areas of tourism, investment and trade. Specifically, Botswana should negotiate double taxation agreements with countries in the region and abroad.
15. **Articulate a National Vision:** The country must develop a clearer long-term vision of its future and a mission statement which will be understood by everybody.

The next Conference should be appraised of the implementation of recommendations from this and previous conferences.

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**Note:** 1 Both the video lecture and the telephone hook-up were arranged courtesy of the United States Information Service.

**WELCOMING ADDRESS**

I. Ebrahim  
His Worship The Mayor of Francistown and BOCCIM Vice  
President

Once again I have been given the privilege to welcome you to the soon to be the city of Francistown. It is a source of pride for us to be your hosts for the third time for this all important private sector conference.

In my capacity as mayor I had the honour and pleasure to welcome you to the 1991 conference which was set against the background of a reasonably buoyant national economy and the first teetering steps of the constitutional negotiations in South Africa for a new political dispensation. The note of our conference then was urgency, and the need for Botswana to use the window of opportunity it had, to remain a player in the political and economic events unfolding in the region.

Since then, the events in South Africa have confounded even the best of crystal gazers. After the long dark night of spiralling violence which threatened to wreck the hopes of a free and fair election, the dawn was greeted with a peaceful transfer of power which ushered in an era of peace, hope and reconciliation that was never thought possible. On the domestic front, the world recession finally hit our shores. This, coupled with the reduced return on diamonds and fallout from the infamous Botswana Housing Corporation saga and other sagas, almost brought the industrial and commercial sector to a grinding halt.

As we talk today, industry in Francistown is but in name only. The situation in Gaborone and Selebi-Phikwe does not look promising either. Our manufacturers' exports to the Zimbabwean market have all but dried up and those who are still doing business are facing stiff

competition from the more aggressive exporters from South Africa and elsewhere.

We all applaud the changes that have taken place in South Africa but as the euphoria dies down, we have to look at the real world out there and measure our chances of survival amidst the new competition that has opened right on our doorstep. Without being an alarmist or a pessimist, the sobering truth is that we have a serious challenge on our hands, one that has far reaching implications for us as a nation. The question is are we going to wait for the crumbs that fall off the table or are we going to tackle the issue to get our fair share? The first and second private sector conferences focused on the need to identify and remove the constraints and bottlenecks that were hindering our efforts to further diversify our economy. We have come a long way since then - some of the resolutions from those conferences have found their way into government policy, some have been rejected, whilst others await implementation. Yet despite our efforts to encourage further investment into Botswana, our plans have not had the desired effect. Our efforts to liberalise our economy and encourage investment have only brought in a flood of franchise/chain store operations and retail businesses.

In the construction sector, a whole host of small one-man operations from across the border have virtually wiped out our existing small scale operators. It is noteworthy that most of those affected by this influx are 'small Batswana'. This has created a negative attitude towards the so called 'open door' policy. An otherwise good policy therefore has gained a bad name. It is important therefore to win the hearts and minds of the people if our policies are to bear fruit. Some people may argue that I am advocating for barriers to protect Botswana, and am also somehow back pedalling. I am not calling for a reservation policy as such, but we need to define the word 'investor'. The case I am putting forward is that the investor should bring in a certain amount of

capital from outside and not only rely on the local resources he can muster within Botswana. Without this definition we will not be able to identify the serious investor. This, in part, means that we have to review our success and failures so that we may revisit our strategies and make changes where necessary. We should not make the mistake and think that our policy framework, once in place, will solve our problems. On the contrary, our policies have to be continually appraised and modified to suit the changing political and investment climate around us.

We should become pro-active rather than reactive. It is my opinion that our policies have not borne fruit because there is a fundamental deterrent that we have not tackled.

I refer to the high cost of doing business in Botswana. It is a known fact that the costs of land, utilities and services are major factors in determining the location of any industrial venture. There are other factors, but the ones that I have mentioned are the ones that determine the competitiveness of our finished products. Throughout the world major companies are relocating to countries where labour is cheaper and more efficient and the overheads are lower. The relocation process is made easier because technology is easily transferable. This underscores the need for honing the fine competitive advantage in world trade. It is for this reason that I am pleased that the theme for the conference is *'Botswana: Developing a Competitive Advantage.'* It is every delegate's hope that the resolutions from this conference will lay the foundations of a broad plan of action that will address the problems comprehensively, rather than taking a piecemeal approach. If we are serious about our survival we have to do more than just talk, we have to act. Bold decisions, some of which may not be in line with the present thinking in government or the private sector, will have to be taken.

This will mean that all the ministries concerned should be in step with one another. It would not pay us dividends if, for example, the Ministry of Commerce's plans to woo investors are undermined by policies of other ministries which are at variance with it. The window of opportunity that was talked about during the 1991 conference may have already closed, but with an aggressive and a positive policy, we could still turn the tide.

South Africa and Zimbabwe remain our main competitors, but with a serious will we could emulate the much spoken about success stories such as Singapore and Mauritius. These two countries achieved their success with aggressive policies and dogged determination. We could also achieve a measure of that success if we were to follow their example and introduce the necessary steps to encourage real investments. I must apologise for having strayed from the task allotted to me of welcoming you to Francistown, but the challenges that face us are real and need to be addressed with urgency if we are to avoid the slowly ticking time bomb of unemployment. This conference may be the last real opportunity we have to lay the foundations for the competitive edge we need to remain a player in the development of our region. On behalf of the people of Francistown I take this opportunity to welcome you to the capital of the north and the gateway to the treasures of Botswana, the Okavango and the Chobe districts.

I am convinced that the prosperity of Botswana will have its foundations reinforced by this conference. I wish you a pleasant stay in our fair city and we hope that the conference will be an unqualified success.

I thank you.

Pula.

**OPENING REMARKS  
BY**

Mr. K. G. Kgoroba  
President of BOCCIM

Your Excellency, we feel greatly honoured that you have been able to find time out of your very busy schedule to come and be with us today and in particular, to address this Conference. We know it is not out of love to make speeches but for the love of this country, your commitment to serve its people wisely and for the confidence you have in its people's spirit of entrepreneurship and its private sector. I am reminded of your words of wisdom Sir, when you once said 'The role of the private sector as a partner in development is to increasingly assume general functions specific to business and economic entities in regulation and control; promotion and advertisement; social standards and ethics and in arbitration and disputes.' Furthermore, Your Excellency, the emphasis on the private sector as the engine of growth throws the ball squarely in the private sector's court. I would like to assure you Sir that we in the private sector have fully accepted the challenge and will do everything in our power to bring this to fruition. We shall continuously knock at your door if we find any impediments that stand in the way of progress. Allow me Your Excellency to say as a result, we believe very strongly in a resolution that we have respectfully placed before Government that calls for the establishment of a high-level standing Economic Advisory Commission to act as a consultative mechanism, at Cabinet Level, between the private sector

and the government. Such a commission would normally be chaired by His Excellency, The President. We would also like to see a private sector led follow-up committee whose responsibility would be to monitor the quick implementation of recommendations emanating from these conferences. Otherwise, without such machinery our conferences would simply turn to be a costly academic exercise with resolutions either heading for the wastepaper basket or into the usual correspondence pile on some senior Government officer's desks.

The turn-out at this conference and the high-level of representation at Chief Executive level and above are a clear demonstration of the seriousness with which this conference is viewed both by members of the private and public sectors and I trust that the deliberations in the next three days at this Francistown retreat, away from our usual offices and desks, will provide a rare but excellent opportunity for my distinguished friends and colleagues, and our donor community to tackle the problems facing our economy head-on. Now more than ever, we need to create the necessary conditions for sustainable economic development and economic diversification.

We need to develop a competitive advantage if our economy will survive the new economic orders of our region and the world at large. This conference MUST live up to expectations.

Your Excellency, previous conferences have certainly had their important successes for that matter.

The support from politicians and senior government administrators has been both welcome and encouraging. I would like to congratulate Government on the release of the recent National Education Committee Report, which was partly a result of our joint 1988 Conference resolution. Others include:

- ▶ the establishment of the National Productivity Centre;
- ▶ provision of serviced industrial land and housing;
- ▶ some liberalisation of foreign exchange policy;
- ▶ introduction of stiffer penalties on defaulters on our roads who cause many tragic loses of life or maiming of innocent Batswana; and
- ▶ Government sponsored Trade Missions that would include more Private Sector representation, to mention a few.

There are still, unfortunately, a number of resolutions to which there has been no reaction or reaction has been delayed, for example,

- ▶ need for long-term capital
- ▶ need for a loan guarantee scheme
- ▶ need to establish venture capital
- ▶ poor attitudes of public officers and, of course, private employees who deal with the public and who are our ambassadors to our tourists and prospective foreign investors.
- ▶ lack of fiscal, monetary and export incentives to attract foreign investors.
- ▶ need to strengthen the Police Force to stem the rising rate of crime, etc.

Turning to the THEME of this Conference Sir, I would like to emphasise its relevance in the face of major political and economic reforms that are taking place in Africa and internationally, which changes will undoubtedly impact on the economies of our region.

We have to put our heads together, think, and act efficiently, productively and urgently. I want to echo Vice President Ebrahim's caution in his welcome address last night that 'the moment for serious examination, inward searching and re-directing the cause of our economy is NOW.' Let us jump onto the bandwagon and introduce drastic and revolutionary measures to remove impediments in our growth.

Some of these measures could be:

- ▶ provision of long-term finance;
- ▶ improvement in productivity and use of incentives to reward productivity;
- ▶ greater development of our human resources;
- ▶ reduced cost of utilities, i.e., water, electricity and telecommunications;
- ▶ provision of venture capital for small and medium sized enterprises (SMEs) as well as loan-guarantee schemes and risk capital;
- ▶ decentralisation of business and or industries to the rural areas;

- ▶ incentives to exporters;
  
- ▶ lower tariffs and non-tariff barriers; etc.

In conclusion Your Excellency, Botswana has the capacity and potential to grow if the right policies are put in place. Current policies are obviously no longer generating as much growth as before. The dramatic slow down in our economic growth is the best yard stick or barometer to this fact. To use a borrowed phrase 'the left hand must know what the right hand is doing.' So must the private and public sectors relate to each other in an atmosphere of mutual trust. As a matter of urgency we need to move quickly to give BOTSWANA A COMPETITIVE EDGE by doing what small Mauritius and Singapore have done. This prestigious congregation is the right one to give us direction. We have capable men and women in this room to give Botswana's economy the so-much-needed pill. We have competent economists, financiers and administrators in this room to provide the answers to our new cause, and I urge you ladies and gentlemen to earnestly give all you can to put our country in front and on the right track so that five years down the road you can look back with pride on the results of your sweat.

I THANK YOU.

**OPENING ADDRESS  
BY**

His Excellency The President  
Sir Ketumile Masire

Mr. Chairman, Hon. Ministers, The President of BOCCIM, Professor C.F. Stoneman, Prof. G. Maasdorp, Your Worship the Mayor, Distinguished Guests, Ladies and Gentlemen.

I am very pleased to be with you this morning to perform the official opening of the 1994 Francistown Private Sector Conference. The previous conferences in this series have provided very valuable advice to my Government and have been a major influence on the evolution of industrial and related commercial policies and related regulations over the past four years.

As I believe you are all aware, the central theme of NDP 7 is to diversify the economy of Botswana away from its heavy dependence on the mining and agricultural sectors. In this regard, the Plan states quite clearly that the private sector is to be the engine of growth. The success of the Plan will depend upon your ability to establish and operate firms that are competitive in Botswana as well as in regional and international markets. Although the primary role lies with the private sector to create this competitive industrial base, the Government is keenly aware that it has an essential and critical role to play as a facilitator. It must establish an environment that will enable the private sector to achieve this objective.

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Since the last Francistown Conference, my Government has taken a number of important steps to create this environment. The Trade and Liquor Act and the Industrial Development Act have both been amended to remove most of the regulatory provisions which increased the cost of doing business.

The cost of wages, which can cripple industry if not matched with productivity, is always of great concern and has been addressed by Government in the last budget through holding public sector wages down. The issue of the tax burden on business has also been addressed through a reduction in corporate tax rates. Amendments to existing Acts are being introduced and new legislation is underway in the areas of the Companies Act, financial institutions, the stock market, as well as patents and trademarks.

Most of this work is in the final stages of drafting, and some of it may be introduced in the next session of Parliament. A new Copyright Act will also be introduced in the near future, as well as a new Standards Act.

The Government has therefore made significant progress towards creating an improved and more competitive business environment. But there is much more to do.

I do not wish to enter into a detailed discussion of what it takes to create a competitive industrial culture. That is better left to economists and other specialists in the field, and I believe that you will be holding sessions on various aspects of this subject as the conference proceeds. But I must make a few general statements concerning the competitive challenges ahead of us and, in particular, the role the Government can play in meeting them.

To be competitive is to be able to sell quality goods and services in international and domestic markets at prices that will match those of competitors, but still cover costs and provide a reasonable rate of return on capital for the owners of business. The main concern in business has therefore always been to keep costs down, particularly those related to wages and interest charges. There is also concern about exchange rates and over valued currencies.

My Government has followed policies aimed at addressing these issues over the past several years. In addition to the public sector wage restraint I referred to earlier, the industrial incentives, such as the FAP, have assisted in a significant way towards encouraging the development of industry. In this regard, it is important to note that we have endeavoured to develop industrial support schemes which fit within the context of a sound macro-economic environment.

I believe this to be an important policy objective to maintain because, otherwise, the industrial support measures that we establish cannot be sustainable in the long term.

Despite efforts being made to improve the investment climate, I am aware that many businesses are still encountering difficulties, and this suggests that there could be more factors at play in being able to stay in business and remain competitive. We must ask ourselves whether the existing programmes and policies are appropriate or need to be reviewed. Indeed, this is the purpose of these private sector conferences.

Furthermore, you are expected to be actively involved in policy reviews that are undertaken from time to time. In this regard, I hope that you are making the necessary input into the FAP evaluation that is now underway so that the study can benefit fully from your views.

and new operating systems must be under constant development. Associations and partnerships with foreign producers must be forged as necessary.

This world places a high premium on good management. It will be the role and responsibility of the private sector to achieve this level of performance. I would once again suggest that you make full use of the National Productivity Centre to help you achieve this objective.

Let me reiterate that my Government will provide an environment that will support this kind of management effort. I have already outlined the steps taken recently to create this environment.

The priority on education and training, on the provision of infrastructure, on minimising regulatory constraints, and the maintenance of stability and order in our society will be kept up.

We have just recently joined the GATT and will become a member of the new World Trade Organisation which will be the successor to the GATT. In accordance with that agreement, we will be establishing intellectual property legislation to meet current international standards.

We will also be entering into an agreement that will provide more secure access for exports of various types of services.

In a very short time, we will also have to begin renegotiation of the SACU agreement. It is much too early to predict the outcome of those negotiations, but it is clear that one of the objectives that we will be striving to achieve is dependable access to the SACU market under rules which cannot be changed unilaterally and quickly.

What is noteworthy is that the notion of competitiveness in markets is changing. The traditional view has been that competitiveness is gained by utilising the natural advantages of a country fully and efficiently.

This is, undoubtedly, still an important factor. In Botswana's case, diamonds and other minerals, beef, and unique tourist attractions will continue to provide solid support upon which our incomes and standard of living can be based. Botswana's location at the centre of a regional market with considerable growth potential is also another natural advantage of which we should try to take increasing advantage.

The completion of the trans-Kalahari highway will complete a system of modern highway connections to all of our neighbouring markets, and should enable Botswana to develop a major transportation and distribution sector.

However, being competitive is much more than having an advantage in natural endowments. It is the ability to stay ahead which is created through the skills and the initiatives of the nation's workforce. More and more competitive advantages are being gained through designing, producing and distributing quality goods and services faster and more efficiently than the competitors. This type of competitive advantage is found in modern manufacturing and service industries, and these are precisely the kind of activities into which we must try to diversify.

