



Botswana

1. Trade structure and patterns

Prior to independence in 1966, Botswana was one of the poorest countries in the world, with an economy that was largely based on agriculture (accounting for 39% of GDP) and some tourism (Owusu *et al*, 1997). However, the share of agriculture progressively declined as the mining industry rose to prominence.

The bulk of mining's contribution emanated from the lucrative diamond industry, as Botswana became the world's leading diamond producer (NDP 9, 2003). The sector's share of GDP grew from a negligible base at the time of independence to 36.5% in 2000/01, having reached a high point of 52.6% in 1983/84. All diamonds are exported to the UK.

Mineral resources, combined with prudent economic management, led to rapid growth, which improved Botswana's ranking from a low-income to a middle-income country.

1.1 Aggregate trade

As figure 1 shows, Botswana had a favourable balance of trade until 2002. However, exports declined from about BWP15-billion in 2001 to about BWP12bn in 2002, and continued this downturn into 2003. Over the same period, imports increased from about BWP11bn in 2001 to BWP13bn in 2002, resulting in a trade imbalance which continued into 2003.

The decline in export earnings is attributed to a decline in diamond earnings (NDP 9, 2003)¹, slow growth in the non-mining sector due to a reduction in vehicle exports after the closure of Hyundai Motor Company (see Box 1), and the outbreak of Foot and Mouth Disease (FMD) amongst Botswana cattle², which resulted in a decline in meat exports. The increase in the value of imports can be attributed to the devaluation of the Botswana pula against the South African rand in 2002. (Importers pay more pula to obtain a unit of foreign currency which they use to pay for goods and services.)

The aggregate trade imbalance is mostly due to the worsening trade balance with SA. The trade imbalance with SA increased from BWP7bn in 2001 to about BWP11bn in 2002. It was still high in 2003 although

¹ Speech of the Minister of Finance on delivering the National Development Plan (NDP) 9. Diamond earnings declined due to reduced demand because of the adverse impact of the global economic slowdown.

² As a result of the FMD outbreak in 2002, the Botswana Meat Commission lost US\$4.5m (BMC, 2003).

Table 1: Botswana's trade balance with the world and with SADC, 1999-2003 (BWP '000s)

	1999	2000	2001	2002	2003	Growth (%)
Exports	12,608,768	14,253,954	14,610,303	11,837,003	11,361,215	-3.9
Imports	10,016,615	10,035,301	10,265,823	12,863,968	11,840,811	6.0
Trade balance	2,592,153	4,218,653	4,344,481	-1,026,965	-479,596	
Exports to SA	1,274,295	926,689	936,809	1,073,051	852,252	-6.4
Import from SA	7,741,728	7,802,430	8,165,125	11,616,216	10,431,658	10.5
Trade balance with SA	-6,467,433	-6,875,741	-7,228,315	-10,543,165	-9,579,406	
Exports to SADC	442,531	682,962	473,716	375,492	312,528	-12.1
Import from SADC	447,966	425,473	395,540	592,604	143,327	-17.7
Trade balance with SADC	-5,435	257,489	78,176	-217,112	169,201	

Source: TIPS

it had decreased from BWP11bn to about BWP10bn. The trade balance with SADC also changed from a trade surplus of BWP78-million in 2001 to a trade deficit of BWP217m in 2002. The deficit continued into 2003, but at a slightly lower level of about BWP169m.

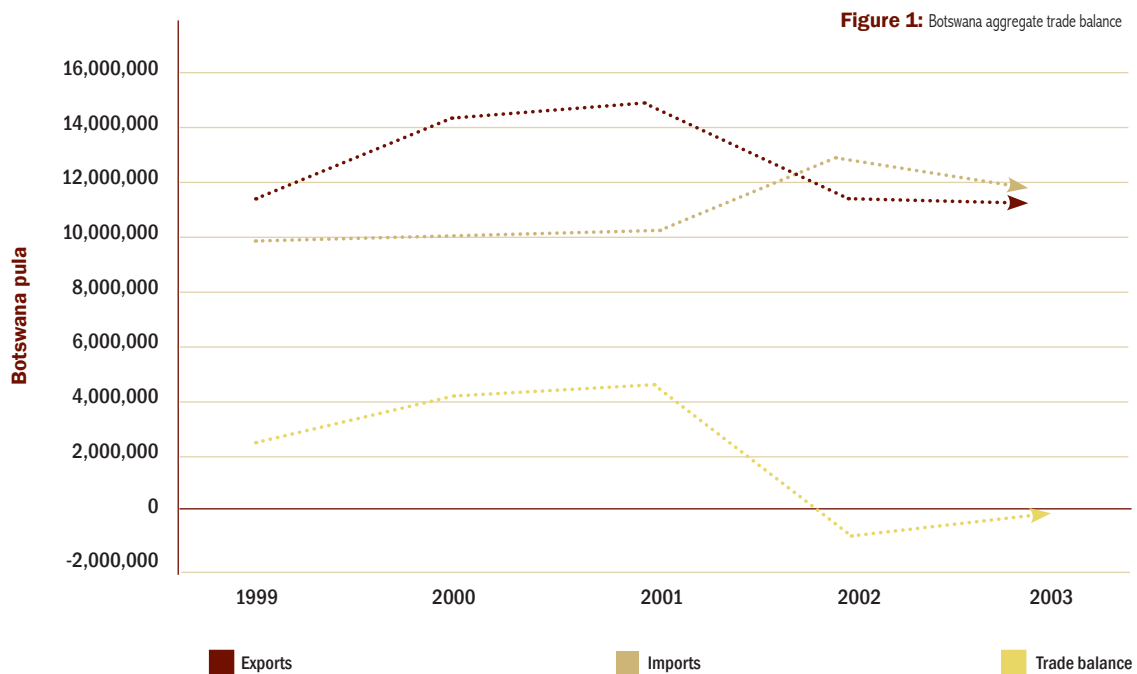
It should be noted that aggregate trade data might not be entirely accurate. The validity of the data on Botswana aggregate trade is compromised by conflicting indications from two credible sources. First, the World Bank's *Country at a Glance* reports indicate that the value of exports exceeded the value of imports by BWP736m in 2002 and by BWP997m in 2003. Secondly, the Botswana Central Statistics Office (CSO) data indicate that the trade balance has been positive but decreasing from 1999 to 2002 (CSO, 2004). However, all data sources indicate that the aggregate trade balance worsened in 2002.

