



Botswana

1. Introduction

Before gaining independence from Britain in 1966, Botswana, a small country of 1.5-million people, was one of the poorest nations in the world (Owusu & Somatar, 1997). The economy was based largely on agriculture, which accounted for 39% of the country's gross domestic product (GDP), and to a lesser extent on tourism. The discovery of diamonds in 1967 transformed the country's economy, and today Botswana is the world's leading diamond producer (Ministry of Finance and Development Planning, 2003), with the mining sector's share of GDP 52.6% in 1983-1984 and 36.5% in 2000-2001.

Diamonds accounted for the biggest share of the country's total foreign exchange revenues for the review period 2001-2005, and are mainly exported to the UK, along with products such as beef. The EU therefore emerges in the trade data as a stronger trading partner for Botswana than its neighbours within the SADC regional market.

Efforts have been made during the review period to ensure that the proceeds from mining are used to develop the country's economy and society. A Presidential Task Force team developed Vision 2016 (Vision 2016 Council, 2004), a governmental policy document which aims to guide the country's development. Vision 2016 envisages Botswana as a prosperous, productive and innovative nation with a political environment characterised by respect for democratic ideals and freedom from corruption.

2. Economy

For 2004-2005, the provisional national accounts recorded an estimated 8.4% level of real growth in GDP, a marked increase from the 3.4% average levels for 2003-2004¹. This growth was driven principally by the mining sector, which grew at 18.2%. Employment, however, did not keep pace with the economy's growth. The estimated number of formal sector employees rose by only 2.8%, equivalent to 8,000 new jobs, to reach a total of 299,000 in March 2005. Although employment growth was slightly higher than the population growth rate (estimated at 2.4% per annum), most new jobs (7,700 or 96% of the total) were created in the public service. The residual, a tiny fraction of new jobs (0.2% in 2004) was created in the private and parastatal sectors (Bank of Botswana, 2006).

¹ Though external inflationary pressures were expected to remain moderate for 2005, this performance could be undermined over the medium term: whilst inflation fell in the first four months of 2005, it rose rapidly after a 12% devaluation of the local currency, a decision for which the Botswana government was criticised locally.

2.1 Trade balance

Table 1: Botswana's trade and trade balances: 2001-2005 (Pula-million)

	2001	2002	2003	2004	2005	Average annual growth rate (01-05) %*
Exports to the World	12,402	15,889	13,864	16,449	22,518	13.06
Imports from the World	9,448	15,072	12,003	15,679	16,557	12.32
Trade balance	2,953	817	1,860	771	5,961	14.41
Exports to South Africa	652	1,080	1,160	1,536	2,028	29.99
Imports from South Africa	7,299	12,212	10,338	13,013	14,018	14.67
Trade balance with South Africa	-2,953	817	1,860	771	5,961	14.41
Exports to the SADC	1,038	1,526	1,613	2,200	3,101	29.12
Imports from the SADC	7,642	12,597	10,599	13,346	14,505	14.33
Trade balance with the SADC	-6,604	-11,071	-8,987	-11,146	-11,403	

* Note: Growth rates calculated from time trend regressions

Botswana had a favourable trade balance with the world in the early 2000s due to increased exports (including good commodity prices), which did particularly well over the period 2001-2005. Although diamond production constituted 90% of the mining sector's total value, other sub-sectors within the industry, particularly copper and nickel, performed well. The gold sub-sector was positively affected by the start of operations in November 2004 at the Mupane gold mine, which reached full production in 2005.

The short-term impact of the devaluation of the Pula saw Botswana record increased export earnings in 2005.

Botswana has strong political and economic ties to South Africa and is relatively dependent on South African products. The country's trade balance with South Africa worsened from P771-million in 2004 to a five-year high of nearly P6-billion in 2005.

The trade balance between Botswana and the rest of the SADC region was reasonably constant at P11,156-million in 2004 and P11,403-million in 2005.

2.2 Exports and imports by region

Table 2: Exports and imports by region: 2005

Region	Exports value (Pm)	Exports (%)	Imports Value (Pm)	Imports (%)
World	22,518	100.00	16,557	100.00
SADC	3,101	13.77	14,505	87.61
NAFTA	503	2.24	273	1.65
European Union	17,300	76.82	1,084	6.55
MERCOSUR	0	0.00	19	0.11
Rest of Africa	40	0.18	19	0.11
Oceania	4	0.02	19	0.11
Rest of Americas	5	0.02	1	0.00
Rest of Asia	124	0.55	322	1.95
Eastern Asia	2	0.01	280	1.69
Rest of Europe	1,440	6.39	37	0.22
Other regions	0	0.00	0	0.00

In 2005, most exports from Botswana were destined for the United Kingdom (UK) and the European Union (EU), as is evident in Table 2.