This is not an easy task. It will require us to develop a skilled, adaptable and industrious labour force.

But more importantly, it places a very high priority on the quality of management. It requires management that can adapt quickly to new market signals, to new technology, to new distribution techniques and to modern management control systems. New designs, new products,

and new operating systems must be under constant development. Associations and partnerships with foreign producers must be forged as necessary.

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We will endeavour to establish conditions in the renegotiated SACU that will permit Botswana industry to identify special lines and products for which they can be competitive suppliers in the SACU market.

During the later sessions of this conference, you will be discussing issues relating to the identification of a new engine of growth for the economy of Botswana. But I would like to suggest that the answer may not lie in a single engine of growth.

There may be a lot of little engines in many individual firms and sectors. We have been used to thinking in terms of big engines, diamonds, beef, base metals, soda ash, and so on, each dominated by a large enterprise. But the new competitive world that we are moving into will not provide such simple and obvious growth centres. Each of your businesses must become a small engine that is specially designed for your own products and markets, and makes use of the special skills and knowledge of your own firm.

In such a world, the Government must establish a good environment.

We must then entrust ourselves to the initiatives and the abilities of the private sector to provide the growth that will support the continued improvement in the lives of Botswana.

In conclusion, let us take this opportunity to continue to build on this partnership between Government and the private sector for the future growth of our economy. I wish you every success in your deliberations during this conference.

I will await your report with great interest. I assure you that my Government will, as usual, review carefully all the recommendations which will be made at this Conference with a view to using them as a basis for further policy reform.

I now declare the 1994 Francistown Private Sector Conference officially open.

Pula! Pula! Pula !

**KEYNOTE ADDRESS**

Competitiveness: Botswana in a Regional and Global Context

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**Introduction**

Your Excellency, Your Worship, Mr Chairman, Ladies and Gentlemen.

I am honoured to be invited to deliver the keynote speech at this very important conference, not least because I am not an expert on the economy of Botswana, rather I have worked mainly in Zimbabwe and Namibia. Therefore, this will not be a keynote speech in the sense of setting the tone for the sessions that follow, but rather in trying to set Botswana's problems in a wider context. It will also, I hope, be provocative in some respects, because, contrary to the impression given by some experts and orthodox institutions, there is no recipe for certain success, even for large countries in favourable geographical situations. So when we come to the problems of so small an economy and market - landlocked, dry, dependent, etc. - uncertainties are multiplied. We need to ask at the start such questions as: Could it ever go it alone? Does it have to integrate with neighbours? Or is there a more co-operative approach (at least in the earlier stages of development)?

Botswana has been one of the fastest growing countries in the world over the last 20 years, thanks not just to diamond revenues, but to sensible government policy that avoided the problems often associated with 'windfall' gains. Financial control relaxed too much in the late 1980s, but now seems to have been regained, and although recent growth rates have been low and employment has fallen, this has been more to do with international conditions than with policy, and the immediate prospects for recovery are good.

However, past success can be a poor guide to long-term prospects, as the catastrophic declines in the economies of Zambia in the 1970s and Nigeria in the 1980s have shown. What I am going to argue can be summarised as follows:

- ▶ mineral-led development cannot continue. To coin a phrase, diamonds are not forever, therefore I shall argue that this means:
  - there must very soon be a switch to manufacturing industry, with a focus on small companies;
  - there must be an emphasis on exporting (because the home market is too small to offer many further sources of growth through domestic market expansion, and because imports will eventually have to be financed other than by diamond revenue);
  - expansion of exports must be both through diversifying markets (there is over-dependence on regional markets, mainly Zimbabwe and

South Africa, at present) and products. So far as the latter are concerned there must be a concentration on those for which demand is growing in world markets, whether or not Botswana has a comparative advantage in them at present.

- ▶ All this points to the need for market-oriented policies but with an important state role.

The rest of my presentation falls into four parts. I shall consider in turn the world context, the Newly Industrialising Countries' (NICs) experience, exporting, and finally Botswana in the regional context.

### **The World Context**

Development is now more difficult than ever.

- ▶ first, the exploitation of cheap labour in Asia presents overwhelming competition on what has been called the 'low road.' This consists of seeking competitiveness through low labour cost and a deregulated labour market environment. It is believed that cost-cutting will boost productivity and profits and create new employment. This may bring a short-lived improvement in competitive performance at best, but in the long run it makes matters worse because it inhibits firms from building up the flexibly-skilled, self-confident workforce they are going to need if they are to compete. "The principal alternative to such 'destructive' competition is the 'high road' of constructive competition, based on efficiency

enhancement and innovation through economic gains that make wage gains and improvements in social conditions feasible as well as safeguarding workers' rights and providing adequate standards of social protection."<sup>1</sup> It is ridiculous for even South Africa to compete on the low road against China and India, let alone Botswana.

- ▶ second, the rise both of multilateral tariff reductions (through GATT) and of new trading blocks (EU, NAFTA, ASEAN) has forced many developing countries to move nearer to existing comparative advantage, abandoning plans to develop new ones. This makes it harder to industrialise in most cases.
- ▶ third, traditional 'Fordist' production structures, in which at present most managers are most at ease, are widely thought to be less productive and therefore less competitive than newer strategies involving flexible specialisation in clusters of small industries, as have developed in the so-called 'Third Italy', in Cyprus, Taiwan and parts of India.

What do I mean by 'flexible specialisation'? There is no single rigorous definition, but Holmstrom<sup>2</sup> gives a number of defining characteristics of successful industrial districts, viz:

- ▶ networks of small relatively autonomous decision making units (small firms or departments of a large decentralised company), closely interdependent, each with equipment and skills to perform a limited range of tasks, but open to experiment and innovation. Flexible

technologies are involved rather than single-purpose machines. Production patterns can change fast, to meet existing or anticipated market trends. Products are pulled through the system by the consumer, rather than pushed through by prior planning and massive investment in stocks.

- ▶ a high level of trust between entrepreneurs, even when they compete with each other. Clear demarcation of areas where their interests converge and diverge.
- ▶ in the small-firm variant of flexible specialisation, besides informal cooperation based on trust, there are specialised institutions (consortia, government or local authority agencies, specialised companies) to perform tasks (such as marketing, R & D, training) for which individual units lack resources (skills, contacts or machinery). Thus small firms achieve economies of scale through 'collective efficiency.'
- ▶ some basis for trust between employers or managers and workers. Conflicts of interest are recognised but contained. Workers are reasonably confident that their jobs are safe, or that they can find other jobs.
- ▶ workers are used to solving new problems, and are constantly learning new skills; unlike workers who are trained and then continue to do the same limited range of tasks for years, or for life.

In short, labour is seen as a resource to be developed and invested in, not as a cost to be minimised.

So we are faced with a world context in which a 'low road' is dominated by China while the GATT and the World Bank are forcing openness to the world market and closing off the option of development through economic nationalism. In these circumstances, the only realistic long-term option is probably to pursue a strategy along the 'high road'.

### **The NICs**

How then did the newly industrialised countries (NICs) succeed, and does their experience have anything to teach developing countries, and in particular Botswana?

South Korea was once the World Bank's favourite free market success story. I was at a conference on industry and development four years ago at which Helen Hughes, of the World Bank, was the opening speaker. She began, "Colleagues, we now know how to do it. Any country can follow the example of South Korea, open itself up to market forces, and grow at 10 percent per annum. Any of you who are from developing countries which are not growing at 10 percent should go home and tell your governments to resign if they are not achieving this!"<sup>3</sup> The conference was stunned, but polite, and no doubt some of the younger people present believed her.

Hans Singer, politely doubted whether the South Korea she had visited was the one that he had, although he did not elaborate further at that stage. The great lady left on the first day and the next three sessions saw a progressive shift among speakers to almost the opposite message. It was certainly agreed that South Korea's experience was export-led (but after an initial import-substituting industrialisation (ISI) period), based on labour intensive manufactures. But we soon learned

that that did not mean that the domestic market was opened to imports, or that the state had left everything to the market. In fact the state had been very interventionist.

So by 1990 most scholars had, following the work of Irma Adelman and Alice Amsden and others, come to see the role of the state as the key factor in the South Korean and Taiwanese stories. The state was seen as having played a key role in (a) initial land redistribution, (b) nationalisation of the banks, followed by strict financial control, (c) strict labour laws, (d) the disciplining of business in pursuit of a clear plan on which way the economy was to go, and in pursuit of which (e) there was an attempt to pick winners, to underwrite investments in new areas, to establish and subsidise some state enterprise (particularly in Taiwan), but mainly research and development institutions, to provide incentives to companies to develop and export in the chosen areas (and punishments for failure).

In the last few years, a classic Marxist or Hegelian dialectic has produced a new stage, following the market thesis and the state antithesis, we now have a synthesis which accepts the state's key role in institutional/organisational changes "which was both sensitive to these system's initial conditions and to the importance of setting the stage for the fullest possible participation, through markets, of large numbers of dispersed private actors,"<sup>4</sup> in the words of Gustav Ranis. Another writer argues that "what should be examined is the way allocation decisions were divided between markets and public administration - and the synergy between them."<sup>5</sup>

There are two aspects of the experience of the NICs that call into question the economic orthodoxy. First, foreign investment played a marginal role (except in Singapore), and after initial phases was rapidly marginalised by domestic companies. In Korea, for instance, domestic

companies were responsible for 65 percent of total electronics output in 1987, with joint ventures responsible for another 24 percent.<sup>6</sup>

Second, although protection is generally associated with inefficiency, the causal connection is not invariable. Korea and Taiwan protected their domestic markets and financial systems for long periods. Indeed they are only liberalising the latter now, long after economic success, not as a precondition for it (which is the World Bank's recipe). Another regional example can be found in Zimbabwe where after 15 years of sanctions manufacturing industry was found, much to the World Bank's surprise, to be very efficient on average.<sup>7</sup> This ties in with the key question of exports, discussed later.

### **Government or Market?**

The conflict between government and market is a false dichotomy. Both are necessary. But how do we ensure that government is both informed and yet objective? The concept of embedded autonomy is important here. According to Evans

state policies must respond to the perceived problems of private actors and rely in the end on private actors for implementation. A concrete network of external ties allows the state to assess, monitor, and shape private responses to policy initiatives, prospectively and after the fact.<sup>8</sup>

But what prevents the "concrete network of external ties" from degenerating into avenues for corruption? The answer is difficult, perhaps impossible in the general case, but specific and effective answers have clearly been found for certain countries, including the NICs.

So assuming that these conditions can be met, what can governments and other institutions do? In the words of Holmstrom they can:

- ▶ improve and invest in 'real services' (training, advice, technical services, consultancy, and marketing) provided by public institutions.
- ▶ target public spending and incentives more effectively. Indiscriminate spending helps the efficient, the inefficient and the fraudulent equally.
- ▶ foster cooperation between entrepreneurs, especially in marketing and product development. Support consortia and other joint efforts, holding successes up as examples of what can be done. Also encourage informal networking and a mutually beneficial division of labour between firms, even those which sometimes compete among themselves. Trade associations such as BOCCIM can help to build confidence and trust, a moral community with sanctions against cheats and free riders.
- ▶ encourage training and employment of women, both on grounds of justice and because their talents are often wasted.
- ▶ improve conditions of employment - encourage employers (by labour laws, persuasion and example) to invest in labour, to introduce less hierarchical management, and to provide a real career structure for all their workers. Resist pressures to get rid of protective labour legislation, but adapt it where

necessary to encourage the right kind of flexibility (multi-skilling, constant formal or informal retraining, career development) while discouraging the wrong kind (an unprotected disposable labour force). Block off the 'low road' - a strategy aimed at reducing wage costs in a price competitive manufacturing environment with sweat-shop working conditions. The argument that this will restrict employment is not valid, except perhaps in the very short run. In the longer run it is likely to force more employers to take the 'high road.'

- ▶ make a reality of the 'safety net' for workers displaced by new technology. Carry out public investment in *retraining* as well as training.

In the cases of Korea and Taiwan, it is now clear that although these economies have benefited from vigorously functioning markets, state orchestration of their development projects has been a *sine qua non* of their success. As part of their general attempts to develop their industrial bases, their governments have at various times acquired foreign technology under licence for dissemination to favoured companies, encouraged joint venture arrangements with foreign partners, protected the domestic market from foreign competition, delivered subsidised credit through nationalised or heavily regulated banking systems for approved projects and invested in their own R & D facilities to help boost the technological capabilities of the private sector manufacturers.

### **Export Markets**

As Bruce Scott has pointed out,<sup>9</sup> the pursuit of comparative advantage is based on an intellectually beautiful theoretical construct which

explained early industrialisers quite well, and which Anglo-Saxon economists (who dominate the World Bank and the IMF) still regard as unchallenged. The way they often summarise it is by saying that countries must 'get their prices right'. Unfortunately late industrialisers like Japan, South Korea and Taiwan have succeeded by ignoring this theory almost completely, beautiful as it may be on paper. None of them pursued their existing comparative advantage in exporting for very long, if at all. If they had (and this is what they were all, including Japan, advised to do), they would have put far more resources into agricultural and primary commodity related - yes and labour-intensive - exports than they did, and far less into steel, electronics, ship building, etc., in which they have become pre-eminent. In fact, comparative advantage was almost completely disregarded. Resources were put into developing output and, ultimately, exports in areas where the world market was growing fastest. The sense of this approach becomes obvious if one asks what should Botswana's policy be if static analysis showed that its main comparative advantage was in some commodity the demand for which was being phased out in the world market, say candles or steam engines (and maybe standardised electronics now). In fact, most of World Bank advice to developing countries is to exploit their comparative advantage in commodities for which, as it happens, the world market is growing slowly at best. Furthermore, the advice, even if good for a single country, is very bad advice indeed if given simultaneously to several.

So some guess-work or foresight was needed in Japan, South Korea and Taiwan - in determining the areas in which these dynamic markets were going to be. The free market gives signals only from the present structure of demand, so an agent is needed to distort market signals away from the present to the future, to give firms an incentive to pursue areas in which they *will* have a comparative advantage, even if they do not now. The way that Alice Amsden puts it is 'to find the right way of

getting the prices wrong'. This is clearly risky, as there are plenty of wrong ways of getting the prices wrong (as much African experience has shown), and maybe there were elements of luck as well as good judgement in the Asian cases. But there may be no alternative if a country wants to escape from primary commodity dependence.

In a crude form, almost all past industrialising countries have done this on a sectoral basis, choosing the 'winner' of industry over the primary sectors. The relative bias against agriculture has, however, been carried too far in many cases, and it should be emphasised that agriculture still receives protection in South Korea and Japan, even though it has been the relatively disfavoured sector.

In Botswana's case there can be little hope of building a fully rounded industrial sector, flexibly developing and shifting in response to world market demands in competition with other countries, as large economies might aim for. Instead it has to seek out niches in markets neglected by larger powers, and flexibly develop and shift amongst these.

One obvious approach is the resource-based one. However, the mere possession of a resource, for example, diamonds in the case of Botswana, does not guarantee a comparative advantage in *cutting diamonds*, although physical control over diamond mining may allow this to develop. In principle, a small country without diamonds (Switzerland?) might do this just as well after flying them in. We should not forget that Britain largely developed on the basis of imported cotton, a resource which it could not itself grow.

### **The Regional Context**

None of the above should be taken to imply that Botswana should attempt to go it alone as a 'new NIC.' It is an integral economic part of the southern African region. Its development and industrial strategies must be located in this context. This can be either through market integration (the SACU or PTA model) or through functional cooperation (the SADC model).