Box 1: Motor Company of Botswana (Pty) Limited (MCB)

The MCB was founded in 1997 as a joint venture between the government of Botswana and the Wheels of Africa group, which had a Hyundai franchise. The company established a plant in Gaborone, which assembled Hyundai motor cars from completely knocked down kits, primarily for sale to SA. The company was allocated a large industrial site and a US\$24m loan from a government parastatal. The operation was hailed as the beginning of the country's export diversification epoch. Unfortunately, the MCB failed in 2000, and 600 people lost their jobs. Most of the failure of this enterprise has been attributed to financial mismanagement¹ by the executive management of the Wheels of Africa group. The MCB and its distribution arm, Hyundai Motor Distributors Botswana (HMD) have been liquidated. The director of Wheels of Africa, Billy Rautenbach, is facing related criminal charges in SA and has relocated to Zimbabwe. MCB has become a by-word in Botswana for fly-by-night² foreign investor and Botswana no longer exports Hyundai vehicles to SA (UNCTAD, 2001).

¹ The company could not repay a total debt of US\$127m to a consortium of international and regional banks (accessed at <http://www.mnet.co.za/CarteBlanche/Display.asp?Id=1695> on 05-10-2004, 12H39).

² Hyperdictionary defines fly-by-night as a debtor who flees to avoid paying (accessed from <http://www.hyperdictionary.com/dictionary/fly-by-night>, [6 September 2004]).

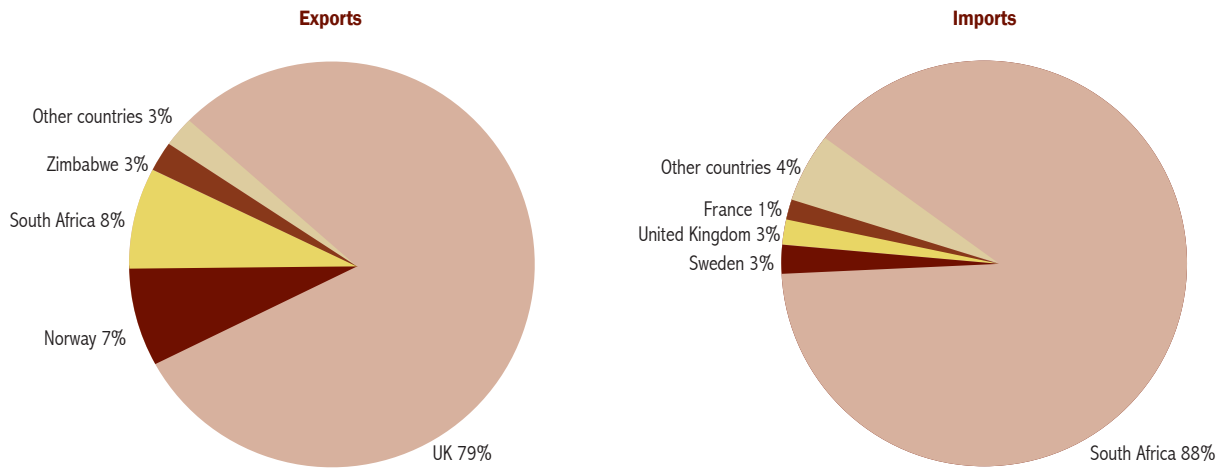


Source: TIPS

1.2 Top 10 import sources and export destinations

Over the years, Botswana has seen a diversification of its export markets, with a shift in the relative importance of export markets away from Other European countries and the Common Customs Area (CCA) to the UK and Zimbabwe. The decline in the share of the CCA export market is a reflection of the substantial decline in motor vehicle exports, which were mostly destined for SA. The current share of the export market is heavily biased towards the UK (as depicted by figure 2 and table 2), mostly because Botswana diamonds and cattle are sold to institutions based in the UK. Most imports are from SA, due to the country's proximity, well-developed industries and to some extent SA's greater economies of scale in most industries.

Figure 2: Top import origins and export destinations (2003)



Source: TIPS

Table 2: Top 10 sources of imports and destinations for exports (2003)

Imports			Exports		
Country	Value (BWP-million)	Share (%)	Country	Value (BWP-million)	Share (%)
South Africa	10,045	84.8	UK	8,988	79.1
Sweden	405	3.4	Norway	853	7.5
UK	349	2.9	South Africa	852	7.5
France	130	1.1	Zimbabwe	283	2.5
US	99	0.8	Portugal	86	0.8
Switzerland	94	0.8	Israel	65	0.6
Germany	80	0.7	Germany	54	0.5
Zimbabwe	73	0.6	US	47	0.4
China	69	0.6	Canada	40	0.3
Canada	50	0.4	Greece	20	0.2

Source: TIPS

1.3 Exports and imports by region

Table 3 indicates that most of Botswana's exports are destined for the EU (81%), or more precisely, the UK. This is because Botswana's diamonds, which account for 70% to 80% of the country's export earnings, are mixed and sorted at the Diamond Trading Company (DTC)⁵ based in London. The second most important destination for Botswana's exports is the SADC region (10%) – most of the country's exports

⁵ Uncut gems from around the world are mixed and sorted by the DTC, which is owned by De Beers. However, there are plans to establish a regional Diamond Trading Company in Botswana in the next year.



are destined for SA and Zimbabwe (see figure 2). A significant portion of Botswana's exports are destined for Europe (7.5%), while a small percentage are exported to NAFTA and Asia (0.8% and 0.7% respectively). The remaining countries have a negligible share of exports.

86% of Botswana's imports originate in SADC, in particular SA (see figure 2). Another significant source of imports is the EU, with 9.1%, which are mainly from the UK, France and Sweden. Asia and NAFTA are sources of some imports (1.5% and 1.3% respectively). There are significant numbers of imports from Asia and the expectation is that the value of such imports will increase, mainly since products from Asia (including China and Japan) are cheaper and therefore more attractive than local equivalents. NAFTA, the rest of Europe and the rest of Africa are sources of a negligible degree of imports.

Figure 2 illustrates the fact that SA has large trade surpluses with Botswana. Botswana exports approximately 8% of its export products to SA, while the country imports 88% of its total imports from SA. This situation reflects an unequal trade relationship which can lead to political polarisation if Botswana's policy-makers adopt a view that open trade is not beneficial as it disproportionately benefits SA. Botswana needs to identify niche markets (for example, traditional crafts) or other areas of comparative advantage that it can nurture effectively to compete with and benefit from trade with SA. Botswana's policy-makers also need to realise that trade is important to converge unequal trade partners.