Diamonds were exported to the World Diamond Council in London although Botswana is currently establishing a Diamond Trading Company in its capital city, Gaborone. This will have an impact on its future pattern of exports trade.

The UK was also the largest market for Botswana's beef exports. Those products had duty-free, preferential access to the EU. Beef was exported to the UK by the Botswana Meat Commission (BMC), the only public exporter of meat and meat products in the country.

The second most important destination for Botswanan exports was the SADC region, with 13.77% of its total exports headed to that regional market. Most of those products and goods, however, were actually destined for South Africa and Namibia. The rest of Europe accounted for a further 6.39% share of the country's total exports.

As is evident in Table 2, Botswana's imports are sourced predominantly from the SADC, which had a massive 87.61% share of total. A far less important source of imports was the EU, with a total share of 6.5%, and with imported products from that region sourced mainly from the UK, France and Sweden.

Asia and the North American Free Trade Area (NAFTA) were sources of some of the country's imports, with 3.6% and 1.7% shares of total, respectively. Imports from Asia increased, rising from 1.5% in 2004 to 3.64% in 2005.



Table 3: Top 10 sources of imports and destinations for exports: 2005

Exports				Imports		
	Country	Value (Pm)	Share of total (%)	Country	Value (Pm)	Share of total (%)
1	United Kingdom	17,011	75.54	South Africa	14,018	84.66
2	South Africa	2,028	9.01	Sweden	492	2.97
3	Norway	1,332	5.91	United Kingdom	221	1.33
4	United States	498	2.21	United States	201	1.21
5	Germany	146	0.65	China	175	1.06
6	Faeroe Islands	103	0.46	Germany	146	0.88
7	Israel	56	0.25	Japan	105	0.63
8	Belgium	53	0.23	Namibia	74	0.45
9	Namibia	40	0.18	Canada	72	0.44
10	Portugal	39	0.17	India	65	0.40

Botswana benefited from the access granted to it under the Generalised System of Preferences (GSP). Exporters enjoyed access to Norway for their beef, copper, nickel and other products and that accounted for, as is evident in Table 3, the buoyant exports to that particular Scandinavian country.²

Sweden's investment in Botswana, through Scania, a vehicle and automotive component manufacturer and retailer, influenced the high trade recorded in parts and accessories as well as trucks, buses and luxury coaches.

Imports from South Africa included goods from other sources which had been routed through South Africa to land-locked Botswana.

Namibian goods made up 0.45% of imports. Increased trade between the two neighbouring countries reflected Botswana's use of the Trans-Kgalagadi Transport Corridor so that its imported goods, travelling via Walvis Bay, could reach its consumers and producers.

South Africa had sizeable trade surpluses with Botswana. Botswana exported 9.01% of its export products to South Africa, while importing 84.66% of its import products from that neighbour. An unequal trade relationship exists between the two and that can, potentially, lead to political polarisation. The challenge for Botswana is how it, as a less-industrialised country, can make its domestic industries competitive enough in the face of its more industrialised neighbours and lower regional trade barriers. Part of the answer might lie in the identification of niche markets, such as traditional crafts, or other areas of comparative advantage that can be nurtured so that its economy can compete with and benefit from its trade with South Africa

² The Generalised System of Preferences (GSP) allows developing countries to export to developed country markets without any import duties and quota restrictions.

2.3 Fastest growing import and export partners

Table 4: Fastest growing trade partners: 2001-2005

Imports			Exports		
Country	Value (2005, Pm)	Average growth 2000-2005 (%)	Country	Value (2005, Pm)	Average growth 2000-2005 (%)
Japan	105	43.83	United States	498	91.24
China	175	36.06	Norway	1,332	43.04
Sweden	492	14.74	Germany	146	35.48
South Africa	14,018	14.67	South Africa	2,028	29.99
Germany	146	13.19	United Kingdom	17,011	8.92
United States	201	3.85	Faeroe Islands	103	0.00
United Kingdom	221	-12.74		0	0.00

* Note: Growth rates calculated from time trend regressions; only countries with trade greater than US\$20m are reported in the table.

The United States (US) was Botswana's fastest growing export partner, as is evident in Table 4. The average growth in exports to the US for 2000-2005 was 91.25%; the impact of the African Growth and Opportunity Act (AGOA) and the devaluation of the Pula contributed mostly to this increase. According to the US International Trade Centre, Botswana's duty free exports under the AGOA³ rose to P93m in 2005 from P72m in 2004, amounting to an increase of 31% for one-year period. According to the Bank of Botswana, textile exports, which accounted for most of its AGOA exports, were, in 2005, 99% higher than its 2004 levels, although without the Pula's devaluation, this growth was in the region of an 80% to 85% increase.