In the industrial field cooperation could take many forms, including:

- ▶ joint marketing arrangements for extra-regional exports where individual countries cannot gain the necessary economics of scale on their own. This is already occurring in the exploitation of elephant products, but could help in the winning of big contracts to supply luxury fruit and vegetables direct to European supermarkets or clothing retail chains - at present few regional companies are big enough to compete realistically for orders of the size such companies want to place.
- ▶ joint ventures in variety of areas.
- ▶ vertical integration, with basic industries (at present, mainly in South Africa and Zimbabwe) supplying cheap inputs into downstream industries in other countries, and maybe with final stages only taking place in the least developed economies.
- ▶ the development of niche markets in the region.

### **SACU, South Africa, SADC**

SACU has benefited Botswana financially, but cost it a lot in terms of industrial development. The contrast with Zimbabwe is instructive. One can see the same South African chain-stores on the high streets (Truworths, Edgars, OK Bazaars, Pick 'n' Pay, etc.), but in Zimbabwe infant industry policy and years of protection forced the local manufacture of a very high proportion of the goods sold, whereas in the small customs union countries almost all goods are supplied direct from factories in South Africa and local producers often cannot break into the retail market in their own countries! The protection in Zimbabwe has not always resulted in inefficiency (although the range of goods has been narrower because of the smaller size of the economy), as witnessed by the repeated recourse of South African manufacturers to demanding protection against Zimbabwean suppliers, some of which were once their own subsidiaries!

SACU is plainly coming to an end in its present form. Botswana may retain the option of integration with South Africa, although on less favourable terms, or it may join with it in an expanded SADC in which the different stages of industrial development may be marked by differential tariffs so as to protect infant industries - although as they grow up such protection should be removed.

But just as I argue that Botswana cannot attempt to go it alone and must accept an increasingly integrated role in the region, so I would argue that the Southern African region is also too small to go it alone in a world of giant trading blocs. The whole region including South Africa has an economy barely more than that of Portugal (one of the smallest economies in Europe) or half that of Belgium. If competitive forces are pushing huge economies such as those of Germany, France,

Italy and Britain into Union, how can southern Africa expect to be a force to be reckoned with except in the long run?

### **Relations with Europe**

I believe that the key to the future prosperity of the region is in its privileged relationship with the European Union. If the latter grants South Africa some form of association which is compatible with the Lomé agreement between Europe and the ACP countries, the whole region could benefit. Problems involving rules of origin which currently deny duty-free entry into Europe for regional goods if they contain too much South African content would then fall away. What is needed is that the process of cumulation allowable for products contributed to by different Lomé members be extended to allow South African content. This reform would not merely be of immediate benefit, but it would also promote long-term vertical integration and joint ventures between companies from member countries of the region. Integration would then occur more organically, allowing peripheral and smaller countries to develop their own specialisms within a relatively protected region.

Other benefits of consistency of treatment by the EU of all countries of the region include the possibility of joint marketing arrangements and wider provision of technical help. The EU has, for instance, funded the extremely successful Zimbabwe Export Promotion Programme (ZEPP) which raised Zimbabwe's non-traditional exports substantially during a period of generally stagnant export markets and led to the formation of ZimTrade, which continues to play a leading role in Zimbabwe's export drive. Such funding is available for other Lomé members and could be sought at a regional level within the provisions of the Lomé regional fund.

## **Conclusion**

I conclude by summarising my main arguments as follows:

- ▶ Botswana must very soon make a switch to an emphasis on manufacturing industry, with a focus on small companies;
- ▶ this switch must imply an emphasis on exporting;
- ▶ this expansion of exports must be through diversifying both markets *and* products, and so far as the latter are concerned there must be a concentration on those for which the demand is growing in world markets, whether or not Botswana has a comparative advantage in them at present;
- ▶ It must be accepted that this transformation may imply at least temporary infant-industry protection, although care should be taken not to continue protecting inefficient adults;
- ▶ Such export-oriented industrial development must be in the context of Botswana's increasing integration in a growing region, linked, to mutual benefit, with the EU.

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- Notes: 1 Adopted from Mark Holmstrom, "Bangalore as an Industrial District", mimeo, 1994 (paper for workshop on Economic Linkages and Global Markets, University of Birmingham Development Assistance Group, May 1994).
- 2 *ibid*
- 3 I quote from memory, but this is the gist of what she said.

- 4 Ranis, G., 1989, "The Role of Institutions in Transition Growth: The East Asian Newly Industrialising Countries" *World Development*, Volume 17, No. 9. The main reference of this paper is in fact to Taiwan.
- 5 Wade, Robert, 1990, *Governing the Market*, Princeton University Press.
- 6 Jeffrey Henderson, "Electronics Industries and the Developing World", in Leslie Sklair, ed, *Capitalism and Development*, Routledge, 1994, forthcoming.
- 7 See my chapter "The World Bank and the IMF in Zimbabwe", in Bonnie Campbell and John Loxley, *Structural Adjustment in Africa* (Macmillan, 1989), pp. 37-66.
- 8 P. Evans, "The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change" in S. Haggard and R. Kaufman, *The Politics of Economic Adjustments*.
- 9 Bruce Scott is another economist at the Harvard Business School. He has been prominent in advising the new South Africa on its future economic strategy. See Tucker, Bob and Scott, Bruce R., 1992, *South Africa: Prospects for Successful Transition*, Kenwyn, Juta Press; Appendix A.

**KEYNOTE ADDRESS**

The Southern African Customs Union: Implications for  
Botswana's Competitiveness

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This is the second conference on the Southern African Customs Union (SACU) to be held in Botswana in a little over two months, and the Southern African public is probably going to hear and read a lot more about this institution in the future. The five member countries have agreed to renegotiate the 1969 SACU Agreement and Botswana is rightly concerned about using these negotiations to improve the Agreement and overcome the weaknesses it at present contains. Much has been written on the SACU in academic journals and official publications, mainly in an attempt to establish the costs and benefits of membership to a particular country. The quality of the work has been uneven, varying from apartheid-bashing polemics to serious economic analysis. It is not the intention in this paper to analyse the present Agreement; rather, the aim is to discuss the negotiating climate and identify issues of importance to Botswana which ought to be raised in the negotiations. In doing so, however, due cognisance will be taken of the problems which have emerged during the currency of the 1969 Agreement.

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## **1. The Negotiating Climate**

Botswana has been in a customs union since 1893. The present customs union was formed in 1969 by South Africa and the BLS countries. For obvious political reasons to do with apartheid, it was played down in public by the BLS governments. Perhaps surprisingly, the South African government made little political capital out of the SACU, which was one of its few formal associations with independent African states. That the SACU survived the heyday of apartheid and the period of 'destabilisation' is perhaps testimony to the importance which it was accorded by the BLS governments.

Amendments to the Agreement have been on the agenda of the SACU Commission since 1981, but nothing has happened and South Africa in fact withdrew from the negotiations in 1991. Today, the position has changed. South Africa has come out of the cold, and its new government of national unity is dominated by a party which has always shown itself to be aware of, and sensitive to, the positions of its neighbours.

### **1.1 South African Attitudes**

ANC spokesmen and leaders on numerous occasions have stated that the new South Africa will not follow a policy of economic hegemony in the region but rather will seek to promote relationships which are mutually beneficial and which do not accentuate existing imbalances. Table 1 shows that South Africa has a favourable trade ratio of 5.4:1 with southern Africa, 8.6:1 with Botswana and 5.9:1 with the SACU as a whole. The ANC has also stated that it wishes to see a more open renegotiation of the Agreement. In the past, the SACU was almost entirely an operation of the five member governments. Now, the aim

of the ANC is to ensure that it is not just government ministries and their officials who will participate in the renegotiations, but that representatives of the business sector, organised labour and other interested groups in society should also be involved. In other words, it wishes the SACU to be 'democratised'. It is quite likely that the new government will request that the Joint Technical Group, appointed by the five countries after the August 1993 meeting in Swaziland, be replaced by an upgraded and more broadly-based group, possibly in the form of an inter-governmental Commission.

The new government is likely to base its policy on recommendations from the Transitional Executive Council (TEC). The recommendations, in turn, will probably be based on a document commissioned by the Department of Trade and Industry in December 1993 which attempted to establish a common vision of the future to which all SACU countries could agree. Interestingly, the Department had moved from a position of outright hostility to the SACU in 1991 to one of accepting it as the core around which any moves towards economic integration in the wider southern African region should be built. Perhaps the reason for this change in attitude was the realisation that the SACU countries together are South Africa's largest trading partner - individually, Botswana is South Africa's sixth largest trading partner while Namibia ranks seventh, Swaziland thirteenth and Lesotho fourteenth (see Table 2).

The salient features of this vision for the present purposes are:

- i. economic relations between the various countries should be such that the links: are mutually beneficial (a 'positive-sum game' for all); promote economic development in all countries; do not aggravate the economic dominance of any country or countries;

- promote interdependence; and facilitate the competitiveness of individual countries and the SACU as a whole in the global economy.
- ii. not all countries benefit equally from membership, but all should be better off inside than outside the SACU.
  - iii. All countries should commit themselves to a policy of good neighbourliness and eschew a position of regional hegemony. South African in particular should commit itself to a policy of full cooperation as an equal partner.
  - iv. A mutually acceptable revision of the revenue-sharing formula holds the key to the renegotiation of the SACU Agreement. Since one of the conditions for successful integration is that all member countries should perceive that they will gain, there will have to be a trade-off to keep the BLNS countries contented if the revenue-sharing formula is amended. South Africa and the BLNS countries have different concerns with regard to the Agreement, customs and excise revenue being more important to BLNS than to South Africa. It is accepted that BLNS should be compensated in the Agreement, but this need not to be through the formula. All other aspects of the Agreement should be examined in this regard.
  - v. In re-examining the formula, account should be taken of the following:
    - The changed global economic environment, and in particular the implications of the GATT agree-

Table 1

South African Trade With Southern Africa, 1992 (R mn)

Country	Exports (X)	Imports (M)	Total	Ratio X/M
Botswana	4 284.6	496.1	4 780.7	8.6
Lesotho	3 873.2	152.8	2 693.8	16.6
Namibia	3 873.2	734.6	4 607.8	5.3
Swaziland	2 233.8	804.1 <sup>(a)</sup>	3 037.9	2.8
SACU	12 932.6	2 187.6	15 120.2	5.9
Angola	365.2	-	365.2	100.0
Malawi	698.0	134.0	832.0	5.2
Mozambique	678.2	51.0	729.2	13.3
Tanzania	27.7	10.3	38.0	2.7
Zambia	1 112.2	44.6	1 156.8	24.9
Zimbabwe	1 553.4	762.6	2 316.0	2.0
Rest of SADC	4 434.7	1 002.5	5 437.2	4.4
Total SADC	17 367.3	3 190.1	20 557.4	5.4
SACU %	74.5	68.6	73.6	-

Notes: (a) 1991 figure

Source: South African Reserve Bank, Pretoria.

**Table 2**  
**South Africa's Top 20 Trading Partners, 1992 (R mn)**

Country	Imports	Exports	Total
SACU	2 188	12 933	15 121
USA	7 625	4 773	12 398
Germany	8 944	2 892	11 836
UK	5 829	4 492	10 321
Japan	6 016	3 742	9 758
Switzerland	1 317	5 375	6 692
Botswana	496	4 285	4 781
Namibia	735	3 873	4 608
Taiwan	1 957	2 148	4 105
Italy	1 995	1 620	3 615
Netherlands	1 372	1 930	3 302
Belgium	1 226	1 979	3 205
France	2 193	974	3 167
Swaziland	804 <sup>(a)</sup>	2 234	3 038
Lesotho	153	2 541	2 694
Hong Kong	1 001	1 509	2 510
Zimbabwe	763	1 553	2 316
South Korea	806	978	1 784
Spain	398	1 090	1 468
Israel	317	969	1 286
China	709	489	1 198

Notes:

(a) 1991 figure

Sources:

Department of Trade and Industry, Pretoria; South African Reserve Bank, Pretoria (for African countries)

ment for the SACU and for future revenue flows from customs duties.

- The possibility of a differentiated revenue-sharing formula being applied to each country since the BLNS economies are not homogeneous and the importance of the SACU as a source of revenue varies among these countries.
- An improved method of estimating revenue in order to overcome the disadvantages to BLNS of the two-year time lag in cash flows.
- A common statistical base for purposes of calculating intra-SACU trade.

vi. In order to assist BLNS in their economic development, the following revisions to the remainder of the Agreement should be considered:

- In order to mitigate the problem of loss of fiscal sovereignty, the South African Board of Tariffs and Trade should become a SACU Board of Tariffs and Trade with representation from each country, and a multilateral Authority (or Secretariat) should be established to administer the Agreement independent of any government.
- In order to mitigate the problem of industrial polarisation, either South African subsidies to industries under the Regional Industrial Development Programme should be abolished or a common industrial and location policy should be adopted by the entire SACU.
- The articles relating to infant industry protection in BLNS, the designation of industries of special importance to BLNS, and the protection of their agricultural producers should be re-examined as

should the Secret Memorandum of Understanding and its contents, competition policy and the operation of non-tariff barriers.

- vii. In order further to assist the economic development of BLNS, various ways of increasing cooperation in fields such as education and health should be investigated, and the role of the Development Bank of Southern Africa as a regional institution should be examined.
- viii. The relationship of the SACU to the Common Monetary Area (CMA) should be investigated with a view to considering deepening into a higher form of economic integration that would ensure, inter alia, free mobility of capital and labour within the SACU area. The concept of 'variable geometry' should be borne in mind in order to allow any countries wishing to do so to enter into a deeper form of economic integration with the base customs union arrangement
- ix. Once the Agreement has been renegotiated, the relations between the SACU and organisations such as the SADC and PTA will need to be investigated, as will the possibility of widening the SACU to include any other country in the sub-continent which is ready to join it.

The only major changes to this vision which might emanate from the new government of national unity are the inclusion of common labour strategies as a subject for consideration, and a preference for regarding the SACU as a sub-set of relationships with the SADC.

## **1.2 State of the South African Economy**

The Department of Trade and Industry's document contains a reference to the fears of other countries in the region that they might be swamped by South Africa's larger economy. It then states that South Africa has neither the desire to portray itself as the engine of growth nor the

capacity to act as the engine of growth for the region because of major domestic economic challenges which it will have to meet. The reason for this statement is the parlous state of the economy inherited by the new government, and it is important that Botswana be aware of the position of its major trading partner.

The new South African government has inherited an economy weakened by almost twenty years of low growth. Apart from a brief spurt between 1979-81 (the result of a short-lived boom in the price of gold), real economic growth has been disastrously low since 1975. Because the economic growth rate has fallen well short of the population growth rate since 1975, real per capita incomes have declined.

The main reasons for the low growth have been political factors associated with apartheid, low world economic growth rates, and poor economic policies. The last-mentioned category includes the high degree of control in the productive sectors, the high levels of protection for local industry, and the policy of cheap capital. A policy of liberalisation in the last few years has done little to stem the exodus of foreign and domestic capital, the emigration of skilled individuals, and the deepening of open unemployment and poverty.

A number of indicators illustrate the poor economic performance. These include: low levels of gross domestic savings and gross domestic fixed investment, a decline in formal-sector employment in the 1990s, a stagnation of manufacturing employment since 1975, declining productivity levels, and a falling exchange rate.

On the positive side, however, there has been a decline in taxation rates (although South African remains one of the more highly taxed countries), the rate of inflation has fallen to single digits since late-1993, the country is under-borrowed, and non-good exports have increased.