Table 3: Exports and imports by region (2003)

Region	Imports		Exports	
	Value (BWP-million)	Share (%)	Value (BWP-million)	Share (%)
SADC	10,188	86.0	1,165	10.3
NAFTA	148	1.3	86	0.8
EU	1,077	9.1	9,165	80.7
MERCOSUR	11	0.1	–	0.0
Japan	38	0.3	–	0.0
China	69	0.6	–	0.0
(Other) Africa	17	0.1	14	0.1
Oceania	14	0.1	2	0.0
(Other) Americas	1	0.0	1	0.0
(Other) Asia	176	1.5	74	0.7
(Other) Europe	102	0.9	853	7.5
Other	–	0.0	–	0.0
Total	11,841	100.0	11,361	100.0

Source: TIPS



1.4 Fastest growing import and export partners

Most of Botswana's fastest growing trade partners are situated within the SADC region. However, it is interesting to note that they do not include SA (see *table 4*). Botswana fastest growing import partners within SADC are Swaziland, Mozambique, Mauritius and Angola. The fastest growing import partners from the rest of Africa are Kenya, Uganda and Nigeria, while those within the RoW include Sweden, Finland and Poland.

Botswana's fastest growing export trade partner is also from the SADC region – Angola. However, other SADC countries, including SA, do not seem to be fast-growing export trade partners for Botswana. Other African countries that are gaining significance as export partners for Botswana are Kenya, Nigeria and Ethiopia. Canada, Portugal, Australia, Ireland, Sweden and Yugoslavia lead the rest of the world as fast-growing export trade partners to Botswana.

Trade liberalisation within SADC seems to be building trade partnerships. This is illustrated by the fact that the fastest growing trade partners for both exports and imports (Angola and Swaziland) are members of SADC. The absence of SA as a growing trade partner needs to be explored. All of the fastest growing trade partners exhibit very rapid growth but off a low base.

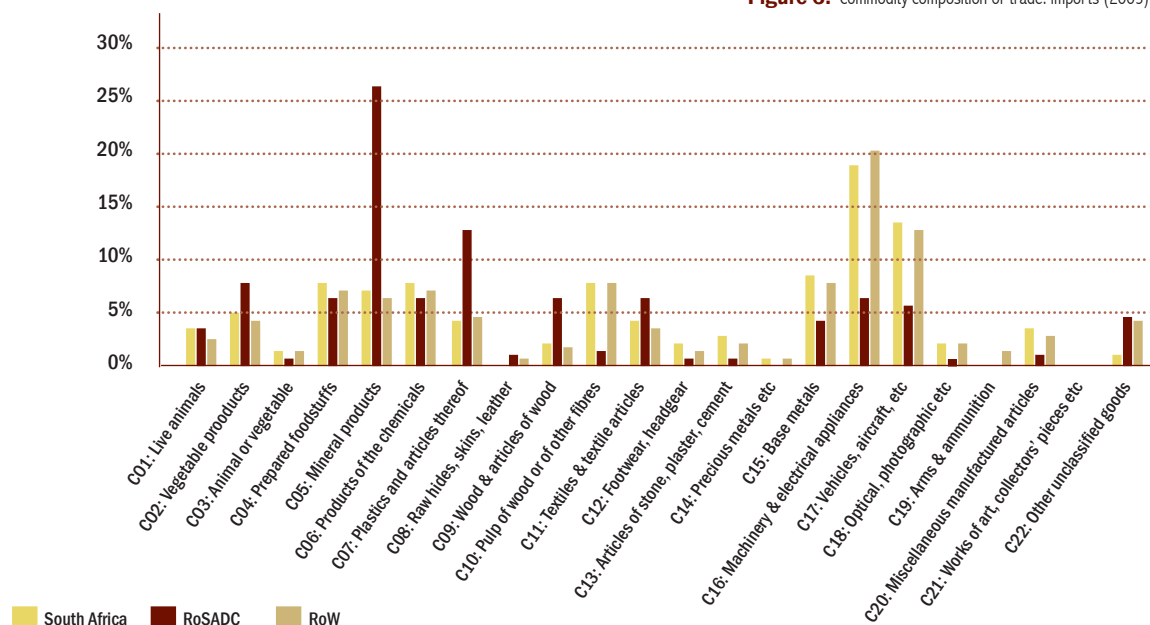
Table 4: Fastest growing trade partners

Imports			Exports		
Country	Imports, 2003 (BWP '000s)	Average growth 1999-2003 (%)	Country	Exports, 2003 (BWP '000s)	Average growth 1999-2003 (%)
Swaziland	7,561	528.9	Angola	859	142.7
Mozambique	6,062	283.8	Canada	39,744	133.5
Sweden	405,036	158.8	Portugal	85,946	94.4
Finland	2,229	129.0	Kenya	9,511	35.5
Kenya	5,380	119.9	Australia	1,205	32.3
Uganda	1,155	108.8	Ireland	1,157	29.4
Mauritius	17,652	105.7	Nigeria	386	26.9
Nigeria	3,352	94.2	Ethiopia	2,412	19.8
Angola	103	90.8	Sweden	529	19.4
Poland	9	90.6	Yugoslavia	45	19.4

Source: TIPS

1.5 Commodity composition of trade

Figure 3: Commodity composition of trade: imports (2003)



Source: TIPS

Machinery constitutes the largest share of imports from SA, accounting for 18.5% of all such imports and reflecting the low manufacturing base of a country dependent on a capital-intensive mining industry. Other dominant import products from SA is vehicles and base metals (at 13.3% and 8.9% respectively).

Botswana imports mostly mineral products (26%) from the RoSADC, but plastics and vegetables (at 13.1% and 7.6% respectively) also feature as significant imports from this region.

Machinery (20.2%), vehicles (13.2%), and wood and pulp (8.3%) account for the largest share of imports from the RoW.

Table 5: Commodity composition of trade: imports (2003)

Product	Share of total imports from world (%)	Share of total imports from South Africa (%)	Share of total imports from RoSADC (%)
Ch 1: Live Animals	1.8	2.1	2.3
Ch 2: Vegetables	4.5	5.1	7.6
Ch 3: Animal or Vegetable Fats	0.9	1.1	0.2
Ch 4: Prepared Foods	6.8	7.9	6.3
Ch 5: Mineral Products	6.0	6.6	26.0
Ch 6: Chemicals	8.1	8.7	7.0
Ch 7: Plastics	4.3	4.4	13.1
Ch 8: Leather	0.2	0.2	0.4
Ch 9: Wood Products	1.4	1.6	5.9
Ch 10: Wood Pulp & Paper	8.3	7.9	1.5
Ch 11: Textiles	4.1	4.4	6.7
Ch 12: Footwear	1.3	1.4	0.2
Ch 13: Stone & Glass	2.1	2.4	0.2
Ch 14: Precious Metals	0.2	0.2	0.0
Ch 15: Base Metals	7.9	8.9	4.4
Ch 16: Machinery	20.2	18.5	6.5
Ch 17: Vehicles	13.2	13.4	6.2
Ch 18: Scientific Equipment	1.7	1.6	0.2
Ch 19: Arms & Ammunition	0.5	0.0	0.0
Ch 20: Misc. Manufactures	2.9	3.3	0.5
Ch 21: Art & Antiques	0.0	0.0	0.0
Ch 22: Unclassified	3.7	0.4	4.6