Norway, Germany, South Africa and the UK also experienced substantial increases in exports from Botswana.

Japan was Botswana's fastest growing import partner. The two countries share a 40-year bilateral trade relationship⁴. The average growth in imports from Japan for 2000-2005 was 43.83%.

The second fastest emerging trade partner for Botswana was China. The average growth in imports from China for 2001-2005 was recorded at 36.06%, followed by a 14.74% increase in imports from Sweden for that same period. South Africa was the only SADC country with a strong export and import relationship with Botswana.

³ The African Growth and Opportunity Act (AGOA) allows sub-Saharan African countries to export over 1,800 tariff line items duty free to the US. AGOA was signed into law by former President Bill Clinton in May 2000 as Title One of the US Trade and Development Act of 2000. The AGOA's duty free export incentives expire in 2008.

⁴ Every year, Botswana receives at least two official delegations from Japan, aimed at strengthening this relationship, while Botswana hosts an annual expo in Tokyo.

2.4 Commodity composition of trade

As is evident in Table 5, most of Botswana's imports from South Africa consisted of mineral products, machinery and vehicles. One motor assembly plant in Botswana, Volvo, relocated to South Africa in 2005, while Hyundai ceased production in the country.

Even though Botswana imported a significant amount of minerals from South Africa, most of its imports were sourced from the rest of SADC. Mineral products, at 16.89% of total, accounted for the largest share of imports from the rest of the world.

Growth in the manufacturing sector was hindered by a chronic shortage of skilled personnel, especially among artisans and engineers.

As is evident in Table 6, exports to South Africa consisted of vehicles (with a 27.34% share of total), textiles (with a 14.62% share) and metals (with a 12.58% share).

Metal products accounted for the bulk of Botswana's exports to the rest of SADC (RoSADC), equivalent to 70.20% of total, but these exports had actually decreased from the 82.9% share of total recorded in 2004.

Precious metals accounted for the largest share of exports, equivalent to a 75.48% share of total, to the rest of the world.



Table 5: Commodity composition of imports: 2005

Product	Share of total imports from world (%)	Share of total imports from South Africa (%)	Share of total imports from the RoSADC (%)
C01: Animals (live) and animal products; Section I	2.13	2.40	3.43
C02: Vegetable products; Section II	4.26	4.72	7.12
C03: Fats and oils (animal or vegetable); Section III	0.84	0.89	0.27
C04: Prepared foodstuffs, beverages and tobacco; Section IV	6.52	6.96	20.07
C05: Mineral products; Section V	16.89	19.14	22.96
C06: Chemical products; Section VI	8.01	8.22	2.21
C07: Plastics and rubber; Section VII	3.90	4.04	3.83
C08: Leather products; Section VIII	0.17	0.17	0.09
C09: Wood products; Section IX	1.55	1.49	9.35
C10: Paper products; Section X	6.66	7.31	0.94
C11: Textile products; Section XI	3.65	3.42	3.75
C12: Footwear, headgear and umbrellas; Section XII	1.03	1.10	0.44
C13: Stone, cement and glass products; Section XIII	1.60	1.74	0.47
C14: Pearls and precious stones; Section XIV	0.10	0.11	0.07
C15: Metal products; Section XV	7.59	8.01	13.25
C16: Machinery; Section XVI	16.34	14.09	7.10
C17: Vehicles, aircraft and vessels; Section XVII	12.52	12.50	2.33
C18: Photographic instruments, clocks and musical instruments; Section XVIII	1.20	1.02	0.68
C19: Arms and ammunition; Section XIX	0.36	0.02	0.16
C20: Furniture, toys and other products; Section XX	2.32	2.52	0.75
C21: Works of art and antiques; Section XXI	0.00	0.00	0.02
C22: Commodities not elsewhere specified (n.e.s.); Section XXII	2.34	0.10	0.70