The government of national unity faces a daunting challenge: it will have to follow pragmatic, prudent macroeconomic policies if it is to gain the confidence of investors (both local and foreign), but it will also have to make rapid demonstrable progress towards relieving the sharp interracial imbalances in economic welfare. The recent Reconstruction

and Development Programme (RDP) issued by the ANC will probably serve as the basis for parliamentary debate and subsequent adoption of government policy. However, the Governor of the Reserve Bank has called for the RDP to be synthesised with the previous government's Normative Economic Model, and it is likely that the RDP will be tempered by the views of government departments, business, other political parties and international agencies. The cost of the RDP has been revised by the ANC to a figure more than twice the original estimate, and the question of how to fund this ambitious programme is a critical one.

From the point of the view of the SACU, it is vital that the South African economy return to a path of rapid economic growth. If the major economy in any customs union is in distress, it affects the remaining countries. For instance, there is evidence that South African firms, e.g., in the road transport and printing industries, tend to ignore BLNS markets when the South African economy is booming. Conversely, when the economy is in recession they assault the BLNS markets, leading to accusations of 'dumping'. The BLNS governments have a vested interest in South African growth occurring in a non-inflationary way, and hence in the South African government adhering to a policy of monetary and fiscal discipline. It is important that they use their influence in the SACU (and also in the CMA in the case of Lesotho, Swaziland and Namibia) to this effect. No country has a better pedigree - in terms of its economic and political record - to do this than has Botswana.

## **2 Issues for Botswana**

If the Department of Trade and Industry's document is put on the agenda for the renegotiations, it would ensure a full and frank discussion and examination of the issues which have been of concern to Botswana in the past. However, a number of concerns would remain in so far as the competitive position of Botswana is concerned. These include the effect of the SACU on the prices of imports, the ability to industrialise, and labour costs. These issues are interrelated but will be considered separately.

## **2.1 Price of Imports**

The point has often been made that the common external tariff is so high that intra-SACU trade takes place at prices above world market prices. Botswana could import some goods more cheaply, i.e., at a lower delivered cost, from the rest of the world if it were outside the SACU. To the extent that the high price of imports affects costs of production in Botswana, it affects the competitiveness of Botswana's products in export markets. In renegotiating the SACU Agreements, the effects of the GATT agreement should be borne in mind: SACU tariffs will have to fall, and this could well reduce the trade diversion ( and price raising) effects of SACU membership for Botswana and enable the country's producers to obtain cheaper imports from elsewhere.

## **2.2 The Ability to Industrialise**

A key issue in development planning in Botswana is the diversification of the economy. Particularly important in this regard is industrial diversification. There are basically two strategies for countries wishing to industrialise, namely, import substitution and export orientation. Developing countries with small populations have small domestic markets, and hence possibilities for import substitution are exhausted at fairly low levels of industrialisation: for many products the economies of scale which are required for efficient production cannot be achieved. Thus, industries have to seek export outlets.

For Botswana's industries it is probably easier to penetrate the neighbouring South African market than export markets in the northern hemisphere - without economies of scale they stand little chance of being competitive in distant markets. Free access to the South African market has always been held up as one of the great advantages of SACU membership. As Botswana and the other small member countries know, however, the SACU Agreement can be interpreted in different ways, and access to South African markets for some products from BLNS is not as easy as was anticipated. The Department of Trade and Industry's document refers to the need to clear up all existing anomalies and ambiguities in the Agreement, and to reword the Agreement in such a way as to overcome differences in interpretation

especially with regard to the re-export within the Customs Union of goods or components imported from the rest of the world.

The industrial sub-sector in Botswana to which this is of interest is motor vehicle assembly. It is well known that the South African motor vehicle industry is threatened by the reductions in tariffs under the GATT agreement, and Botswana should anticipate that this will be a subject of hard bargaining. One of the terms of reference for the SACU Joint Technical Group established in August 1993 was to examine the three task groups which are developing strategies for the motor vehicle, textiles and clothing, and electronics industries in South Africa. Botswana should ensure that this subject is thoroughly examined during the renegotiations. It is important that the private sector be represented in this process.

The acceptance of a Board of Tariffs and Trade for the SACU as a whole would be a progressive step, and one which would ensure that South Africa is no longer unilaterally able to decide on tariffs and amend them at short notice in ways prejudicial to potential industrial projects in Botswana. Another step forward would be the acceptance of a common SACU industrial development and location policy since one of the problems facing BLS industries (at least until the imposition of trade and financial sanctions against South Africa in the mid-1980s) was that they could not compete, in terms of incentives offered to investors, with the Regional Industrial Development Programme in South Africa.

Care should be taken, however, not to attempt to introduce a policy of allocating new industries among member countries. All the evidence from abroad, e.g., in the Andean Pact countries of South America and the old East African Community, is that such a policy does not work, one reason being that investors cannot be coerced to locate where they do not wish to go, and another being that governments find it difficult to agree on an allocation anyway. It would be preferable to have a spatially neutral incentives policy and then allow investors to decide where to locate their plants.

Botswana would then have to market itself aggressively as a good location for industry. In this regard, it is worth repeating the main finding of a comparative study of industrial policies in Southern African countries in the late-1980s, namely that low corporate tax rates were far more important in luring potential investors than were various financial incentives. Now that Botswana has established diplomatic relations with Pretoria, it is also important that a trade and industry office be set up in South Africa to market Botswana as a location for investment and to assist its industrialists in finding outlets in South Africa.

### **2.3 Labour Costs**

Wages for unskilled labour in Botswana have tended to be lower than in South Africa, and it has often been argued that this should give Botswana (as well as Lesotho and Swaziland) an advantage over South Africa in labour-intensive industry. Labour in South Africa has been far more highly unionised than elsewhere in the SACU, and a recent development is the decision of the South African trade union movement to extend its activities to neighbouring countries in an attempt to reach a position of wage parity.

Of course, it is wage costs rather than wage rates which are taken into account by industrialists, wage costs representing the full cost of employing an individual. It is possible for a country to have low wage rates but high wage costs, and a study by Selwyn of industrialisation in the BLS countries in the early 1970s found that wage costs were not always lower there than in South Africa. Nonetheless, to the extent that lower wages do offer some competitive advantage to a country such as Botswana, the regionalisation of wages through trade union activity is problematic. A competitive economy implies competition not only at the level of the firm but also at the level of labour; in other words, the market should be allowed to operate. If there are wage differentials, it might be possible for industries in Botswana to enter into joint venture operations with South African firms on a sub-contracting basis; if wages are uniform those types of opportunities become doubtful.

The question of more-industrialised countries attempting to influence labour policies in less-industrialised countries has also been an issue in the recent signing of the GATT declaration. The US, France and a number of other industrialised countries requested that workers' rights be placed on the GATT agenda. They were concerned by the impact of cheap imports from low-wage countries such as Singapore, Malaysia, India and Brazil on their employment, and argued that cheap labour amounts to unfair trade. Third World countries countered by arguing that the US was using workers' rights to cloak its protectionism and that it was seeking to undermine their comparative advantage in labour costs. This is a debate which has only just begun, and in Southern Africa it is the South African unions which are concerned about labour-intensive industries moving to neighbouring countries. This is bound to be an issue in the SACU renegotiations especially since a 'democratisation' of the process would involve the unions. Both BOCCIM and the Botswana government should ready themselves for this item.

### **3. Conclusion**

The climate is better than it has ever been before for a thoroughgoing re-examination of the existing SACU Agreement by member countries, and for a revised document to emerge which caters for the interests of all parties.

Regional trading blocs are important in the global economy of today, and the SACU countries have a longer experience of such blocs than most other parts of the world. The challenge is to produce an Agreement which will provide scope for each member country to exploit and develop its competitive advantages, and for the SACU as an entity to become a respected, if small, trading bloc in the international community.

**VIDEO PRESENTATION**

The Nature and Issues of Competitiveness

Professor Michael Porter  
Harvard Business School, USA

In his presentation Professor Porter noted that Botswana's strategic location in the center of the southern African region offers it some remarkable opportunities to transform itself and to move forward in the years ahead.

He said that for Botswana to be successful, it has to orient its thinking, policies and government investments towards the new model of international competition and achieving an important and successful place in the world economy.

He observed that much of the discussion about international competitiveness around the world has focused on the macroeconomic dimension, that is, on thinking about opening up the economy and dealing with exchange rates and government budget deficits or surpluses. He said that his work has shown that competitiveness does not come from the macroeconomic policies of the nation - although these are important - but rather that it derives from the microeconomic foundation of the nation's economy, that is, the actual behaviour, strengths and capabilities of firms and industries within the economy.

Professor Porter pointed out that productivity is central to the notion of competitiveness. He said the ability to create wealth, earn high wages and create a rising standard of living depends on productivity - on the ability to produce valuable output for every day of work and for every

unit of capital invested. He emphasised that productivity, not the rate of investment nor the amount of trade, determines competitiveness.

### **What is the Challenge for Botswana?**

Professor Porter said that in his view the challenge that Botswana faces today is how to upgrade the productivity of the economy so that both the average wage and the return on investment can rise.

He noted that productivity in a country is not necessarily affected by which particular industries the country competes in and that there is no good or bad industry from the viewpoint of productivity. He said what matters is the way in which a nation competes in those industries. He cited the cases of Italian shoe producers and French investors in the semi-conductor industry. He observed that the Italians produced three billion dollars worth of shoes every year and were successful because of their sophisticated way of making those shoes. On the contrary, France, which has invested heavily in the semi-conductor industry, was relatively unsuccessful in that industry because its productivity compares unfavourably with that of competing industries elsewhere in the world.

According to Professor Porter, international competitiveness does not occur in the economy as a whole; no nation is competitive in all industries and no nation can trade in all industries. Rather, international competitiveness tends to be restricted to a small number of integrated industries which he calls clusters. To underscore this point, Professor Porter gave an example of Japan where over two-thirds of exports are accounted for by less than five percent of industries. Success in all economies tends to be concentrated in a few industries where that nation has some attributes that allow it to be uniquely good. Those industries are the basis of trade with other nations.

Professor Porter cautioned against Botswana setting as its goal a fully diversified economy that is competitive in all areas. He argued that an appropriate goal is to find a few areas where Botswana can create unique circumstances and comparative advantage.

### **How is the Unique Competitive Advantage Created?**

Professor Porter pointed out that a nation has to recognise that the paradigm that has been driving international competition has shifted. Traditionally, the paradigm for international competition was based on a nation's endowment of natural resources and other basic inputs to competition. Nations that were successful were those that had low cost labour or abundant raw materials or a good climate. He said those sources of competitive advantage are still important and for a country like Botswana they will be the initial foundation of economic prosperity. However, these factors are becoming less and less important due to globalisation and are not enough to enable a nation to establish a sustainable and prosperous position.

According to Professor Porter, there is a new paradigm that depends not only on the availability of basic inputs but also on the ability of firms to innovate, and improve and upgrade the productivity and sophistication of their technologies. To translate the implications of this new paradigm into Botswana terms, Professor Porter said that for Botswana to be successful in say, the beef industry, it needs more sophisticated techniques in cattle raising, in the processing and marketing of beef, and in the logistical and distribution system. Botswana should move beyond dependence on ample grazing land and cheap labour as a source of competitive advantage in this industry. Similarly, in the mining and mineral industries, Botswana would have to combine raw materials with skills, technology and infrastructure to be able to improve productivity over time and be more successful in competing in those businesses.

### **What are the Circumstances that Allow a Particular Industry or Cluster of Industries to Prosper?**

Professor Porter utilised his concept of the "diamond" to explain the attributes of a nation that give rise to a competitive advantage in a particular business. These attributes are:

- ▶ access to inputs or "factor conditions" - basic or general

purpose inputs are still important but more specialised inputs are also necessary to complement the former;

- ▶ local demand - a stringent and demanding home market gives the country a better insight on international demand;
- ▶ supplier and related industries - the supplier-buyer relationship is important because success in the supplier industry often means success in related or buying industries. The country can develop a critical mass of skill in a given industry if the supplier-buyer relationship is strong, allowing for the sharing of information on product development. This often provides a foundation for international success;
- ▶ presence of local rivalry - for a country to be successful there have to be several local competitors in the same line of business. Competition drives companies to innovate and to continually upgrade their products. Professor Porter said that competition is often seen in developing countries as being wasteful and inefficient. He argued that this view was mistaken.

### **The Way Forward for Botswana**

Professor Porter said that if Botswana is to move forward as an economy, it has to recognise that today almost all of its competitive advantage rests on basic inputs - raw materials, minerals, land and cheap labour - and that that is where all countries start their development process. However, the real challenge to Botswana, he said, is to move beyond its reliance on basic inputs and start adding technology, skill and supporting industries to the equation. In its efforts to diversify the economy, Botswana has to look for areas where it has some advantage based on its local needs, or on other industries that are already in existence that can be supporting industries. Professor Porter emphasised that nations succeed by building on what is already

in existence rather than attempting to create something new which has no connections with what is already there. He cautioned against Botswana taking the high-tech road to development (e.g. investing in electronics industries) but thought that investments in construction, mining, agriculture, transportation, logistics and financial services seemed more appropriate.

### **The Role of Foreign Investment in the Development Process**

Porter said that in his view foreign investment is almost always good for an economy as it helps in the upgrading process. Foreign companies bring in new technology and new skills that increase the sophistication of the economy. While encouraging Botswana to be open to foreign investment, he was quick to advise that foreign investment should not be seen as the entire strategy. He indicated that countries that rely solely on foreign investment without building an indigenous base of companies and capabilities are not prosperous in the long-run. He said Botswana needs to rely on its own companies and use the concept of clusters and specialisation as a guiding principle to attract foreign investors. He observed that Botswana has managed to create some unique circumstances in the area of financial services and that it can develop into a financial services center for the region if the requisite infrastructure (e.g. telecommunications) is put in place.

### **The Role of Government in the Process of Economic Development**

Professor Porter was of the view that the Government's mission is to promote upgrading of skills and improvement of productivity so that the economy creates more wealth and supports a higher standard of living. The goal should not be to create higher exports or to attract foreign investment per se - everything should be done against the test of whether it improves productivity and sophistication.

Professor Porter identified four roles for government in the development process, namely:

- ▶ to improve the supply and the quality of the basic

infrastructure and inputs to industry, such as the transportation system, the education system and capital markets.

- ▶ to create the appropriate incentives and environment so that companies will aggressively invest and upgrade themselves. There has to be a strict competition policy - a policy that stops cartels, breaks down monopolies and encourages competition - to encourage upgrading. In addition, there have to be adequate incentives for savings and investment; a regulatory climate that allows companies to be innovative and to invest; and a dynamic system that eliminates unnecessary bureaucratic requirements.
  
- ▶ to encourage the formation of clusters of specialisation. The critical role of a government is to identify clusters of industry and ensure that all the other inputs are supportive. Professor Porter indicated that there seemed to be some clusters already in existence in Botswana in the areas of mining, agriculture and financial services, but that more clusters could, perhaps, be developed in construction and transport and logistics.
  
- ▶ to create a challenging and stimulating economic vision for the country to give citizens, the business community and government officials a clear vision of what it will take to be competitive in the world economy. Professor Porter said that he believed that this third Private Sector Conference was about creating a vision for the future and that that vision should be about improving productivity, upgrading the economy, and building on unique areas of specialisation and strength. He added that it should have room for promoting intra-African trade.

**SIMULTANEOUS WORKSHOPS**  
**SUMMARIES OF WORKSHOP AND PLENARY**  
**DISCUSSIONS AND RECOMMENDATIONS**

**Workshop 1:            The Proper Role of Government in  
Developing a Competitive Advantage**

Presenter:    Dr. K. Jefferis  
Chair:         Dr. M. Mannathoko  
Rapporteur:   Mrs D. Kgosietsile

**Summary of Discussion**

There was broad consensus that government has a key role to play in providing an "enabling environment" suitable for industrial and commercial development. One element of the enabling environment is the overall macroeconomic policies - monetary, fiscal and trade - which ought to provide a stable environment for investment and business. Interest rates should be positive in real terms so as to encourage both savings and viable investment projects, inflation should be kept low, and exchange rates should be used to support export competitiveness. High performing East Asian economies were cited as examples of success stories where the government's role has been clearly defined. It was felt that the formulae for their success - in particular their massive investments education, macroeconomic stability, high domestic saving, high rates of investment, efficient investments, productivity growth - should be emulated.