Source: TIPS

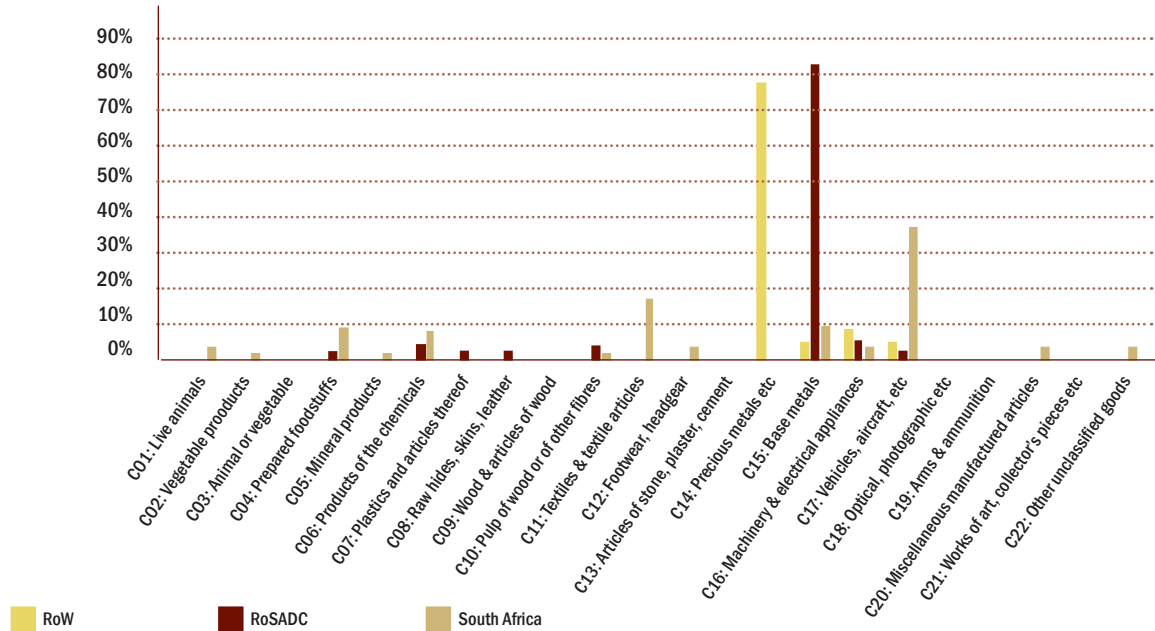
With a 47.7% share, vehicles constitute a large proportion of exports to SA. Textiles and machinery (with 15.5% and 7.5% respectively) account for the next largest shares of exports to SA. However, vehicles' share of exports to SA is expected to decline considerably because of the closure of the Hyundai and Volvo vehicle assembly plants. (Volvo⁶ is opening a new plant in Durban, SA, which might see an increase in SA vehicle imports into Botswana).

Base metals, at 82.9%, dominate exports to the RoSADC. Vehicles and machinery also account for some share (at 2.9% and 1.6% respectively) of exports to the RoSADC.

Precious metals, at 78.4%, account for the largest share of exports to the RoW.

⁶ Volvo Trucks has assembled complete knocked down (CKD) kits in Botswana since 2000. The bulk of the trucks assembled there have been intended for the growing SA market.

Figure 4: Commodity composition of trade: exports (2003)



Source: TIPS

Table 6: Commodity composition of trade: exports (2003)

Product	Share of total exports to world (%)	Share of total exports to SA (%)	Share of total exports to RoSADC (%)
Ch 1: Live Animals	1.7	0.3	0.1
Ch 2: Vegetables	0.1	1.3	0.5
Ch 3: Animal or Vegetable Fats	0.0	0.0	0.0
Ch 4: Prepared Foods	0.5	6.7	1.1
Ch 5: Mineral Products	0.1	0.7	0.6
Ch 6: Chemicals	0.4	2.0	6.7
Ch 7: Plastics	0.2	1.9	0.6
Ch 8: Leather	0.1	0.8	0.3
Ch 9: Wood Products	0.0	0.1	0.2
Ch 10: Wood Pulp & Paper	0.4	3.3	1.5
Ch 11: Textiles	1.8	15.5	0.1
Ch 12: Footwear	0.1	1.2	0.0
Ch 13: Stone & Glass	0.0	0.2	0.0
Ch 14: Precious Metals	78.4	0.3	0.0
Ch 15: Base Metals	10.6	5.8	82.9
Ch 16: Machinery	1.5	7.5	2.9
Ch 17: Vehicles	3.7	47.7	1.6
Ch 18: Scientific Equipment	0.0	0.4	0.0
Ch 19: Arms & Ammunition	0.0	0.0	0.0
Ch 20: Misc. Manufactures	0.1	0.9	0.2
Ch 21: Art & Antiques	0.0	0.0	0.0
Ch 22: Unclassified	0.4	3.3	0.5

Source: TIPS

1.6 Fastest growing import and export commodities

1.6.1 Fastest growing export commodities

Table 7: Fastest growing exports to the world (average growth rate 1999-2003)

Product	Exports 2003 (BWP '000s)	% growth
H80: Tin and articles thereof	269	568.1
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	2,854	227.6
H79: Zinc and articles thereof	496	95.0
H06: Live trees, plants, bulbs, roots, cut flowers etc	8	83.4
H03: Fish, crustaceans, molluscs, aquatic invertebrates nes	51	77.8
H37: Photographic or cinematographic goods	188	51.5
H38: Miscellaneous chemical products	534	47.7
H69: Ceramic products	1,527	41.5
H58: Special woven or tufted fabric, lace, tapestry etc	1,317	40.6
H55: Manmade staple fibres	3,090	39.9
H83: Miscellaneous articles of base metal	1,538	34.6
H10: Cereals	6,884	32.6
H95: Toys, games, sports requisites	827	28.4
H24: Tobacco and manufactured tobacco substitutes	296	27.5
H97: Works of art, collectors pieces and antiques	155	25.6

Source: TIPS

Table 8: Fastest growing exports to South Africa (average growth rate 1999-2003)

Product	Exports 2003 (BWP '000s)	% growth
H58: Special woven or tufted fabric, lace, tapestry etc	1,270	233.1
H97: Works of art, collectors pieces and antiques	36	146.3
H03: Fish, crustaceans, molluscs, aquatic invertebrates nes	51	137.2
H79: Zinc and articles thereof	496	99.5
H27: Mineral fuels, oils, distillation products, etc.	4,348	99.1
H06: Live trees, plants, bulbs, roots, cut flowers etc	8	77.5
H38: Miscellaneous chemical products	492	64.0
H74: Copper and articles thereof	4,218	61.8
H34: Soaps, lubricants, waxes, candles, modelling pastes	2,454	59.6
H69: Ceramic products	1,416	58.3
H83: Miscellaneous articles of base metal	1,282	55.8
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	1,003	52.6
H37: Photographic or cinematographic goods	186	49.7

Source: TIPS

Botswana is diversifying its export base with SA, the RoSADC and the RoW. The current fastest growing exports to SA are fabrics, which indicate a move away from vehicles (see figure 4). The increase in the value of fabric and textile exports is mainly due to the development of a clothing and textile hub in the town of Selibe-Phikwe⁷ for clothing and textile companies that export to SA and the US. Exports to the RoSADC are mainly dominated by the explosive sector. Large explosives firms such as African Explosives Botswana⁸ are successfully growing and exporting into the region. The fastest growing exports to the RoW are articles of tin.