Table 6: Commodity composition of exports: 2005

Product	Share of total exports to world (%)	Share of total exports to South Africa (%)	Share of total exports to the RoSADC (%)
C01: Animals (live) and animal products; Section I	1.68	7.19	0.10
C02: Vegetable products; Section II	0.17	1.12	1.52
C03: Fats and oils (animal or vegetable); Section III	0.01	0.01	0.09
C04: Prepared foodstuffs, beverages and tobacco; Section IV	0.61	6.10	0.88
C05: Mineral products; Section V	0.49	1.81	6.81
C06: Chemical products; Section VI	0.74	4.25	6.54
C07: Plastics and rubber; Section VII	0.23	2.22	0.71
C08: Leather products; Section VIII	0.13	1.08	0.05
C09: Wood products; Section IX	0.01	0.03	0.08
C10: Paper products; Section X	0.39	3.60	1.14
C11: Textile products; Section XI	4.96	14.62	3.47
C12: Footwear, headgear and umbrellas; Section XII	0.06	0.43	0.13
C13: Stone, cement and glass products; Section XIII	0.04	0.32	0.12
C14: Pearls and precious stones; Section XIV	75.48	8.37	0.05
C15: Metal products; Section XV	10.86	12.58	70.20
C16: Machinery; Section XVI	1.12	6.55	4.37
C17: Vehicles, aircraft and vessels; Section XVII	2.65	27.34	2.27
C18: Photographic instruments, clocks and musical instruments; Section XVIII	0.07	0.51	0.02
C19: Arms and ammunition; Section XIX	0.00	0.00	0.00
C20: Furniture, toys and other products; Section XX	0.06	0.30	0.66
C21: Works of art and antiques; Section XXI	0.00	0.01	0.00
C22: Commodities not elsewhere specified (n.e.s.); Section XXII	0.25	1.57	0.77

2.5 Fastest growing import and export commodities

2.5.1 Fastest growing export commodities

'Printed books, newspapers and pictures' was the fastest growing category of exports to the world, with an average growth rate of 261.30% for the period 2001-2005.

'Knitted and crocheted apparel and accessories' was the second fastest growing category of exports. Increased trade in these manufactured goods could be a result of the government's objective of economic diversification, as outlined in its seventh National Development Plan.⁵ In support of this objective, a clothing and textile hub was developed at Selebi-Phikwe, a small mining town in north-east Botswana.⁶

Table 7: Fastest growing exports to the world: 2001-2005

Product	Value 2005 (Pm)	% growth
H49: Printed books, newspapers, pictures, etcetera	50	261.30
H61: Articles of apparel, accessories, knit or crochet	580	56.39
H17: Sugars and sugar confectionery	61	43.25
H25: Salt, sulphur, earth, stone, plaster, lime and cement	87	21.61
H39: Plastics and articles thereof	49	13.60
H19: Cereal, flour, starch, milk preparations and products	48	11.70
H28: Inorganic chemicals, precious metal compound, isotopes	121	3.14
H48: Paper and paperboard, articles of pulp, paper and board	32	2.96
H02: Meat and edible meat offal	376	1.41
H41: Raw hides and skins (other than fur skins) and leather	28	-12.61
H49: Printed books, newspapers, pictures, etcetera	50	261.30
H61: Articles of apparel, accessories, knit or crochet	580	56.39
H17: Sugars and sugar confectionery	61	43.25
H25: Salt, sulphur, earth, stone, plaster, lime and cement	87	21.61
H39: Plastics and articles thereof	49	13.60
H19: Cereal, flour, starch, milk preparations and products	48	11.70
H28: Inorganic chemicals, precious metal compound, isotopes	121	3.14
H48: Paper and paperboard, articles of pulp, paper and board	32	2.96
H02: Meat and edible meat offal	376	1.41
H41: Raw hides and skins (other than fur skins) and leather	28	-12.61

* Note: Only products with trade greater than US\$5m are reported in what follows when attention is focussed on growth rates. Growth rates are calculated from time trend regressions

⁵ Planning in Botswana occurs in six-year planning cycles with a mid-term review undertaken in the third year of that cycle.

⁶ The clothing and textile hub was developed to reduce Selebi-Phikwe's dependence on a copper and nickel mine, a facility which is expected to close in the next few years. The mine supports more than 60% of the town's inhabitants.

The fastest growing exports to South Africa for 2000-2005 were 'printed books, newspapers and pictures', with its trade expanding by 349.52% per annum compared to 261.30% for the rest of the world (though the product might reflect printed money rather than a manufactured output).

Table 8: Fastest growing exports to South Africa: 2001-2005

Product	Value 2005 (Pm)	% growth
H49: Printed books, newspapers, pictures, etcetera	47	349.52
H02: Meat and edible meat offal	145	57.80
H62: Articles of apparel, accessories, not knit or crochet	128	51.70
H17: Sugars and sugar confectionery	60	43.41
H25: Salt, sulphur, earth, stone, plaster, lime and cement	32	29.68
H61: Articles of apparel, accessories, knit or crochet	100	26.46
H39: Plastics and articles thereof	41	21.92
H19: Cereal, flour, starch, milk preparations and products	46	11.96
H63: Other made textile articles, sets, worn clothing, etcetera	27	0.76