Aspects of the enabling environment which are more specifically oriented towards industrial and commercial competitiveness include the provision of supporting services, promotional measures, and public interest safeguards.

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Supporting services include the following:

- ▶ appropriate legal framework;
- ▶ physical infrastructure - a transport network, modern communications, adequate and reliable power and water supplies and industrial land;
- ▶ education and training;
- ▶ a supporting government bureaucracy;
- ▶ financial system with a regulatory framework and institutional structure to meet the capital needs of industry; and
- ▶ specialist supporting services, such as for marketing and insuring exports, where these are not adequately provided by the private sector.

Promotional measures:

- ▶ infant industry protection;
- ▶ investment codes to attract foreign investors;
- ▶ measures to promote regional co-operation so as to compensate for limited domestic markets;
- ▶ domestic sourcing of Government purchases; and
- ▶ reduced time to establish a business in Botswana - there should be a one week test for connections to telephone, power, water, etc.

Public interest measures:

- ▶ environmental safeguards;

- ▶ preventing the misuse of monopoly power;
- ▶ preventing the misuse of unequal bargaining strength in labour markets, in such areas as the employment of children, low safety standards, hours of work, etc.

The following issues were also raised:

- ▶ What could Government do to improve the investment climate, particularly in ensuring safety and protection of investors, citizens and residents? Concerns were raised regarding the laxity of the judiciary and the lack of a crime prevention mechanism. Concerns were expressed regarding the adequacy of the police force and its funding and the extent to which political interference impedes law enforcement. It was suggested that the Government should promote collaboration with neighbouring countries in crime prevention while the establishment of the Corruption and Economic Crime Unit in the police force was welcomed as a step in the direction of addressing the security issue.
- ▶ A concern was raised over the sufficiency and adequacy of the macroeconomic framework in addressing poverty in rural areas. It was observed that social justice can not be achieved until the issue of rural poverty has been fully addressed.
- ▶ Some participants cautioned against too much emphasis being laid on the deteriorating unemployment situation arguing that the unemployment problem was being compounded by the fact that potential workers are biased in favour of urban as opposed to rural jobs. The tendency for people to remain unemployed even when jobs are available in rural areas should be fully considered when talking about the extent of unemployment. The Chinese project in Shoshong was quoted as an instance where joblessness persisted in the face of job vacancies - construction workers recruited in the urban areas were not willing to move to Shoshong to work.

- ▶ In some instances Government competes directly and unfairly with the private sector thereby impeding private entrepreneurship - for example, the use of Water Affairs rates in remote areas and the provision of low and medium cost housing by the Botswana Housing Corporation (BHC).
- ▶ The need to protect local industry was also raised especially where dumping is evident.
- ▶ The need for science and technology development that addresses the culture and attitudes of Botswana should be explored further.

### **Recommendations**

- ▶ the Employment Act, particularly those aspects relating to the issue of the employee being always right, should be reviewed.
- ▶ a more formalised consultative machinery between government and the private sector should be established.
- ▶ TIPA should be converted into a parastatal or be given such autonomy as the Selebi-Phikwe Regional Development Programme has in order to improve its effectiveness. It should be staffed with personnel with field experience.
- ▶ recommendations of the National Commission on Education Report of 1993 should be implemented.
- ▶ BDC should sell off its successful companies. A facility should be put in place to facilitate purchase of these companies by citizens.
- ▶ Government should consider privatising some of its activities, particularly those in the services sector (for example, Livestock Advisory Centres and borehole repairs as well as the Computer Bureau, the Central Transport Organisation (CTO)) for improved efficiency.

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*Summaries of Workshop and Plenary Discussions*

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- ▶ as a general rule, Government should purchase goods and services from domestic producers and external sourcing of these should be done only if it can be demonstrated that the goods and services are not available in Botswana in the same quality and at a competitive price as imports.
  
- ▶ shorten the time involved in getting telephone, power and water connections to newly established businesses.

**Workshop 2:           Fiscal and Monetary Policy: The  
                                  Requirement for Competitiveness**

Presenter:     Dr. L. Clarke  
Chair:         Mr. J. G. Stoneham  
Rapporteur:   Dr. D. Hudson

**Summary of Discussion**

The Conference noted that there is no major new source of government revenue on the horizon and that there is need to take the initiative in the fiscal and monetary policy area to attract foreign investment and to raise competitiveness. In this regard, issues to be considered carefully were identified as follows:

- ▶ there has to be an awareness of the implications of fiscal deficits on competitiveness;
- ▶ it should be recognised that foreign exchange policy is not the only means of promoting competitiveness. Several other complementary policies and measures will have to be put in place;
- ▶ it has to be ensured that there is a dynamic process of reviewing the tax structure;
- ▶ particular attention needs to be paid to the areas into which public expenditure is channelled and the levels of and changes in that expenditure over time. Efforts should be made to ensure that public expenditure has the maximum possible impact on local production; and
- ▶ there is need to establish the necessary instruments for the mobilisation of long-term capital.

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**Recommendations**

- ▶ reduce company and personal income tax rates significantly
- ▶ allow local banks to open up foreign currency bank accounts for both residents and non-residents, as a step towards the further liberalisation of foreign exchange control regulations
- ▶ continue to examine the comparative advantage Botswana has in the provision of financial services within the context of the southern African region
- ▶ encourage parastatals to issue long-term bonds, as a way of broadening the capital market.

**Workshop 3:            Stimulating Productivity: The Key to  
                                  Botswana's Competitiveness**

Presenter:     Mr. J. Parsons  
Chair:           Mr. E. L. Setshwaelo  
Rapporteur:   Mr. M. Modisi

**Summary of Discussion**

The conference considered the following factors to be adversely affecting productivity:

- ▶       poor attitude of the population towards education, training and development.
- ▶       poor work ethic and attitude of management and workers towards work. The poor work ethic and attitude towards work need to be addressed through bringing about general awareness of productivity and the responsibilities of everyone at work. This could be partly achieved through concerted awareness campaigns by the Botswana National Productivity Centre.
- ▶       poor communication between management and labour. Employers should accept the responsibility of providing a basic understanding of the role and functions of business to all employees at all levels.
- ▶       shortage of middle and supervisory management and technical cadres.
- ▶       alcohol abuse - counselling services are required to tackle the problem.

- ▶ Unions and management should accept the collaborative nature of productivity improvement. Management ought to accord the workforce the respect and dignity it deserves and the workforce should accept a positive role in the wealth creating process.
- ▶ absence of a real partnership between Government and the private sector.

Both formal and on-the-job training were considered to be key in the improvement of productivity. There were differences of opinion between the Government and the private sector on who should be responsible for providing training in the first instance, on the quality and relevance of formal training to business needs and on whether business itself was providing the necessary on-the-job training. There were accusations that the private sector did not show sufficient inclination to train its personnel, while at the same time the private sector indicated that the training packages offered by educational institutions did not generally suit its needs. Some delegates thought that training should be the sole responsibility of Government especially as private sector institutions were already paying a premium for expatriate skills that ought to be (in their opinion) readily available in Botswana. It became clear that the adoption and implementation of any training incentives would require considerable debate before consensus is reached.

### **Recommendations**

- ▶ a high level consultative council comprising representatives from the private and public sectors should be established at ministerial level.
- ▶ advisory committees should be established in all ministries with full representation of industry and economic sectors that are served by those ministries.
- ▶ Government should consider privatising some of its functions, for example, the Central Transport Organisation (CTO).

- ▶ management should be trained to get more productivity out of its workers.
- ▶ a performance-based incentives system should be introduced, which will allow, among other things, piece rate systems.
- ▶ Government should encourage and support the establishment of counselling services as a way of dealing with the growing problems of alcohol abuse.
- ▶ Government should implement the recommendations of the National Commission on Education as presented in its Report of 1993.
- ▶ introduce some form of incentive scheme to encourage organisations to train. However, the needs and special circumstances of smaller businesses must be considered in any approach that is adopted.

**Workshop 4: Competitive Corporate Strategy:  
Clustering Opportunities**

Presenter: Mr. F. Ferreira  
Chair: Mr. D. Moroka  
Rapporteur: Mr. L. E. Larson

**Summary of Discussion**

The conference noted that major industries existed that could serve as a core around which ancillary industries could be developed.

The task for the workshop was to:

- ▶ identify the core industries around which clusters may be developed;
- ▶ identify the type of related or supporting industries that could be developed; and
- ▶ Recommend areas of focus and strategy.

**Botswana's Core Activities**

An analysis of the core activities in Botswana highlighted industry sectors with potential strength, which in no order of priority, are as follows: agriculture, financial services, manufacturing, mining and tourism. All five sectors were identified as having the potential for improving competitiveness through the development of ancillary industries provided due consideration is given to the following:

- ▶ the economic purpose for developing clusters must be to create sustainable jobs.

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- ▶ there must be a unified goal accepted by all, both in Government and in the private sector.
- ▶ an enabling environment must be created so as to engender confidence in the economy and remove "hassles" to doing business.
- ▶ there is a need for focused task forces which will identify and analyse emerging opportunities.

It was further suggested that there are problems common to all sectors but that their impact on sectors varies. The following were identified, *inter alia*, as the major problem areas:

- ▶ high cost of utilities
- ▶ low skill base
- ▶ small domestic market
- ▶ poor marketing and distribution channels
- ▶ high turnover of key personnel
- ▶ poor quality of service
- ▶ policies adopted by Government not enforced
- ▶ non availability of long term and/or venture capital

Problem areas specific to the agricultural sector include:

- ▶ BMC is a barrier to investments
- ▶ low prices paid to farmers result in farmers holding on to their stocks much longer than is necessary and consequently lead to overstocking

- ▶ EC quota on beef expires soon
- ▶ general land management is poor
- ▶ scarcity of water
- ▶ soil quality is marginal

### **Sectoral Opportunities**

#### **Agriculture**

- ▶ the Lomé arrangement provides some opportunities for the cattle industry
- ▶ make use of improved agricultural technology
- ▶ deregulate BMC to attract investment
- ▶ secure future export markets for beef by enhancing quality
- ▶ educate farmers in scientific farming methods
- ▶ enforce beneficial use of idle land
- ▶ encourage ostrich farming for meat, skins and other by-products

#### **Financial Services**

Botswana is well positioned in southern Africa to become a regional financial services centre. To be able to reach this position, it must:

- ▶ facilitate speedy execution of foreign exchange transactions

- ▶ abolish foreign exchange control regulations
- ▶ develop a stock market

### **Manufacturing**

The manufacturing sector has the greatest potential to create jobs, by producing for both domestic and export markets. However, to succeed in this sector Botswana should:

- ▶ further reduce company and personal income tax rates
- ▶ produce high value products that are capable of penetrating niche global markets and competing on price and quality on a sustained basis
- ▶ strengthen forward and backward linkages with other activities and sectors, such as fabrication and spares
- ▶ support downstream industries that make use of locally available resources/products - especially those products from the mining and wildlife sectors

### **Mining**

Mining is a well developed industry but could further benefit from the promotion of prospecting. A potential exist for clustering activities around this industry, particularly if linkages could be established with the manufacturing and transport sectors.

### **Tourism**

This is a relatively undeveloped sector and one that requires the most sensible of policies for its activities to be sustained over long periods or across generations. For success to be achieved in this sector the following must be effected:

- ▶ a greater portion of revenues generated in the sector must be ploughed back into it
- ▶ ensure that income generated in this sector accrues to Botswana
- ▶ Botswana should be encouraged to participate in the industry both as tourists and investors.

### **Recommendations**

- ▶ consideration should be given to a system that rewards productivity improvement in existing sectors
- ▶ a joint high level steering group, comprising people from Government and the parastatal and private sectors, should be established to develop and monitor the implementation of a programme whose objective would be to identify areas in which Botswana has a competitive advantage and to determine how best it can compete in those areas.
- ▶ Government should provide systematic information on investment opportunities in tourism, primarily to the local investor.

**Workshop 5:           A Vision for the Future: "Enterprise Botswana" as a Going Concern**

Presenter:    Mr. M. H. Abkenari

Chair:         Mr. M. Hopkins

Rapporteur:   Mr. J. Diphaha

**Summary of Discussion**

The conference agreed that the need for a long-term vision has become urgent with time. The long-term vision should seek to determine where Botswana will be in, say, the next 25 years. The lessons of the past 25 years will be useful in mapping out appropriate strategies for the future. It was noted that currently there is lack of an overall strategy for development in which the crucial role of the private sector is clearly recognised.

A need was expressed for improving the working relationships between Government and the private sector and for putting in place institutions that could best accomplish this. It was recognised that more regular exchanges of ideas between the Government and the private sector was one way that could assist in creating a climate of mutual trust.

There was concern that the private/public sector partnership envisaged should not be seen to be undermining the authority of the civil servants. It was felt that the proposed partnership will afford civil servants the opportunity to exercise their role as facilitators, and the private sector will demonstrate its commitment to development and bring about the participation of all sectors in the development process of the country.

It was recognised that BOCCIM had, in the past, provided a meaningful link between the Government and the private sector and that this link needs to be strengthened, especially in the light of the need to develop a long-term vision for the development of the country.

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What is central to the success of any strategies for the future development of the country is an institutional mechanism that provides for participation of both the Government and the private sector at the highest level. Specifically, a National Council comprising ministers and chief executives from the private sector was suggested. It was further suggested that the proposed Council should be responsible for developing a Master Plan for the long-term development of the country, in which the private and public sectors will cooperate as equal partners. It was noted that National Councils were neither new nor unique as both newly industrialising and industrialised countries have such councils. The United States, Japan, South Korea, Singapore and Malaysia were quoted as examples where various committees and councils chaired by the heads of state and government officials exist. The important consideration is an arrangement that ensures full participation of the leadership of both the private and public sectors.

### **Recommendations**

- ▶ a National Council, chaired by the Minister of Finance and Development Planning should be established. The membership of this Council should be drawn from the ranks of ministers and top executives from the private sector.
- ▶ a mechanism for filtering down decisions for implementation should be put in place.
- ▶ develop a mission statement that will guide the future activities of the country.

**Workshop 6:            The Future of Parastatals: Privatisation  
                                 or Commercialisation - The Competitive  
                                 Option for Botswana**

Presenter:        Ms P. D. Siwawa-Ndai  
Chair:             Mr. R. N. Mannathoko  
Rapporteur:     Dr. K. Jefferis

**Summary of Discussion**

The consensus opinion within the Conference was that large scale privatisation of parastatals in Botswana is not necessarily a desirable option. It was felt that this might lead to private sector monopolies in some instances, and that it was more important to focus upon fostering competition and on rectifying inefficiencies within parastatals where these had been identified. It was also noted that in some cases, notably that of the utilities, the high tariffs charged by parastatals were partly due to their obligation to provide services to rural areas, given that the development of related infrastructure is inevitably costly.

It was noted that whilst some parastatals were efficient in providing basic infrastructure and undertaking major investment projects, their record in delivering these services to the public was less impressive and they were often not sufficiently customer-oriented. The retail component of 'public services' was identified as one area where private sector operations could perhaps provide a better quality service.

**Recommendations**

- ▶ partially privatise parastatals - efforts should be made to identify areas of parastatal activity which are amenable to competition and opening up to the private sector. Whilst partial privatisation

could contribute to improving efficiency and competitiveness, other options, including strengthening of the competitive environment, reform of parastatal operations, improved monitoring, and setting of targets and standards for efficiency, should be explored.