Table 9: Fastest growing exports to the RoSADC (average growth rate 1999-2003)

Product	Exports 2003 (BWP '000s)	% growth
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	1,851	995.2
H07: Edible vegetables and certain roots and tubers	54	612.0
H16: Meat, fish and seafood food preparations nes	494	385.7
H10: Cereals	690	146.9
H20: Vegetable, fruit, nut, etc food preparations	77	98.0
H40: Rubber and articles thereof	845	52.9
H17: Sugars and sugar confectionery	851	39.5
H56: Wadding, felt, nonwovens, yarns, twine, cordage, etc	19	37.9
H73: Articles of iron or steel	13,476	32.1
H44: Wood and articles of wood, wood charcoal	565	26.0
H30: Pharmaceutical products	17,601	24.8
H72: Iron and steel	331	24.3
H95: Toys, games, sports requisites	18	12.4

Source: TIPS

1.6.2 Fastest growing import commodities

The fastest growing import commodities from SA, the RoSADC and the RoW are naturally grown products. For SA and the RoW, the fastest growing import commodities are gums, resin and vegetable saps, while the fastest growing import products from the rest of the SADC region is cocoa and cocoa preparations. This is not surprising, since Botswana's semi-arid climate is not conducive to commercial agriculture or a natural abundance of diverse flora. A pilot agricultural project at Pandamatenga farms in the north-west of the country has been besieged by problems, and Botswana continues to rely on agricultural imports from SA, SADC and the RoW.

⁷ The clothing and textile hub was developed to reduce Selibe-Phikwe's dependence on the copper and nicker mine in the area, which is expected to close down in the next few years. The mine is estimated to support more than 60% of the town's inhabitants.

⁸ Leading manufacturer and supplier of commercial explosives in Botswana to the mining, quarrying and construction industry in Africa.

The most serious challenge arising from this review relates to the dominant position of the SA economy vis-à-vis Botswana. Huge trade imbalances exist between SA and Botswana. SA enjoys a substantial trade surplus with Botswana, while the country accounts for a very small share of SA's total imports (see figure 2). Furthermore, Table 2 indicates that SA is not amongst Botswana's fastest growing trade partners. As such there is a need to support and nurture those industries which generate fast-growing exports to SA. Such steps may in future alleviate the significant trade imbalance between SA and Botswana.

Table 10: Fastest growing imports from the world (average growth rate 1999-2003)

Product	Imports 2003 (BWP '000s)	% growth
H13: Lac, gums, resins, vegetable saps and extracts nes	2,214	94.6
H43: Furskins and artificial fur, manufactures thereof	706	83.2
H97: Works of art, collectors pieces and antiques	4,067	78.6
H81: Other base metals, cermets, articles thereof	1,186	73.8
H41: Raw hides and skins (other than furskins) and leather	3,746	71.0
H14: Vegetable plaiting materials, vegetable products nes	9,742	69.5
H89: Ships, boats and other floating structures	6,857	69.4
H47: Pulp of wood, fibrous cellulosic material, waste etc	1,339	67.8
H33: Essential oils, perfumes, cosmetics, toileteries	495,982	63.4
H30: Pharmaceutical products	794,523	61.2
H02: Meat and edible meat offal	41,730	59.1
H50: Silk	908	58.0
H22: Beverages, spirits and vinegar	340,559	57.5
H45: Cork and articles of cork	2,233	56.8
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	30,826	56.4
H37: Photographic or cinematographic goods	40,125	55.5
H34: Soaps, lubricants, waxes, candles, modelling pastes	479,114	54.4
H40: Rubber and articles thereof	625,439	53.7
H29: Organic chemicals	54,605	52.7
H95: Toys, games, sports requisites	75,729	52.5

Source: TIPS



Table 11: Fastest growing imports from South Africa (average growth rate 1999-2003)

Product	Imports 2003 (BWP '000s)	% growth
H13: Lac, gums, resins, vegetable saps and extracts nes	2,214	94.1
H97: Works of art, collectors pieces and antiques	1,679	80.1
H43: Furskins and artificial fur, manufactures thereof	695	79.0
H47: Pulp of wood, fibrous cellulosic material, waste etc	1,339	66.1
H59: Impregnated, coated or laminated textile fabric	33,783	65.5
H71: Pearls, precious stones, metals, coins, etc	53,000	63.4
H45: Cork and articles of cork	2,031	63.2
H02: Meat and edible meat offal	40,569	63.2
H33: Essential oils, perfumes, cosmetics, toileteries	474,978	61.8
H92: Musical instruments, parts and accessories	6,172	58.7
H30: Pharmaceutical products	635,681	58.0
H60: Knitted or crocheted fabric	9,791	57.8
H88: Aircraft, spacecraft, and parts thereof	64,586	56.5
H12: Oil seed, oleagc fruits, grain, seed, fruit, etc, nes	30,261	56.2
H29: Organic chemicals	52,631	55.6
H50: Silk	900	55.1
H34: Soaps, lubricants, waxes, candles, modelling pastes	476,462	54.7
H37: Photographic or cinematographic goods	35,514	54.4
H95: Toys, games, sports requisites	71,317	52.6
H61: Articles of apparel, accessories, knit or crochet	314,153	51.7

Source: TIPS

Table 12: Fastest growing imports from the RoSADC (average growth rate 1999-2003)