* Note: Growth rates are calculated from time trend regressions

Table 9 isolates Botswana's exports to SADC countries excluding South Africa. The table illustrates Botswana's small export base to the region. Among the fastest growing exports, only exports of copper and copper products are of a relatively substantial amount/

Table 9: Fastest growing exports to the rest of SADC: 2001-2005

Product	Value 2005 (Pm)	% growth
H84: Nuclear reactors, boilers, machinery, etcetera	26	155.24
H28: Inorganic chemicals, precious metal compound, isotopes	46	57.56
H74: Copper and articles thereof	742	30.96
H25: Salt, sulphur, earth, stone, plaster, lime and cement	54	16.96

2.5.2 Fastest growing import commodities

As is evident in Tables 10 and 11, the fastest growing import commodities from the rest of the world and South Africa were animal, vegetable fats and oils, as well as cleavage products. Ideally, Botswana needs to develop a secondary beef industry to benefit animal by-products because its beef industry is facing stiff price competition globally and supply bottlenecks.

Table 12 shows that Botswana's fastest growing imported products from the rest of the SADC were mineral fuels, oils and distillation products. This was in keeping with the fact that Botswana is entirely dependent on the importation of fuels.

Table 10: Fastest growing imports from the world: 2001-2005

Product	Value 2005 (Pm)	% growth
H15: Animal, vegetable fats and oils, cleavage products, etcetera	138	14.82
H16: Meat, fish and seafood food preparations n.e.s.	41	13.80
H19: Cereal, flour, starch, milk preparations and products	93	13.46
H10: Cereals	313	13.22
H04: Dairy products, eggs, honey, edible animal product n.e.s.	300	11.80
H09: Coffee, tea, mate and spices	84	10.80
H17: Sugars and sugar confectionery	216	10.23
H07: Edible vegetables and certain roots and tubers	147	7.65
H08: Edible fruit, nuts, peel of citrus fruit, melons	67	2.17
H11: Milling products, malt, starches, inulin, wheat gluten	72	-7.13

* Note: Growth rates are calculated from time trend regressions

Table 11: Fastest growing imports from South Africa: 2001-2005

Product	Value 2005 (Pm)	% growth
H15: Animal, vegetable fats and oils, cleavage products, etcetera	125	17.75
H04: Dairy products, eggs, honey, edible animal product n.e.s.	288	16.11
H10: Cereals	310	14.89
H19: Cereal, flour, starch, milk preparations and products	87	12.95
H17: Sugars and sugar confectionery	148	12.35
H09: Coffee, tea, mate and spices	63	11.89
H16: Meat, fish and seafood food preparations n.e.s.	33	10.38
H07: Edible vegetables and certain roots and tubers	140	7.24
H08: Edible fruit, nuts, peel of citrus fruit, melons	67	2.23
H11: Milling products, malt, starches, inulin, wheat gluten	65	-5.38

* Note: Growth rates are calculated from time trend regressions

Table 12: Fastest growing imports from the RoSADC: 2001-2005

Product	Value 2005 (Pm).	% growth
H27: Mineral fuels, oils, distillation products, etcetera	37	62.14
H26: Ores, slag and ash	38	36.20
H44: Wood and articles of wood, wood charcoal	45	15.82
H25: Salt, sulphur, earth, stone, plaster, lime and cement	37	12.17
H17: Sugars and sugar confectionery	66	5.22

* Note: Growth rates are calculated from time trend regressions



3. Describing trade

Table 13 indicates that there was a decrease in Botswana's trade intensities for its exports and imports within the SADC region.

The trade intensity for exports decreased from 27.20 in 2000 to 3.11 in 2003. This decrease might reflect an increased bias by Botswanan exporters towards exporting their products to the UK, of which beef and diamonds were the principal exports, and to the US, specifically for textiles products, as a consequence of the AGOA.

The trade intensity for imports with the SADC decreased from 303.06 in 2000 to 2.75 in 2003. Approximately 85% of all of those imports into the Botswanan economy originated from South Africa.

Table 13: Trade intensities for exports and imports from SADC: 2000-2005

	2000	2001	2002	2003
Export intensities	27.20	27.36	4.16	3.11
Import intensities	303.06	196.47	4.28	2.75
Complementarity index	1.59	2.24	1.98	1.40

The Hirschman index, defined as the sum of square shares of all commodities, is used to measure trade concentration. Table 14 indicates that Botswana's exports were less concentrated; in all cases, the Hirschman index decreased over 2000-2003.

A comparison of the country's overall imports indicated that the Hirschman index increased from 0.01 in 2000 to 0.02 in 2003, implying that trade had become more concentrated.