- ▶ where parastatals are mandated to carry out social functions (for example, rural electrification and telephone services), government should finance such activities directly so as to reduce the burden of cross-subsidisation and higher charges for other users of these services.
- ▶ Government should examine the desirability of importing cheaper power from neighbouring countries and holding Botswana's production in reserve until such time as demand underpins a competitive local generation and supply.

**Workshop 7:            Local Preference Scheme, Buy  
Botswana and Protectionism - Can  
Competitiveness be Fostered?**

Presenter:     Mr. C. Dambe  
Chair:           Ms T. C. Moremi  
Rapporteur:   Mr. J. Bierne

**Summary of Discussion**

The conference agreed that the intentions of the Local Preference Scheme (LPS)<sup>1</sup> met the requirements of local manufacturers in most respects but that its implementation did not correspond with its intentions.

The shortcomings of the LPS were identified as follows:

- ▶ enterprises qualifying for local preference are not simultaneously eligible for the Financial Assistance Policy (FAP);
- ▶ not all agencies of government implement the scheme;
- ▶ buyers in government agencies do not have the skills to evaluate the quality of products subject to the LPS requirements;
- ▶ even with the price advantage offered by the LPS, domestic producers can frequently not compete on cost with foreign suppliers due, in part, to subsidies provided to these foreign suppliers by their own governments;
- ▶ marginal deviations from the LPS specifications frequently disqualify domestic suppliers, even where the product may, in all other respects, be acceptable; and

- ▶ most building products manufacturers are unable to derive much benefit from the LPS because they are not direct suppliers to government but rather act as sub-contractors to a main contractor or supplier.

### **Recommendations**

- ▶ a Bureau of Standards should be established.
- ▶ the LPS should be replaced with a policy of reserving to local suppliers those government purchases which can be met by domestic manufacturers, unless the Ministry or government agency concerned can make a convincing case for wanting to source goods externally.
- ▶ raise the current level of the price advantage of 40 percent of the "Local Content Ratio" to give local manufacturers a higher premium.
- ▶ Government should purchase its imports through registered locally-based traders.
- ▶ pending the establishment of the Bureau of Standards, the Central Tender Board (CTB) should seek technical advice from competent consultants with regard to quality and specifications of locally manufactured products.
- ▶ raise the current 2.5 percent local preference, in the case of the construction industry, to 10 percent.

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**Note:** 1. The Local Preference Scheme, first introduced in 1978, is one of the three main types of industrial incentives offered by the Government and its purpose is to direct a substantial share of the purchases of the Government, Local Authorities and parastatals towards resident manufacturers as a means of increasing production in Botswana and creating more job opportunities for Botswana.

**Workshop 8:           The Current Investment Environment -  
Is Botswana Competitive Enough?**

Presenter:    Mr. A. L. Jordan  
Chair:         Mr. H. C. L. Hermans  
Rapporteur:   Mr. D. Tsheko

**Summary of Discussion**

The presentation was based on the results of the recently completed study on export incentives for Botswana which made several recommendations.

**Constraints to Business**

**(a)    Low labour productivity**

Causes

- ▶       the main cause of low labour productivity was seen to be the lack of supervisory ability, especially at middle management levels, in both government and the private sector
- ▶       procedures for dismissing workers are considered to be too cumbersome such that recourse to disciplinary action entailing dismissal is often delayed
- ▶       workers have a culture of protecting each other.
- ▶       rampant "authorised" absenteeism occurs.

#### Possible Remedies

- ▶ conduct sectoral research to establish how low productivity is and what, indeed, are the major causes.
- ▶ train managers and supervisors.
- ▶ introduce a system for examining middle and senior management personnel due for promotion.
- ▶ adhere to the practice of appointing personnel to senior positions in the organisation's hierarchy on the basis of merit and not seniority or length of service.

#### **(b) High Labour Costs**

##### Cause

- ▶ high statutory minimum wages. There were two opposing views regarding the issue of minimum wages being a cause of high labour costs. One of these views is that there are many people who would work at rates lower than the minimum wage and that this was justification enough for minimum wages to be reduced to a level below where they currently are. The other view was that labour is not a cost to be minimised but a resource to be developed and that the "low road" (which favours lower wages) to development is not sustainable.

##### Possible Remedy

- ▶ conduct research into the impact of statutory minimum wages on job creation.

**(c) High Utility Costs**

**Causes**

- ▶ high utility costs were thought to be caused primarily by diseconomies of scale and the high gearing (debt/equity ratios) of the utilities parastatals.
- ▶ short loan repayment periods.
- ▶ subsidisation of consumers of utilities in rural areas by urban industrial and private consumers

**Possible Remedy**

- ▶ costs related to the reticulation or distribution of utilities in rural areas should be borne by government and not industry through the cross-subsidisation of consumers of utilities in rural areas by urban consumers.

**(d) High Transportation Costs**

**Causes**

- ▶ land-locked position
- ▶ low volumes of goods transported

**Possible Remedies**

- ▶ better utilisation of available transport facilities.
- ▶ consider opportunities offered by the Trans-Kalahari Highway.

**(e) Shortage of Serviced Land**

Shortage of serviced land, per se, was considered to be not much of an issue, but the allocation of available serviced land was.

**Cause**

- ▶ malfunctioning of and delays in the allocation system.

**(f) High Construction Costs**

**Cause**

- ▶ expatriate wages are too high.

**Possible Remedies**

- ▶ introduce training of managerial staff at firm level;
- ▶ foreigners wishing to naturalise should be treated with sympathy. This would partially address the high expatriate wage bill as some of these foreigners would now fall under the category of citizen staff

**Recommendations**

- ▶ resolve the problems of allocating serviced land which is already available.
- ▶ the cost of distributing/reticulating utilities in the rural areas should be borne by the government and not funded through cross subsidies which increase the cost to industry.

- ▶ the financing structure of utility corporations should be reviewed with a view to improving their equity positions and extending their loan repayment periods, which should enable them to revise the utility charges downwards.
- ▶ abolish exchange control regulations.
- ▶ promote data processing informatics - there should be a study on this.
- ▶ TIPA should be given more power and be strengthened.
- ▶ export marketing support programmes should be introduced.
- ▶ top tax rates for non-mining companies and individuals should be reduced.

**Workshop 9: Botswana's Role in the Regional Economy: How to Develop a Competitive Advantage vis-a-vis its Neighbours**

Presenter: Mr. P. Ncube  
Chair: Mr. S. Mpuchane  
Rapporteur: Mrs D. Tibone

**Summary of Discussion**

Botswana already has a competitive edge in certain areas vis-à-vis neighbouring states and other African countries. It has a stable government, substantial reserves and, therefore, a healthy financial position, it is currently the headquarters of SADC, and has the potential to be a centre for conferences and exhibitions as supported by a study commissioned by the Botswana Development Corporation. (BDC). However, it has a small domestic market and, therefore, has to look at trading with countries in the region and abroad to support its manufacturing industry.

**Recommendations**

- ▶ Botswana should develop its capacity as a regional centre for services, specifically, conference services, financial services, and transport and distribution and ancillary services which will enhance the country's attractiveness as an investment destination.
- ▶ Botswana should identify niches to be exploited; for example, Botswana has the potential to become a regional centre for cattle breeding.

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- ▶ a high level council which will deal with policy implementation and the removal of bureaucratic delays should be established.
- ▶ BOCCIM should foster stronger links with its counterparts in the region to encourage business links.
- ▶ Botswana should actively utilise existing bilateral and multilateral trade agreements to facilitate trade.
- ▶ Botswana should seek to co-operate with countries in the region in the field of tourism and in the area of harmonisation of investment incentives - for example, negotiate double taxation agreements with countries which demonstrate a willingness to invest in Botswana.

**CLOSING SPEECH**

**BY**

His Honour, The Vice President and Minister of Finance and  
Development Planning  
Mr. F. G. Mogae

His Worship, the Mayor of Francistown, Mr President of BOCCIM,  
Distinguished Invited Guests, Ladies and Gentlemen.

This evening, I have the honour to make a closing statement to your very important conference on "*Botswana: Developing a Competitive Advantage.*" This is the third Private Sector Conference to be held in this rapidly growing and dynamic city - Francistown. The warm welcome and hospitality of the people and the Mayor of Francistown are deeply appreciated. I would also like to express my gratitude to BOCCIM for all the efforts which went into making this conference a success. This series of conferences has been very useful in shaping Government policies so that they become increasingly responsive to private sector developments.

At the outset, I would like to emphasise that both the timing and the theme of this conference are most appropriate. This conference is taking place at the time when the southern Africa region is undergoing unprecedented changes. As you will all recall, it is exactly two weeks ago that we witnessed, with great joy and happiness, the birth of a democratic and pluralistic South Africa. It was a culmination of concerted efforts by the peoples of South Africa, the Front-line States, Africa and the world to ensure that at last South Africa is free. Free from the bondage of apartheid. The end of apartheid was a major historical event in the recent history of the region, if not the world. However, the new South Africa is poised to create new competitive

challenges in the economic sphere. By adopting its liberalisation programme, the new South Africa is likely to unleash new competitive pressures which will be felt not only in Botswana, but also in the region as a whole.

As you will recall, the theme of my Budget Speech this year was "Enhancing Botswana's Competitive Edge." I am pleased to note that during your discussions and deliberations you have been able to examine in depth the issues on competitiveness, and how our country can be transformed into a dynamic and internationally competitive economy. This remains a major challenge that lies ahead of us.

Mr Chairman, Ladies and Gentlemen, the scope of the issues which you discussed in the past two days have been wide ranging and large. The discussions have been both intensive and extensive. It is, therefore, my intention to highlight only selected salient issues.

I note with satisfaction that, in the quest to identify the key elements in our national competitiveness, the starting point of your conference was a review of Botswana's strategies and policies, and economic performance within the context of increasingly rapid changes in the regional and global economies. We live in a rather paradoxical world in that while the world is becoming more interdependent, competitiveness among nations is becoming increasingly ruthless.

To those of you who are familiar with the structure of our economy, the imperative to define the new engines of growth is self-evident. Our economy is overdependent on diamonds for exports and revenues. The challenges which lie ahead are: to identify new engines of growth which would broaden our economic base and deepen our resilience; to improve our productivity so that we can achieve sustainable increases in incomes and welfare for our people; and to increase our international competitiveness to reach new frontiers.

I am pleased to note that in your panel discussions, efforts have been made to identify new engines of growth, and how they could contribute towards sustainable national development.

As you know, the re-negotiations of the Southern African Customs Union Agreement (SACUA) were suspended until a new dispensation in South Africa could be concluded. It is expected that re-negotiations will start soon. I am pleased to note that you have discussed in depth the implications for Botswana's competitiveness of the re-negotiated SACU Agreement. I am confident that the issues you have covered in your deliberations will strengthen our re-negotiation stance so that our industries could enjoy better access to the Southern African Customs Union market. The major objective of these re-negotiations is to redress perceived inequities and imbalances in the current Agreement.

In the universal debate on the nature of competitiveness, it became apparent that there is no consensus on how the concept should be defined and applied. And yet, to advance our debate on competitiveness, it is important that there should be a meeting of the minds on the operational definition of competitiveness and how nations achieve international competitive advantage. It is gratifying to note that sufficient time was devoted to this issue. Moreover, it is equally important that, in the dialogue between Government and the private sector, there should be clarity of thought on what constitutes the key elements of competitiveness. Failure to do so would lead to less than effective policy dialogue between us.

Perhaps, one issue which is paramount in the minds of the private sector is the proper role of Government in developing a competitive advantage. In his opening speech, His Excellency the President indicated the important role Government plays in developing international competitiveness. Let me reiterate that it is my view that in the quest to be competitive, the roles of the private sector and Government are mutually re-enforcing. Government creates an enabling environment and the private sector creates and sustains competitive advantage in the domestic and global markets by producing goods and services of high quality at competitive prices.

The role of Government is to support the growth and development of a competitive private sector. This, I must emphasise, is not through elevating walls of protectionism, nor increasing subsidies nor increasing selective preferential treatment to particular industries in the economy,

but rather through encouraging a healthy competitive spirit. This has been pursued through, among others, liberalisation of licensing requirements, movement towards a more liberal foreign exchange regime, reduction in the corporate and personal tax rates, and improvements in the supportive infrastructure such as roads and telecommunications systems, all of which contribute towards creating a better business environment.

As the economy goes through stages of competitive development, Government policies will have to adapt. The world is in a transition from the regime of the GATT to that of the World Trade Organisation, which will implement a more liberal global trade regime. New export opportunities are likely to emerge for our private sector to take advantage of.

Penetrating the export markets is an essential component of increasing our international competitiveness. The challenge I would like to propose to you, the captains of industry, is to go back to your drawing boards and produce innovative approaches to how you could competitively expand your exports to the regional and global markets. I would like to urge you to set your goals high and apply your ingenuity to the maximum. It is out of your drive to reach new horizons that your corporate competitiveness can be enhanced.

Better management of fiscal and monetary policies is central to developing long term competitiveness. It is noteworthy that the linkages between fiscal deficits and inflation, between fiscal deficits and real exchange rates, between fiscal deficits and real interest rates, and the overall relationship between fiscal and monetary policies and private investment and consumption were discussed to shed more light on the potential constraints to competitive behaviour of firms.

Sustainable growth in the wealth of nations is closely linked to their capabilities to increase productivity over time. In the long term, raising our standards of living will depend on achieving high levels of productivity. This means firms should relentlessly improve productivity by improving efficiency and by raising product quality. No nation can be competitive in all types of industries. There is a need to specialise in

those industries and segments of industries where high levels of productivity can be achievable. It is gratifying to observe that these and other issues pertaining to productivity were discussed at length. It is my hope that these deliberations will help the private sector to take a more critical look at what innovative approaches could be implemented to improve total factor productivity in both the private and public sectors.

I understand your recommendations contain many useful insights which will assist Government to play a more prominent role in promoting international competitiveness. At the last conference, 139 recommendations were made. They were considered by Government and many of them have either been implemented or are in the process of being implemented. There were other recommendations, which in Government's view were not supported by the weight of evidence, and hence could not be accepted. I am encouraged to note the number of the recommendations from this conference is comparatively smaller, and that they are sharply focused and operationally oriented. In the pursuit of making our policies increasingly responsive to changing conditions, Government will consider these recommendations very carefully.

Mr Chairman, Ladies and Gentlemen, thank you for your attention and participation in this conference. It is through our common vision that we can chart into the 21st century a new growth path for our country's international competitiveness.

With these remarks, I declare this conference officially closed.

I thank you.

**APPENDICES**

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**APPENDIX A**  
**WORKSHOP BACKGROUND PAPERS**

## **THE PROPER ROLE OF GOVERNMENT IN DEVELOPING A COMPETITIVE ADVANTAGE**

Dr. K. Jefferis

### **INTRODUCTION**

Received wisdom concerning the role of government in the economic development process has undergone major changes over the past 25 years. During the 1950s and 1960s it was widely accepted that the state had a substantial role to play: the severity of conventional development problems - underdeveloped industrial structures, low domestic savings, small domestic markets, shortages of skills, few entrepreneurs, dependence upon primary product exports - required an even bigger role for the state than in the more developed economies. Most LDC governments were therefore urged by development economists to go beyond the conventional role of maintaining macroeconomic stability and the provision of "public" goods and services. There was emphasis on two key points: (1) the state's role in the process of capital formation, mobilising savings and directing those savings into chosen areas of productive investment, and (2) a belief that openness with respect to trade and full integration into the global economy would leave LDCs weak and marginalised.

This led to major state intervention, including the direct ownership and nationalisation of firms, the allocation of credit, employment creation, price controls and subsidies in the context of import substituting economies (protection against imports through tariffs and non-tariff barriers to trade, exchange rate management, and exchange controls). One of the direct results was a lack of competition both domestically (because of monopolistic industrial structures) and internationally (because of barriers to imports).