Product	Imports 2003 (BWP '000s)	% growth
H18: Cocoa and cocoa preparations	169	220.7
H33: Essential oils, perfumes, cosmetics, toileteries	6,839	167.3
H74: Copper and articles thereof	60	74.9
H22: Beverages, spirits and vinegar	1,489	66.6
H14: Vegetable plaiting materials, vegetable products nes	3,344	57.5
H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	13	41.8
H71: Pearls, precious stones, metals, coins, etc	1	41.1
H12: Oil seed, oleagc fruits, grain, seed, fruit, etc, nes	189	37.7
H46: Manufactures of plaiting material, basketwork, etc.	18	30.0
H08: Edible fruit, nuts, peel of citrus fruit, melons	354	28.2
H40: Rubber and articles thereof	17,232	24.2
H41: Raw hides and skins (other than furskins) and leather	447	17.9
H27: Mineral fuels, oils, distillation products, etc	21,491	13.7
H24: Tobacco and manufactured tobacco substitutes	208	4.9
H58: Special woven or tufted fabric, lace, tapestry etc	213	4.9
H21: Miscellaneous edible preparations	134	1.4
H07: Edible vegetables and certain roots and tubers	961	1.0
H99: Commodities not elsewhere specified	6,631	0
H11: Milling products, malt, starches, inulin, wheat gluten	4,260	0
H91: Clocks and watches and parts thereof	43	-1.2%

Source: TIPS



2. Trade intensity with the SADC region

Trade intensity is a measure of the concentration of trade between countries or within regions. Table 13 shows that there has been a decrease in trade intensities for exports and imports with the SADC region. The trade intensity for exports decreased from 27.2 in 2002 to 21.1 in 2003, which might reflect an increased bias towards export trade with the UK (beef and diamonds) and the emergence of a textile market and its resultant exports to the US because of AGOA⁹. The high import intensity figure is proof of Botswana's reliance on SA for imports. The fact that this figure has increased indicates that Botswana's economy is becoming more reliant on SA goods, not less.

Table 13: Trade intensities for exports and imports in 2002 and 2003

	Exports	Imports
2002	27.2	84.7
2003	21.1	88.8

Source: TIPS, ITC COMTRADE and own calculations

3. Intra-industry trade

Intra-industry trade represents international trade within industries rather than between industries. Such trade is more beneficial than inter-industry trade because it stimulates innovation and exploits economies of scale. Moreover, since productive factors do not switch from one industry to another, but only within industries, IIT is less disruptive than inter-industry trade. About 60% of US trade and European trade is intra-industry (Ruffin, 2000). IIT between Botswana and SA in some products is very high, as can be seen from Table 14. However, high levels of IIT is limited to very few products. So in general, and as would be expected, very little IIT occurs between SA and Botswana, since the country's main export is diamonds and it imports manufactures from SA. Only 9% of trade is intra-industry in nature.

Table 15 shows a similar pattern to IIT with SA; there is significant IIT in some products but in general there is little IIT between Botswana and the RoSADC. This is shown by a Grubel-Lloyd index of more than 0.70 for more than seven industries. The industry with the highest IIT is furniture, with a Grubel-Lloyd index of 0.95. The furniture industry is a 'monopolistic competitive' industry which produces the same generic good. Each firm occupies a particular position or niche by virtue of product differentiation (for example, quality, colour and size), and firms compete on the basis of customer preferences for differentiated furni-

⁹ For a more detailed discussion of AGOA, please refer to section 5 of this chapter.

ture products. This could also reflect that firms are occupying different portions of the manufacturing process (basic processing could take place in RoSADC countries and final polishing in Botswana).

Table 14: Intra-industry trade with SA: top 15 commodities (HS4)

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (BWP '000s)	Imports 2003 (BWP '000s)
3503	Gelatin and derivatives, isinglass, glues (animal) nes	0.98	21,516	20,831
8464	Machine-tool for working stone, ceramics, cold glass	0.98	18,156	17,343
4804	Uncoated kraft paper and paperboard	0.97	23,253	24,601
6111	Babies garments, clothing accessories, knit or crochet	0.63	30,031	64,982
6108	Womens, girls underwear, nightwear, etc knit, crochet	0.61	29,096	65,643
0805	Citrus fruit, fresh or dried	0.61	32,763	14,237
3808	Insecticides, fungicides, herbicides etc. (retail)	0.45	5,995	20,767
3102	Mineral or chemical fertilisers, nitrogenous	0.21	2,930	24,909
6006	Other knitted or crocheted fabrics	0.17	318,888	29,662
8704	Motor vehicles for the transport of goods	0.16	1,978	22,028
2940	Sugars, chem pure, their ethers, esters, salts in bulk	0.10	1,275	23,715
8413	Pumps for liquids	0.03	409	27,804
0202	Meat of bovine animals, frozen	0.01	160	24,055
3606	Pyrophoric alloys, lighter fuel, firefighters, etc	0.01	428	69,930
2710	Oils petroleum, bituminous, distillates, except crude	0.01	337	55,684
Weighted average of total intra-industry trade		0.09		

Source: TIPS

Table 15: Intra-industry trade with RoSADC : top 15 commodities (HS4)

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (BWP '000s)	Imports 2003 (BWP '000s)
9403	Other furniture and parts thereof	0.95	450	406
4819	Paper, board containers, packing items, box files, etc	0.94	964	855
8438	Industrial food and drink preparation machinery nes	0.89	675	838
4810	Paper, board, clay, inorganic coated at least one side	0.88	393	498
2523	Cement (portland, aluminous, slag or hydraulic)	0.87	1,264	964
8482	Ball or roller bearings	0.81	43	63
8901	Passenger and goods transport, ships, boats	0.72	70	125
4802	Uncoated paper for writing, printing, office machines	0.63	1,005	2,194
1704	Sugar confectionery, non-cocoa, white chocolate	0.62	850	1,905
1005	Maize (corn)	0.60	670	286
7208	Hot-rolled products, iron/ steel, width>600mm, not clad	0.57	4	9
2301	Flour etc of meat, fish or offal for animal feed	0.54	1,093	409
2812	Halides and halide oxides of non-metals	0.52	537	1,539
1104	Worked cereal grains except flour, groat, meal, pellet	0.50	39	117
2836	Carbonates	0.47	93	304
Weighted average of total intra-industry trade		0.006		

Source: TIPS

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

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (BWP '000s)	Imports 2003 (BWP '000s)
8704	Motor vehicles for the transport of goods	0.73	13,449	23,603
8701	Tractors (other than works, warehouse equipment)	0.25	4,243	29,147
8803	Parts of aircraft, spacecraft, etc	0.15	319,933	25,132
8544	Insulated wire and cable, optical fibre cable	0.07	998	29,662
0202	Meat of bovine animals, frozen	0.04	563	28,210
0201	Meat of bovine animals, fresh or chilled	0.04	1,600	82,299
1102	Cereal flours other than of wheat or meslin	0.03	607	35,409
7401	Copper mattes, cement copper (precipitated copper)	0.03	87,254	1,358
9406	Prefabricated buildings	0.03	1,112	73,356
1101	Wheat or meslin flour	0.02	454	37,861
8474	Machinery to sort, screen, wash, etc mineral products	0.02	501	62,271
8473	Parts, accessories, except covers, for office machines	0.01	171	25,287
1104	Worked cereal grains except flour, groat, meal, pellet	0.01	501	77,028
9010	Equipment for photographic laboratories nes	0.01	63,923	382
8481	Taps, cocks, valves for pipes, tanks, boilers, etc	0.01	210	38,563
	Weighted average of total intra-industry trade	0.02		

Source: TIPS



Generally, there is minimal IIT between Botswana and the RoW (see table 16), shown by the fact that the industry with the highest IIT – motor vehicles for the transport of goods – has a Grubel-Lloyd index of 0.73. This indicates that Botswana's trade with the RoW is mostly based on comparative advantage¹⁰ and not product differentiation.