Somewhat similarly, imports from South Africa were less concentrated as the Hirschman index decreased from 0.572 in 2000 to 0.116 in 2003.

Imports from the rest of SADC were more concentrated as the Hirschman index increased from 0.023 in 2000 to 0.031 in 2003. Importantly, Botswana implemented the SADC Trade Protocol from 1 September 2000. A goal of the SADC Trade Protocol is the liberalisation and increased flow of trade between all SADC member states.

Table 14: Hirschman indices

	2000	2001	2002	2003
Exports to the world	0.743	0.695	0.604	0.581
Imports from the world	0.010	0.013	0.012	0.020
Exports to South Africa	0.572	0.089	0.122	0.116
Imports from South Africa	0.022	0.011	0.015	0.013
Exports to the RoSADC	0.080	0.058	0.456	0.402
Imports from the RoSADC	0.023	0.027	0.034	0.031

4. Revealed comparative advantage

Table 15 shows that Botswana had Revealed Comparative Advantage (RCA) in ‘pearls, precious stones, metals, etc.’, in copper and similar articles, as well as in meat and edible meat offal products.

The country had lower relative costs for diamond mining production than did its competitors in the rest of the world. The Jwaneng mine in south central Botswana, which is owned by the De Beers Group, has the world’s most profitable kimberlite pipe and a highly competitive operating margin of about US\$130 per ton.

The Jwaneng mine produces about 19% of the world’s diamonds by value. The recently expanded Orapa mine, with the adjacent Lethlakane mine, produces about 9% of the world’s diamonds by value.⁷ The Botswanan government intends to widen this advantage by investing in mining technology. However, there are some challenges associated with the ongoing popularity of diamonds as a desirable gemstone.

First, certain non-governmental organisations linked diamonds to the attempted forced removal of the Basarwa from the Central Kgala-gadi Game Reserve. A court ruled against the community’s removal. Secondly, a United Nations campaign against the sale of diamonds from conflict areas, or blood diamonds⁸, supported by a Hollywood movie of the same name, impacted on the consumer’s perceptions of the desirability of this commodity.

⁷ Information accessed at http://www.afdiamonds.com/_operations/botswana.shtml on 4 September 2006.

⁸ A blood diamond is a diamond mined in a war zone and sold, usually clandestinely, to finance an insurgent or invading army’s war efforts.

Table 15: Revealed comparative advantage for the top 20 commodities (HS2): 2005

Product	Index value	Exports (Pm)
H71: Pearls, precious stones, metals, coins, etcetera	39.70	16,997
H74: Copper and articles thereof	14.27	2,336
H02: Meat and edible meat offal	2.47	376
H61: Articles of apparel, accessories, knit or crochet	1.96	580
H36: Explosives, pyrotechnics, matches, pyrophorics, etcetera	1.69	10
H25: Salt, sulphur, earth, stone, plaster, lime and cement	1.49	87
H62: Articles of apparel, accessories, not knit or crochet	1.32	450
H17: Sugars and sugar confectionery	1.26	61
H28: Inorganic chemicals, precious metal compound, isotopes	0.87	121
H19: Cereal, flour, starch, milk preparations and products	0.65	48
H63: Other made textile articles, sets, worn clothing, etcetera	0.55	42
H49: Printed books, newspapers, pictures, etcetera	0.55	50
H41: Raw hides and skins (other than fur skins) and leather	0.40	28
H55: Manmade staple fibres	0.29	20
H87: Vehicles other than railway, tramway	0.25	570
H11: Milling products, malt, starches, inulin, wheat gluten	0.24	5
H57: Carpets and other textile floor coverings	0.23	6
H56: Wadding, felt, nonwovens, yarns, twine, cordage, etcetera	0.19	6
H13: Lac, gums, resins, vegetable saps and extracts n.e.s.	0.18	1
H10: Cereals	0.17	20
H73: Articles of iron or steel	0.15	59

5. Intra-industry trade

The concept of intra-industry trade (IIT) is usually applied to international trade where the same products and services are imported and exported. Table 16 reports on the use of the Grubel-Lloyd index to measure the percentage of all Botswanan trade that is intra-industry in nature. An index value of one indicates that exports perfectly equal imports within an industry; an index value of zero indicates that there is only one-way trade within that industry. The advantage of intra-industry trade is that it allows innovation and exploitation of economies of scale and specialisation by an industry.

Botswana has an index value of one for linens, sugar confectionery and male suits, which means the value of those goods exported to the rest of the world was close to the value imports of the same items into Botswana. The high Grubel-Lloyd index for linens and clothing was not surprising as this was as a consequence of the AGOA preferential trade access granted to Botswana.