This broad approach was widespread in both Latin America and sub-Saharan Africa, but the economic results were generally disappointing. With few exceptions, such policies have not delivered sustained or

sustainable economic growth, living standards have fallen far below expectations, macroeconomic balance has deteriorated, and substantial debts accumulated.

Partly as a result, many Latin American and African countries have found it necessary to undertake radical economic restructuring and reform programmes since the mid-1970s. Important elements of such structural adjustment programmes have been a reduction in the size of the state and its interventions in the market, a greater role for market forces, and more integration into the global economy - a shift to a more private sector, market-led, outward oriented development path.

The problems originating in many LDC economies have been widely documented: inappropriate incentives for production and investment decisions, a lack of (and deteriorating) efficiency, the price system unable to allocate resources, inadequate government capacity to plan and implement, especially in the context of a worsening macroeconomic position (high inflation, fiscal imbalances, inadequate export earnings, overvalued exchange rates etc.). Perhaps most serious has been the lack of concern with efficiency or international competitiveness, which has over time contributed to an increasing gap between economic performance in many African countries and the rest of the world.

Low competitiveness makes strong export performance almost impossible to achieve, and has been one of the major factors behind the accumulation of a substantial external debt burden by many LDCs.<sup>1</sup> This is not to understate the negative impact of external events poor - commodity prices, rising real interest rates etc., - but it is increasingly widely (although not unanimously) accepted that government's own policy decisions and its dominant economic role bear a major part of the blame.

### **EAST ASIAN SUCCESS**

Many observers have pointed to the contrasting experience of rapidly growing economies in East Asia: Japan; the "four tigers" - Hong Kong, Singapore, South Korea and Taiwan; and the three Newly Industrialising Economies of Southeast Asia - Indonesia, Malaysia and

Thailand. Excluding Japan, these are now termed the HPAEs - High performing Asian economies. As a region, East Asia surpassed all other parts of the world in terms of economic growth between 1965 and 1990. Analysts have attempted to determine the factors behind this success, and the extent to which the experience is replicable elsewhere. Some have focused on this as a success for free-market policies and a minimal role for governments. Inevitably, however, this is an oversimplification, and although there remains disagreement about some aspects of economic policy making in East Asia, the following factors have been identified as important:

- *Education* - massive investment in basic (primary and secondary) education, and an emphasis on scientific and technical education (including engineering) at the tertiary level;
- *Macroeconomic stability*, including low inflation, sustainable government spending and fiscal position, and avoidance of overvalued exchange rates;
- *High domestic savings* encouraged by positive real interest rates and a sound financial system;
- *High rates of investment*, by both the public and private sector. Although public investment is important (often in physical infrastructure complementary to private investment), it is the very high rates of private sector investment which distinguish the HPAEs from other LDCs;
- *Efficient investments* - a high rate of investment is not in itself enough to guarantee economic growth. It is also necessary that the investment is used productively. The efficiency of investments is another area where the HPAEs are distinguished from much of Africa and Latin America. In general, much emphasis was placed upon market mechanisms, although there has been significant intervention by governments in allocating capital to particular industrial sectors, often through controls over the financial system and the use of subsidised credit. Where directed credit has been used, however, it has been linked to strict performance criteria and a willingness to

discontinue support to enterprises or sectors which do not meet these criteria;

- *Productivity growth* - encouraged by the absorption and adaptation of foreign technology, selective industrial policies, and the promotion of an export-led growth strategy.

The outward orientation of the HPAEs is perhaps their most important distinguishing feature. Not only did the international market provide a major source of growth (overcoming the limitations of domestic markets), but perhaps more importantly it meant that firms were forced to meet international standards of efficiency and competitiveness in import-substituting regimes. Although some of the HPAEs have used protection of domestic markets to assist local firms, this has generally been fairly modest and time-limited, and the overall balance of trade policies has been neutral as between domestic and export production. A second distinguishing feature is that although governments have played an active role in promoting export-led growth, and the Asian experience has not been one of complete free-markets, state intervention has tried to work through, not against, market forces. But it is also clear that several of the HPAE governments have successfully gone well beyond the simple provision of an enabling environment for business, and have more actively targeted particular industries as having long term competitive potential. The governments of both Singapore and Korea judged that their countries' initial advantages in labour-intensive manufacturing would not last and engineered shifts toward more capital and skill-intensive industries. Taiwan used public ownership as a means of building up productive capacity in heavy engineering and chemicals industries, whilst at the same time deliberately encouraging the development of small-scale enterprises in the private sector. Such targeting is not infallible, however. Korea's attempt to target the development of heavy and chemicals industries after the mid-1970s is widely acknowledged to have been a failure, and was indeed abandoned.

## **WHAT SHOULD GOVERNMENTS DO?**

There is broad consensus that government has a key role to play in providing an "enabling environment" suitable for industrial and commercial development. One element of this is the overall macroeconomic environment, where policies (with respect to interest rates, exchange rates, fiscal balance etc.) should provide a stable environment for investment and business. Interest rates should be positive in real terms so as to encourage both savings and viable investment projects, inflation should be kept low, and exchange rates should support export competitiveness.

Aspects of the enabling environment which are more specifically oriented towards industrial and commercial competitiveness include the provision of supporting services, promotional measures, and public interest safeguards.<sup>2</sup>

### **Supporting Services:**

- Appropriate legal framework;
- Physical infrastructure - a transport network, modern communications, adequate and reliable power and water supplies, and industrial land;
- Education and training;
- Financial system with a regulatory framework and institutional structure to meet the capital needs of industry;
- Specialist supporting services, such as for marketing and insuring exports, where these are not adequately provided by the private sector.

### **Promotional measures:**

- Infant industry protection:

- Investment codes to attract foreign investors;
- For small countries, measures to promote regional co-operation so as to compensate for limited domestic markets.

**Public interest measures include:**

- Environmental safeguard;
- Preventing the misuse of monopoly power:
- Preventing the misuse of unequal bargaining strength in labour markets, such as employment of children, safety, hours of work, etc.

Most of the above refer to the creation of a framework to encourage efficient, private industrial and commercial development - it is a relatively passive, enabling programme, aimed at "getting prices right" and removing institutional constraints. Whether governments should go beyond this, however, is a much more controversial issue. Should governments attempt to more actively shape the process of industrial development? There are three main channels for this:

- *"Picking winners"* - focusing on selected industry sectors and/or firms as recipients of special attention and incentives, in anticipation of future market developments, rather than allowing investment decisions to be taken wholly by private investors acting upon present market signals.
- *Protection* - deciding whether industries should be protected, and if so, for how long, and how much? When do the negative effects of protection outweigh the positive ones?

- *Planning* - deciding how much control should be exerted over industrial development, through policies such as licensing of firms.

Much of the debate around these issues centres on the alleged failings of markets and governments. Are governments in practice able to do better than markets, and under what circumstances? This is especially pertinent given the problems of past industrial development experience where it is evident that government policies have been a major part of the problem, whether due to misplaced objectives or a shortage of high quality administrative and implementation capacity.

### **KEYS ISSUES FOR BOTSWANA**

The Botswana government has in the past played a rather different role to that of many other LDC governments. It has generally allowed prices to be determined by market forces, avoiding widespread price controls and subsidies. Some key prices- notably interest rates and exchange rates - have been actively managed to keep them at what are considered to be long term sustainable levels rather than reflecting short term market pressures.<sup>3</sup> It has also been fortunate in having the mineral-generated resources to finance significant investment in education and training (despite the doubts which remain about the quality of some of this education). Interventions have been guided by the need to counter acknowledged price distortions or market failure: for instance FAP wage subsidies counteracting the effect of the minimum wage (which raises the price of labour above its opportunity cost). Similarly, institutions such as BDC can be seen as filling gaps resulting from market failure (providing long term investment finance, an area which is not well served by private sector financial institutions, and also providing entrepreneurship, as local partners in joint ventures with foreign companies). In general however the policy has been to focus on creating a suitable enabling environment for business, and with few exceptions has not attempted to more actively shape competitiveness.

The following are some of the key issues regarding the role of government in promoting competitiveness in Botswana. It is helpful to follow the distinction between policies aimed at providing an enabling

environment - and the question of whether this is being done adequately - and those which aim to go beyond this through a more activist intervention-based approach.

### **The Enabling Environment**

- *Education Policy.* Is the education system delivering the skills and attitudes that the economy needs, given the widespread concern with productivity in Botswana? We have noted above the acknowledged impact of education in the success of the HPAEs. The coexistence of unemployment amongst school leavers, along with continued skill shortages and dependence upon expatriates, suggests that it is not. Casual observation would suggest that there remain problems with the general quality of education, and that the majority of school leavers have neither the skills nor the attitudes relevant to careers in manufacturing, with little emphasis on practical and technical skills. There is more emphasis on administrative ("white collar") skills and aspirations, and school leavers are perhaps more inclined for service type jobs. What contribution will the reforms proposed by the recent National Commission on Education make to resolving the problem? What training policies would help industry and commerce, and what kind of government/private sector partnership on training is appropriate (especially given the ongoing review of FAP including the training grant element)? Is a stronger national science and technology policy required?
- *Productivity.* Education and training policy is obviously intimately connected with the productivity issue, although productivity goes wider than this, and also depends on factors such as the structure of incentives and rewards facing employees and managers, as well as the skills and attitudes of both. Analysis of the success of nations increasingly focuses on productivity - and especially the rate of growth of productivity - as in the long term the single most important determinant of competitive advantage, economic growth and standards of

living. A strategy for improvement in productivity is therefore crucial, and although this is partly a private sector responsibility it goes beyond individual firms as it reflects national attitudes and competencies. Government therefore has a key role to play in stimulating productivity improvements. But does it have to go beyond current initiatives (present and proposed education and training policies, the National Productivity Centre, exhortations to improved productivity in the civil service)? If so, what is missing?

*Infrastructure and utilities:* the provision of utilities in Botswana is of reasonably high quality, certainly in comparison with many neighbouring countries, but there remain concerns about the provision of some services (e.g. difficulties in obtaining telephone lines, lack of electricity connections in some rural areas). The road network is also much improved, even if doubts remain about the quality of the rail service. The biggest problem is probably that of utilities costs, which are undoubtedly high relative to many competitor countries. However, much of the cost represents an inevitable result of the high levels of investment required to provide a quality service, combined with the small scale of provision and the country's low population density, as well as natural features such as the arid climate. What can government do to address this problem, accepting that permanent subsidies are not a realistic option? There are no doubts that there are some areas where efficiency could be improved, but different responses are appropriate in different cases: (1) place more emphasis on (cheaper) imported electricity than reliance upon (expensive) domestic provision, even at the risk of depending on external supplies; (2) address the issue of possible abuse of monopoly power in the pricing policy of the Botswana Telecommunications Corporation, perhaps through introducing competition; and (3) accept that expensive water, however, is a fact of life in a desert. Would privatisation help, or would the result simply be private monopolies (rather than public ones) and an extra burden on the government of having to regulate these monopolies? How important are utilities costs in firms' overall cost structures anyway?

*Government as an obstacle:* to what extent is government itself a hindrance to development, and what policy and institutional reforms are needed to overcome this? Some bureaucratic obstacles have been reduced in recent years (e.g. relaxation of licensing requirements) but significant obstacles remain, such as constraints on land availability, and foreign exchange controls. Another example is the government's trade and investment promotion activities through TIPA: it is considered essential by many in the private sector that TIPA have operational autonomy from government with some kind of parastatal or independent agency status (a view endorsed by the World Bank) but there are no signs of movement in this direction. Why have no lessons been learned from the experience of the (relatively independent) Selebi-Phikwe initiative? Many would consider the present arrangement a recipe for disaster when the SPRDP is wound up at the end of 1995. It is also widely accepted that government itself has serious efficiency problems (as noted by the Vice-President in the 1994 Budget Speech), and it is perhaps the case that inefficiency is increasing as government gets larger. Do the increasing bottlenecks in policy formulation and implementation by government support a general call for a smaller role for government?

- *Social balance:* How can government help to prevent growing social inequities from becoming a destabilising influence on the economy (with particular relevance to urban/rural inequalities and the unemployment problem)?

### **A More Activist Approach?**

Should government go beyond the provision of an enabling environment and be more activist in promoting industrial development? Relying on the "enabling environment" approach involves making sure that prices are "right" and then allowing private investors to respond to price and other incentives in determining investment patterns. Government clearly needs to make a contribution in terms of addressing macroeconomic stability and education/training/productivity issues, but

does not attempt to guide investment beyond this. Will the enabling environment approach alone work - creating enough jobs, exports, and economic growth, with the benefits distributed in a reasonably equitable manner? Is more required to encourage the creation of competitive advantage in the longer term? The experience of other countries provides a somewhat mixed guide. In East Asia there has been significant intervention by governments in order to promote the long term development of competitive firms, but in other countries government direction of investment to particular productive activities has retarded competitiveness.

- *Targeting/picking winners:* Should the government attempt to target particular industries (textiles/clothing? electronics? financial services?) as central to future economic growth? It sounds good, and has worked in East Asia, but would it work in Botswana? Does the government have the capacity to do this well (especially in light of the poor performance of some major government projects such as BCL and Soda Ash? If it does, what industry specific policies should government implement in order to develop future competitive advantage?
- *Protection:* Private sector gatherings consistently call for greater protection for Botswana firms, a call which has generally been resisted by government. What level and kind of protection, if any should be permitted, especially given the limited potential of import substitution in the small domestic market? Are the costs of protection greater than the benefits? How can infant industry protection be made effective? Under what circumstances would protection not lead to reduced efficiency and competitiveness? Experience of other countries suggests that protection is a failure more often than a success, typically giving rise to inefficient, uncompetitive, undynamic enterprises which cannot compete in the international market. The success of protection in some Asia countries was dependent upon a strong government administrative capacity and effective monitoring, which it is not clear can be replicated in Botswana. Are requests for protection simply a result of permanent disadvantages or compensation for inefficiency in industries which are essentially not viable in the long term at market

prices, and therefore likely to result in permanent (and very costly) protection? Would protection provide an excuse for not dealing with underlying efficiency and productivity problems, as has always been the case elsewhere? How can Botswana avoid the widespread problem that firms receiving protection which do not improve efficiency manage to lobby effectively for continuous protection, which benefits them but penalises the country?

*Export promotion policies:* Should exports receive special treatment? The experience of many countries (the HPAEs, and Mauritius) suggests that there is potential here. But if so, what kind of special treatment should there be? Export credit guarantees and insurance? Export subsidies? Provision of information about foreign markets? Promotion through trade fairs? Export processing zones? Preferential access to credit?

#### **POINTS TO REMEMBER**

Before discussing some of these issues in the context of Botswana, it is worth noting the following points:

- Future growth must be based upon exports, given the small size and limited potential of the domestic market alone, as well as the more general experience of other countries.
- It is essential to develop efficient industrial structures, where efficiency means achieving at least regional competitiveness and preferably international competitiveness
- Subsidies and protection may benefit individual firms but they have costs which affect the whole economy, whether in terms of the government budget (subsidies), higher prices for consumers (protection), disadvantaging

exporters (protection) or reduced incentives to improve efficiency.