The development of IIT within some industries between Botswana and SA, and notably between Botswana and the RoSADC is welcome and should be encouraged, primarily for the following reasons. First, IIT reduces the demand for protection because both exports and imports occur in the particular industry. This is important because pockets of protectionism occur within some industries by individual SADC members (Tsikata, 2000). Secondly, IIT enhances the gains from trade through better exploitation of economies of scale rather than through comparative advantage, as trade leads countries to concentrate on a limited number of products within a particular industry. This leads to an expansion in world output because of fixed-cost savings. Thirdly, specialisation within industrial categories may stimulate innovation. Producing a greater variety and number of goods increases the general knowledge around technology, and greater knowledge implies smaller costs of knowledge accumulation (Ruffin, 2000).

¹⁰ A trade theory postulated by David Ricardo in 1817, which in its simplest form states that countries trade because they have different factor endowments.



4. Tariff analysis

Trade liberalisation has resulted in the abolishment of tariffs and in some instances lower tariff rates for most imports within SADC countries (see table 17). About 84% of total HS 6 lines have a 0% tariff rate (see figure 5). This has a significant impact as it affects about 73% of imports from SADC and about 65% of Botswana's total imports. High tariffs¹¹ on some goods persists, although they only affect a small percentage of imports. Tariffs of 10% - 29% are levied on 10.4% of total HS 6 lines, and subsequently on only 7.7% of imports from SADC. The higher tariffs affect 22.6% of total imports to Botswana. Table 18 indicates that motor vehicle parts face the highest average tariff (30%). It is interesting to note that, apart from tobacco and prepared cereals, the highest average tariffs are mostly on manufactured products. This reflects the protection of SA industries, as Botswana is a member of SACU and thus shares a common external tariff with SA.

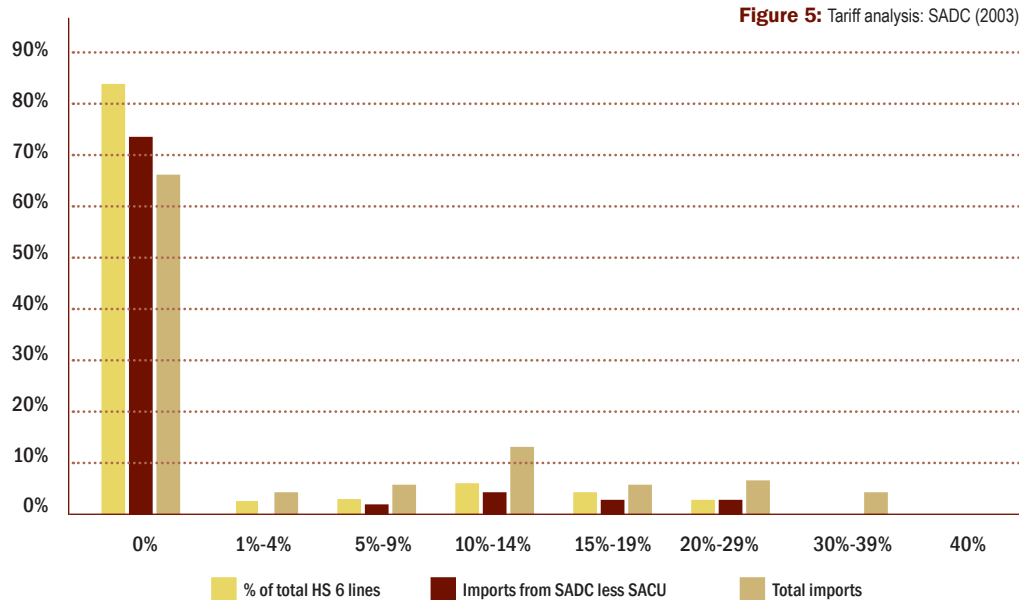
The elimination and lowering of some tariffs indicates the SADC region's commitment to free trade. The success of economic integration (including increased trade within members) is highly dependent upon political will. As such, the degree of commitment shown by the reduction in tariffs bodes well for trade expansion. However, trade expansion does not only depend on tariff abolishment and reduction, but also on trade support services and increasing the role of the private sector on such initiatives. Recognising this, Botswana intends to launch an Export Development Strategy within the NDP 9 period. The strategy, amongst other things, intends to develop a database on the country's manufacturing and export capacity, as well as put in place structures for benchmarking and monitoring Botswana's international competitiveness (Gaolatlhe, 2002).

Table 17: Tariff analysis (2003)

Tariff	% of total HS 6 lines	Imports from SADC (%)	Total imports (%)
0%	83.6	73.4	64.7
1% - 4%	1.5	0.1	2.4
5% - 9%	4.6	3.6	6.6
10% - 14%	5.6	4.5	13.2
15% - 19%	3.1	1.3	4.4
20% - 29%	1.7	1.9	5.0
30% - 39%	0.0	0.0	3.6
40%	0.0	0.0	0.0

Source: TIPS

¹¹ This document denotes high tariffs as those above 10%.



Source: TIPS

Table 18: 10 highest HS 2 average tariffs, 2003

HS Code	Product	Tariff (%)	Imports from RoSADC, 2003 (BWP '000s)	Imports from world, 2003 (BWP '000s)
98	Special classification of parts for motor vehicles	30.0	–	381,085
64	Footwear	21.0	91	135,919
24	Tobacco	19.4	74	70,256
66	Umbrellas, walking-sticks, riding-crops	18.3	3	2,185
42	Leather art; saddlery etc; handbags	18.1	60	17,480
57	Carpets and other textile floor coverings	18.0	–	12,415
60	Knitted or crocheted fabrics	15.4	227	3,801
65	Headgear and parts thereof	13.4	8	8,757
19	Prepared cereal, flour, starch or milk	12.4	35	60,026
46	Basket ware & wicker work	11.7	3	651

Source: TIPS

5. Trade agreements planned and in force

Botswana is a signatory to a number of bilateral, regional and international trade agreements through which the Ministry of Trade and Industry, via the Department of International Trade, intends to create an environment conducive to investment by seeking external markets for Botswana's goods:

- **WTO:** The institution operates through a series of trade negotiations referred to as rounds, whose main objective is to facilitate the further integration of developing countries into the global

trading system. It has yielded specific benefits, such as the Generalised System of Preferences (GSP) for developing countries, which allows developing countries to export to developed country markets without any import duties and quota restrictions. Botswana benefits from GSP access to Norway for products including beef, copper and nickel.