The perfect Grubel-Lloyd score for sugar, as is shown in Table 16, was also expected as Botswana imported sugar through Sugar Industries (Pty) Limited⁹, a private company which packs refined sugar for export to local, regional and international markets.

Table 16: Intra-industry trade with the world for the top 15 commodities (HS4): 2005

Commodity	Grubel-Lloyd index	Exports (Pm)	Imports (Pm)
H6302: Bed, table, toilet and kitchen linens	1.00	26.87	26.95
H1704: Sugar confectionery, non-cocoa, white chocolate	1.00	60.94	60.59
H6103: Men's, boys' suits, jackets, trousers, etcetera, knit or crochet	1.00	13.37	13.50
H7403: Refined copper and copper alloys, unwrought	0.99	0.86	0.86
H5703: Carpets, tufted	0.99	5.62	5.74
H1905: Baked bread, pastry, wafers, rice paper, biscuits	0.98	32.40	30.86
H7326: Articles of iron or steel	0.97	44.48	47.45
H1902: Pasta, couscous	0.96	14.33	13.14
H7602: Aluminium waste or scrap	0.94	1.38	1.21
H8462: Machine-tools for forging, die-stamping, bending metal	0.92	3.79	3.25
H5205: Cotton yarn not sewing thread >85% cotton, not retail	0.92	5.14	4.39
H3002: Blood, antisera, vaccines, toxins and cultures	0.92	16.98	14.40
H8532: Electrical capacitors, fixed, variable or adjustable	0.92	0.68	0.81
H2302: Bran, sharps etc, from working of cereals or legumes	0.92	2.09	1.77
H8448: Auxiliary machinery and parts for textile machinery	0.91	1.83	1.52

Table 17 indicates that Botswana had very high intra-industry trade with South Africa. Most of the traded commodities on that list had a Grubel-Lloyd index greater than 0.90 while the lowest Grubel-Lloyd index was for paper products with an index of 0.75. The highest Grubel-Lloyd index of one was for tufted carpets. Citrus fruits, which did not feature in the 2005 list, had previously had the highest Grubel-Lloyd index in 2004.

⁹ Sugar Industries (Pty) Ltd started operating as sugar packers in March 1985 before being bought and restructured by the South African Sugar Association in 1991.

Table 17: Intra-industry trade with South Africa for the top 15 commodities (HS4), 2005

Commodity	Grubel-Lloyd index	Exports (Pm)	Imports (Pm)
H5703: Carpets, tufted	1.00	5.62	5.66
H9015: Survey, oceanographic, meteorological instruments, etcetera	0.98	4.45	4.65
H6302: Bed, table, toilet and kitchen linens	0.97	24.99	23.58
H6203: Men's or boys' suits, jackets, trousers, etcetera not knit	0.97	46.81	44.09
H1902: Pasta, couscous, etcetera	0.97	13.62	12.74
H7326: Articles of iron or steel	0.96	42.64	45.96
H1704: Sugar confectionery, non-cocoa, white chocolate	0.95	60.21	54.46
H8532: Electrical capacitors, fixed, variable or adjustable	0.92	0.68	0.81
H6204: Women's, girls' suits, jacket, dress, skirt, etcetera, woven	0.91	56.11	46.76
H1905: Baked bread, pastry, wafers, rice paper, biscuits, etcetera	0.90	31.58	25.65
H4707: Waste or scrap of paper or paperboard	0.90	0.83	0.68
H8802: Aircraft, spacecraft, satellites	0.87	10.90	14.03
H6109: T-shirts, singlets and other vests, knit or crochet	0.82	39.44	27.26
H6002: Knit or crochet fabric	0.81	0.88	1.28
H4808: Paper, board corrugated, creped, embossed, perforated	0.75	4.63	2.80

Even though intra-industry trade between Botswana and the rest of SADC was low, two industries that had reasonably strong indices included the parts and accessories for motor vehicles sector and the footwear sector. As is evident in Table 18, leather uppers had a Grubel-Lloyd index of 0.70 and motor vehicle parts and accessories had an index of 0.79.