- What is best for individual firms may not be best for the economy as a whole, and it may be necessary to take hard decisions at a national economic level in the interests of overall economic efficiency, e.g., the closure of loss-making firms. Porter also strongly makes the point that the best policy in a static sense (e.g., protecting declining industries) will often not be best in a dynamic sense (where constant improvements to efficiency and productivity are the key to competitiveness);
- Government failure may be worse than market failure, and it may not be wise to make too many extra demands upon government especially in view of already identified constraints on administrative and implementation capacity, and the rising concern about low productivity, bottlenecks and inefficiency within government. An important question to ask with regard to targeting of future industrial development is not "where does Botswana's future competitive advantage lie?" but "is government capable of making the decision as to where future competitive advantage lies?"
- Botswana has in the past avoided the worst policy mistakes of other African countries, in that it has adhered to markets as a guide to resource allocation and has not relied upon protection against imports. Are the demands being made on government likely to take Botswana down the road followed by others? The onus is on those advocating different policies to demonstrate how the mistakes of other countries will not be repeated. It should also be noted that Botswana's reputation for prudent and sound economic management is already under threat - growth rates are declining, and medium term (NDP8) prospects are poor. There is increasing evidence of public sector failure with misplaced priorities,

wasteful spending, unproductive investments, corruption and poor performance of state-owned enterprises. Furthermore, wage levels are out of line with productivity making Botswana's producers uncompetitive, and there is growing dependence upon government subsidies and interventions rather than ability to survive in the market - all reasons for the poor economic performance of many other African countries.

- An activist approach requires a vision of what type of activities Botswana can develop a competitive advantage in. This is a complex issue with no easy answers. Taking Botswana's current resource endowment as a starting point illustrates the magnitude of the task; the lack of an agriculture base in the country - due to fundamentally unfavourable soil, water and climate conditions - deprives manufacturing industry of one important resource-based starting point. Minerals may be another starting point for resource-based industrialisation, but given the intrinsic scale economies of such ventures assessment of the potential to penetrate export markets is crucial. Botswana clearly has ample supplies of unskilled labour (i.e. unemployment and underemployment) but it is not clear that it can compete with the labour intensive industrialising economies of Asia (such as Indonesia and Vietnam) at any wage rate which is politically sustainable in Botswana, especially given current low levels of productivity and the failure of recent development policies (such as investment in education) to give rise to any discernible improvement in productivity levels, which remain well below global standards. The answer may be that Botswana should not be attempting to focus on any one area to replace diamonds (whether it be clothing manufacture, or a financial centre); but that its future lies in developing a broad range of activities with export potential: perhaps there is some potential for manufacturing activity;

tourism could no doubt be bigger than it is, but is never going to rival the tourist industry of Kenya or Zimbabwe; there may be some scope for a regional centre for financial and business services; etc., etc. If so, this would argue against attempting to target specific activities, but instead concentrating on the broad parameters within which business operates.

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- Notes:
- 1 Many Asian countries have also had very high levels of debt (in relation to the size of their economies), but this has not been a problem because of their successful export performance, based on an internationally competitive industrial structure, which has generated the foreign exchange revenues needed to service the debt.
  - 2 This section draws upon T. Killick (1992) The Adaptive Economy: Adjustment Policies in Small, Low-Income Countries.
  - 3 Interest rates would be much lower than present levels (and negative in real terms) if purely market determined, at least whilst exchange controls on capital movements remain. It is also likely that the international value of the pula, if freely market determined, would be higher than the present rate given Botswana's consistent current and capital account surpluses.

**LOCAL PREFERENCE, BUY BOTSWANA AND  
PROTECTIONISM: CAN COMPETITIVENESS  
BE FOSTERED?**

Mr. C. Dambe

**Government's Commitment to Buy Botswana**

The reasons for the Government's commitment to the Buy Botswana Programme enumerated hereunder are the writer's personal views:

- ▶ The state is committed to the policy of localisation;
- ▶ The state is committed to the development of manpower which will enable localisation of management in both public and private economic enterprises;
- ▶ The state, whilst believing in free enterprise, should heed the need to include the social interest in as young a nation as Botswana;
- ▶ The state introduces laws and regulations to facilitate the development of industries and also to ensure that such laws relate to the eventual localisation of the skilled industrial labour force;
- ▶ The state provides incentives to attract foreign investors but bearing in mind that such investments should enhance the national localisation process;
- ▶ The state should not be prejudiced in its dealings with local and foreign-owned industries;
- ▶ The state, whilst committed to avoiding being paternalistic towards local enterprises by providing unwarranted subsidises, should take cognisance of the infancy of the local industries and accord to them

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justifiable support (in a highly competitive and developed market economy like that of the USA, the government at times guarantees prices to farmers under a subsidy programme).

### **The Obstacles to the Success of the Buy Botswana Program.**

#### **Economic Obstacles**

Botswana is surrounded by countries with relatively highly competitive, market systems.

In an economic system as prevails in Botswana and around, the condition known by economists as freedom of consumer choice exists - customers are free to buy from the supplier of their choice.

The quantity that consumers buy in Botswana is affected by a number of circumstances;

- ▶ the price of the good,
- ▶ consumers tastes and preferences,
- ▶ the number of consumers under consideration,
- ▶ consumers' incomes,
- ▶ the prices of related goods, and
- ▶ the range of goods available to consumers

Factors influencing the structure of Botswana's private sector development include the following:

- ▶ Botswana has a very small local market,

- ▶ There are various factors such as education, custom, age distribution and state of health that determine the actual proportion of the population which can be considered as the labour force.
- ▶ In addition to the constraints of human resources, Botswana lags far behind in raw materials of all kinds, machinery, buildings, semi-finished materials, fuel, power, transportation and the like.

### **Disregard for laws and regulations**

The government of Botswana has enacted laws and regulations which are as good as can be found anywhere else in the world, but the Ministers and the officials of the state flout those laws. The Ministry of Commerce and Industry introduced laws that state, for example, that only locals should engage in businesses of specified licences but the business criminals are able to flout those laws and they are not being punished. Is it that the government enacted the laws and did not ensure that the enforcement machinery was in place to ascertain the public's compliance? Who is to blame? We can only blame it on the Government.

Foreigners bring merchandise into Botswana and without any legal permission they establish themselves on the stoops of the licensed enterprises and without any fear of being charged they proceed to compete with legally licensed traders. This is lawlessness which should be dealt with by the Minister of Commerce and Industry in conjunction with the local councils.

Government is encouraging the "Buy Botswana" programme but appears to be unconcerned to administer the mandatory programme of training for localisation in industries. There is a metaphorical "road block" found on the highway towards localisation to help the progress of the project. Botswana has enough of expensive resources, why should the country continue indefinitely to perpetuate importation of expensive labour?

There are several factories and chain stores in this country which continue, unhindered, to bring in foreign labour completely disregarding the training of potential local management.

Foreign students complete their first degree programmes in their home countries and are recruited by the foreign businesses in Botswana to understudy the expatriate executives. Are those the conditions put before a foreign investor when he is to start business here? If Botswana continues to buy human resources and non-human (capital) then the country might as well forget about the "Buy Botswana" programme. We must start by buying Botswana labour to render our prices of goods competitive.

The government must continue to establish parastatals to assist the localisation of enterprises. There is nothing wrong in establishing parastatal firms especially in a country as young as Botswana. After all in some industrialised free market countries, there are publicly-owned lucrative enterprises.

A publicly owned enterprise may be just as free in its business activities as its private counterpart, as exemplified by two French automotive manufacturers - Renault, a nationalised company and Peugeot, a private one.

At the stage of our development when not many nationals are able to raise substantial capital to produce competitively, it is incumbent upon Government to ensure that certain enterprises which are publicly-owned are established and operated profitably.

But once the state has made a decision and has allocated funds, it must pass the responsibility to operate that enterprise to the business professionals who must be employed like in any private company and must report to the shareholders (government representing the nation) and the company should repay its loans accordingly.

The shareholders should, through the assistance of consultants, appoint a Board of Directors, excluding the civil servants, and the Board of

Directors should appoint the Chief Executive who should follow the business procedures of appointing staff. The idea of appointing an executive with previous experience from a parastatal organisation should be avoided because he will run the business like a Government Department. This will render everyone answerable to the Shareholders for the failure or success of the operation.

The idea of having professionally illiterate Government officers, politicians or civil servants, expressing opinions on who should be appointed to the post of Chief Executive will always result in such evils as nepotism and political rather than professional considerations being the guiding principles in the selection of chief executives of parastatal corporations. The country must avoid meddling in business of public corporations by politicians who have nothing to do with such a corporation and who have no notion of what is taking place in that field.

The politician plays a very important role of ensuring that a corporation is established; it is their role to do so and the nation should thank them for that. But the running of the corporation becomes the duty of business professionals who understand the intricacies of supply and demand. The nation should, at all costs, avoid any unguided actions that may result in bankruptcy resulting from political meddling.

#### **The Financial Assistance Policy (FAP) and the Selebi-Phikwe Regional Development Project (SPRDP)**

This project was the result of a political decision and political decisions have very little to do with viability or profitability. The politicians in any country instruct the economists to embark on a project and the latter use all the jargon they have learned in income and price theories to convince the former that it will be done. I think the project landed the nation into very heavy losses.

The establishment of factories should be preceded by the infrastructure which should include, inter alia, schools, hospitals of some reputation,

etc. Most of the industries established in Selebi-Phikwe through the SPRDP were manufacturing plants which require highly skilled executives. Not many old hands left with few years to retire would accept to leave their jobs and venture into the uncertainty; the younger executives from cities with relatively young wives and school going children would prefer remaining in the city. The remoteness of Selebi-Phikwe became a disincentive. The factories, because of the small market, were producing for the foreign market which is always uncertain.

According to my views above, there is some amount of room for Botswana to compete in the regional market provided industries to be promoted are identified (comparative advantage). There shall be need sooner or later to negotiate for importing some of the country's expensive utilities.

A note of caution to the Government: I have seen several enterprises in the country going for days without merchandise because the officer in the Ministry of Agriculture, not of Commerce and Industry, refused to issue the import permit! That can result in bankruptcy and retrenchment!

**APPENDIX B**  
**LIST OF PARTICIPANTS**

## **GUEST SPEAKERS**

Maasdorp G., Professor      University of Natal, South Africa  
Stoneman C., Dr.              University of York, England

## **REPRESENTATIVES FROM GOVERNMENT**

Masire Ketumile, Sir	President of Republic of Botswana
Mogae F.G., Hon.	Vice President & Minister of Finance & Development Planning
Chiepe G.K.T., Hon.	Ministry of External Affairs
Kayira G.K.	Ministry of Finance & Development Planning
Kedikilwe P.H.K, Hon.	Ministry of Commerce & Industry
Legwaila E.W.M.J.	Office of the President
Lekaukau C.M.	Ministry of Agriculture
Lephole N.	Department of Tourism
Macheke N.M.	District Administration
Makgekgenene P.T.	Information & Broadcasting
Masogo K.M.	Ministry of Labour & Home Affairs
Modise M.D.	Ministry of Commerce & Industry
Modisi M.	Public Service Management
Molosi P.O.	Ministry of Education
Moremi T.C.	Ministry of Commerce & Industry
Palai M.	Department of Labour & Social Security
Sigwele H.K.	Ministry of Agriculture
Stoneham G.J.	Ministry of Finance & Development Planning
Tibone D.T.	Ministry of Commerce
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Wolfe R.	Ministry of Commerce

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Baker J.D.	Barclays Bank of Botswana
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Clarke L.	Bank of Botswana
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Gaborone O.	Botswana Telecommunications Corporation
Handsuh K.D.	Botswana Development Corporation
Hermans H.C.L.	Bank of Botswana
Jefferis K.R.	University of Botswana
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Majaha-Jartby J.	Bank of Botswana
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Mpho B.	Water Utilities Corporation
Muzila R.N.	Botswana National Productivity Centre
Ndzinge L.O.	Bank of Botswana
Nfila B.B.	University of Botswana
Parsons J.	Botswana National Productivity Centre
Reddy O.M.	First National Bank
Setshwaelo E.L.	Botswana National Productivity Centre
Sithole K.	Botswana Power Corporation
Tlale H.	Botswana Cooperative Bank
Tsie B.	University of Botswana

**REPRESENTATIVE FROM THE PRIVATE SECTOR**

Abkenari M.H.	Solar Power
Bagwasi B.P.B.	Botswana Building Society
Beirne J.	Selebi Phikwe Regional Dev. Project
Blewett B.	Tyre Services
Buhr J.	Sheraton Hotel & Towers
Chiabe J.M.	JMC Accounting Services
Cohen C.	Tati Co. Ltd.
Corea D.K.U.	Coopers & Lybrand
Dada A.S.	Motor Centre
Dambe P.C.	Trade World
De Silva P.	International Trade Centre
Ebrahim M.I.	Francistown Town Council
Egner T.	Quick Print
Frohlich B.	Sefalana sa Botswana
Galeforolwe J.	Air Botswana
Gaolathe B.	Debswana
Giffith D.	Mining Development
Gofhamodimo T.T.	Kanye Chamber of Commerce
Hopkins M.E.	Botswana Insurance Holdings Ltd.
Hosseini J.R.	Sunkist Botswana
Hudson D.	Phaleng Consultancies
Jordan A.L.	Lonrho Holdings
Josh M.	Nortex
Ketlogetswe L.S.	Sechaba Enterprises (Pty)
Khupe A.	Monabel Concrete Products
Larson L.E.	Soda Ash Botswana
Lebatha K.J.	Shoefix
Lekalake L.D.	Kgalagadi management Services
Makgatle M.	Stock Brokers Botswana Ltd.
Mannathoko R.N.	
Maoto K.T.	Venture Capital Consultants
Mooney P.	Trans Africa
Moroka D.N.	BP Botswana
Mosienyane L.	Mosienyane & Partners Architects
Mothoagae M.M.	HATAB

**REPRESENTATIVE FROM THE PRIVATE SECTOR  
CONTINUED**

Mphuchane S.A.	Builders World
Mudariki T.	U.B. Centre, Francistown
Ncube P.	Consultant - South Africa
O'Donovan J.Q.	Kgalagadi Breweries
O'Dwyer A.	Zimbank
Patel M.N.	Clover Chemicals Ind. (Pty) Ltd
Phumaphi M.P.	Mosojane, Phumaphi & Co.
Polan J.C.	Ngami Group Ltd
Richardson E.W.	Richardson Associates
Scott W.E.	Problem Solvers
Setlhare M.L.	Botswana Federation of Trade Union
Swift J.R.R.	Martex Investments (Pty) Ltd
Tibone M.C.	Jenkins (Botswana)
Tshite S.	Okavango Observer
Tuckey F.M.	ulc (Pty) Ltd
Viljoen G.B.	BGI (Pty) Ltd
Wellio J. S.	J.S. Wellio (Pty) Ltd
Willis C.B.	Mable Products
Zhang C.	Itekeng International

**OBSERVERS**

Barnard C.P.	South African Representative
Baum R.	USAID
Bhutiani P.K.	Indian High Commission
Bo Dan Bergman	SWEDCORP
Dent A.R.M.	British High Commission
Handler H.R.	USAID
Jeter H.F.	American Embassy
Keener G.	American Embassy
Kroger N.	German Embassy

**OBSERVERS CONTINUED**

Moloise J.	Chambers (Pty) Ltd.
Munkeby J.A.	NORAD
Mvingi H.E.L.	Zimbabwe High Commission
Mwanza A.	Zambia High Commission
Richwine A.	BPED
Rusmusson R.	Swedish Embassy
Tsupikov V.P.	Russian Embassy
Ukhin V.V.	Russian Embassy
Zembe F.A.	Zimbabwe High Commission

**MASS MEDIA**

Mphusu B.	Information & Broadcasting
Kgakole D.	Botswana Guardian
Oguti M.	Botswana Economist

**BOCCIM STAFF**

Dewah E.M.	Deputy Director
Kaboeamodimo M.	Public Relations Officer
Kgoroba K.G.	President of BOCCIM
Mbaakanyi M.J.	Director of BOCCIM
Meyer W.	Business Management Advisor
Moleele N.	Regional Manager
Siwawa-Ndai P.D.	Chief Economist/Policy Analyst

**ADMINISTRATIVE SECRETARIAT**

Kerekang R.	BOCCIM
M'Bwana S.	B.G. Consult
Maphanyane E.M.	B.G. Consult