Table 18: Intra-industry trade with the RoSADC for the top 15 commodities (HS4): 2005

Commodity	Grubel-Lloyd index	Exports (Pm)	Imports (Pm)
H8708: Parts and accessories for motor vehicles	0.79	0.75	1.15
H6403: Footwear with uppers of leather	0.70	0.57	1.06
H7326: Articles of iron or steel n.e.s.	0.69	1.83	0.97
H2711: Petroleum gases and other gaseous hydrocarbons	0.69	0.80	1.51
H8525: Radio and television (TV) transmitters, television cameras	0.69	10.81	20.51
H1005: Maize (corn)	0.63	0.52	1.14
H0713: Vegetables, leguminous dried, shelled	0.60	0.56	1.31
H2603: Copper ores and concentrates	0.60	2.92	6.85
H9999: Commodities n.e.s.	0.59	8.30	3.43
H9403: Other furniture and parts thereof	0.58	6.71	2.73
H8703: Motor vehicles for transport of persons (except buses)	0.56	11.57	4.52
H8485: Machinery parts, without electric features	0.54	0.63	0.23
H3923: Containers, bobbins and packages, of plastics	0.53	4.40	1.58
H5603: Nonwovens textiles, except felt	0.50	1.26	3.82
H2710: Oils petroleum, bituminous, distillates, except crude	0.45	8.84	30.31



6. Summary of trade agreements

For the period under review, Botswana was a signatory to a number of bilateral, regional and international trade agreements including, most notably, the following:

- **World Trade Organisation:** The WTO operates through a series of trade negotiations referred to as rounds. The WTO has yielded specific benefits, such as the Generalised System of Preferences (GSP), for developing countries. The GSP allows developing countries to export to developed countries' markets without the imposition of import duties and quota restrictions. Botswana benefited from GSP access to Norway for beef, copper, nickel and other products during the period under review.
- **The Cotonou Agreement:** This succeeded the Lome IV Convention in 2000. It allows for the export of products from African, Caribbean and Pacific (ACP) countries to the EU free of customs duties and, in certain instances, at preferential rates of duty. Some of Botswana's products that benefitted from this agreement for the period under review included beef, textiles and clothing products.
- **The African Growth and Opportunity Act:** The AGOA aims to improve trade and economic cooperation between the US and eligible sub-Saharan African countries. These benefits expire in 2008. The AGOA provides duty free access for over 6,500 products from sub-Saharan Africa to the US market. Botswana benefited from the AGOA's provisions for textiles and apparel during the period under review. These benefits were initially hampered by the fact that Botswana was classified as a middle-income nation; however, the US passed the AGOA II in August 2002 and reclassified Botswana and Namibia as Least Developed Countries (LDC) for two years. Efforts by the US are underway to fast track the AGOA III which is expected to extend the AGOA II's provisions beyond the stipulated period.
- **The SADC Trade Protocol:** Botswana is a signatory to the SADC Treaty signed on 17 August 1992. The SADC has 14 members and a combined, estimated population of 208m people. A principal aim of the SADC Protocol is to harmonise the socio-economic policies and plans of member states to ensure sustainable economic development and growth in southern Africa. The SADC Protocol on Trade came into effect in 2000 and aims to promote trade between member states through trade liberalisation, leading to the establishment of a Free Trade Area (FTA) by 2008.



- The Southern African Customs Union: Botswana is a member of the Southern African Customs Union (SACU). The SACU Agreement was concluded in October 2002. SACU's aims are to advance the economic development of member countries, to help diversify their economies and to afford equitable benefits through intra-union and international trade. The agreement provides that the SACU countries can negotiate as a bloc new FTA agreements with third parties. The SACU is negotiating a FTA with the US¹⁰. The SACU-MERCOSUR Preferential Trade Agreement negotiations have been concluded and there are plans to negotiate FTA agreements with India, China, Kenya and Nigeria.
- Botswana-Zimbabwe trade agreement: This provides for duty and quota free trade for goods produced or grown in the two countries with the proviso that they meet a 25% local content requirement. Exports of textile and clothing products under the provisions of the agreement were subject to a quota of P7.2m per annum.
- The Southern African Global Competitiveness Hub: This US initiative provides technical assistance to Southern African governments, private sectors and regional organisations in order to enhance the use of the AGOA and to promote Trade for Africa's Development and Enterprise (TRADE).

7. Conclusion

Botswana is experiencing quite a variety of economic difficulties. Macroeconomic data suggest that inflation is high and that the rate of employment creation, particularly in the private sector, has been very low. On the trade front, the economy is dominated by a couple of commodities – diamonds and beef.

Though the data analysed for Botswana suggest that some diversification and specialisation have occurred over time in other products (as indicated at least by the presence of some amount of intra-industry trade), the country relied heavily on demand from one particular partner, the UK. Nevertheless, relations with the SADC region in general, and with South Africa in particular, are important for the economy. About 14% of exports are to SADC and the region absorbs some primary commodities processed in Botswana – sugar, meat and products from the copper and nickel industry. In turn, South Africa is the trade partner with whom Botswana has experienced relatively rapidly growing exports and imports.

¹⁰ The FTA is expected to replace and improve the current AGOA's benefits. The SACU-US FTA will be permanent, providing long-term trade relations and dependable market access for goods and services from the SACU.

8. References

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