- **The Cotonou Agreement:** The Agreement succeeded the Lome IV Convention in 2000, and allows the export of products from African, Caribbean and Pacific (ACP) countries to the EU market free of customs duties or, in certain instances, at preferential rates of duty. Botswana's **beef, textiles and clothing products benefit from these provisions.**

- **The African Growth and Opportunity Act:** The main purpose of the AGOA is to improve trade and economic co-operation between the US and eligible sub-Saharan African (SSA) countries. AGOA, in place from 2000 to 2008, provides duty-free access for over 6,500 products from SSA to enter the American market. Botswana benefits under AGOA provisions for textiles and apparel. These benefits were initially hampered by the fact that Botswana was classified as a middle-income country; however, the US amended the Act by passing AGOA II in August 2002, reclassifying Botswana and Namibia as Least Developed Countries (LDCs) for two years from August 2002. Efforts are also underway to promulgate the passage of AGOA III, which is expected to extend the AGOA II provisions beyond the stipulated period.

- **The SADC Trade Protocol:** Botswana is a signatory to the SADC Treaty of 17 August 1992. SADC has 14 members with an estimated population of about 208-million people (2001 estimate). One of SADC's principal aims is to co-ordinate and harmonise the socio-economic policies and plans of its member states to ensure sustainable economic development and growth in the southern African region. The Protocol came into effect in 2000, with the objective of promoting trade between the member states through progressive trade liberalisation, leading to the formation of a free trade area by 2008.

- **The Southern African Customs Union:** Botswana is a member of SACU, whose aims are to **advance the economic development of its member countries, diversify their economies and afford all parties equitable benefits from intra-union and international trade.** The SACU Agreement that was concluded in **October 2002, replacing the 1969 Agreement**, stipulates that SACU countries can negotiate new Free Trade Agreements with third parties as a bloc. In this regard, SACU



is in the process of negotiating an FTA with the US that is expected not only to replace AGOA, but to build on and improve AGOA's benefits. The SACU-US FTA will be permanent of nature rather than only for a specific period, as AGOA, providing long-term trade relations and dependable market access for goods and services from the SACU region. Negotiations are also underway for a SACU/EU FTA, while SACU/Mercosur negotiations were recently completed and there are plans to negotiate an FTA with India, China, Kenya and Nigeria.

- **Botswana/Zimbabwe Trade Agreement:** Zimbabwe is one of Botswana's largest trading partners in the region. The Agreement provides for duty- and quota-free trade for goods produced or grown in the two countries, provided they meet the 25% local content requirement, which is calculated as the cost of local materials and labour. Exports of textile and clothing products under the provisions of the Agreement are subject to a quota of BWP7.2m per annum.
- **The Southern African Global Competitiveness Hub:** The Hub, located at the Gaborone International Commerce Park, is an initiative of the US government and provides technical assistance to southern African governments, the private sector and regional organisations to enhance the use of AGOA and promote Trade for Africa's Development and Enterprise initiative (TRADE).

6. Revealed comparative advantage

Revealed comparative advantage (RCA), measured by the Balassa Index¹², is a helpful indicator of the direction of a country's trade focus. The index measures relative export performance by country and industry, defined as a country's share of world exports of a good divided by its share of total world exports. Table 19 indicates that Botswana has a high RCA index (37.9) in precious stones, which is not surprising given that Botswana is the world's leading diamond producer. It is expected that Botswana's world share of diamonds exports would far exceed its share of world exports due to the country's relatively small economy and dependence on diamonds.

Botswana also has a high index for copper. However, as discussed earlier, Botswana's copper and nickel mine at Selibe-Phikwe is expected to reach the end of its life in the next few years. As one of the largest beef exporters to the UK, Botswana has a comparative advantage in meat. However, the country's beef industry is facing challenges which relate to stiff price competition and supply bottlenecks (IDS, 2005).

¹² The formula for the index for country i, good j is $RCA_{ij} = 100(X_{ij}/X_{wj})/(X_{it}/X_{wt})$ where X_{ab} is exports by country a (w =world) of good b (t =total for all goods).

**Table 19:** Revealed comparative advantage with respect to the world: top 20 commodities (HS2)

HS code	Product	Exports 2003 (BWP '000s)	Index value
71	Nat etc pearls, prec etc stones, pr met etc; coin	8,903,067	37.9
74	Copper and articles thereof	1,138,556	18.8
2	Meat and edible meat offal	192,772	2.8
17	Sugars and sugar confectionary	33,680	1.3
36	Explosives; pyrotechnics; matches; pyro alloys etc	2,854	0.9
61	Apparel articles and accessories, knit or crochet	128,342	0.7
19	Prep cereal, flour, starch or milk; bakers wares	21,621	0.7
57	Carpets and other textile floor coverings	6,976	0.5
63	Textile art NESOI; needlecraft sets; wom text art	19,088	0.5
11	Milling products; malt; starch; inulin; wht gluten	3,291	0.4
87	Vehicles, except railway or tramway, and parts etc	409,883	0.4
73	Articles of iron or steel	52,256	0.3
49	Printed books, newspapers etc; manuscripts etc	14,201	0.3
41	Raw hides and skins (no furskins) and leather	9,971	0.3
62	Apparel articles and accessories, not knit etc.	42,944	0.2
60	Knitted or crocheted fabrics	3,795	0.2
96	Miscellaneous manufactured articles	3,674	0.1
48	Paper & paperboard & articles (inc papr pulp artl)	24,100	0.1
10	Cereals	6,884	0.1
58	Spec wov fabrics; tufted fab; lace; tapestries etc	1,317	0.1

Source: TIPS, ITC COMTRADE and own calculations

Table 20: Revealed comparative advantage with respect to the world: bottom 20 commodities (HS2)

HS code	Product	Exports 2003 (BWP '000s)	Index value
13	Lac, gums, resins & other vegetable sap & extract	–	0.0
75	Nickel and articles thereof	–	0.0
53	Veg text fib nesoi; veg fib & paper yns & wov fab	0	0.0
54	Manmade filaments, including yarns & woven fabrics	4	0.0
81	Base metals nesoi; cermet; articles thereof	2	0.0
43	Furskins and artificial fur; manufactures thereof	1	0.0
6	Live trees, plants, bulbs etc.; cut flowers etc.	8	0.0
18	Cocoa and cocoa preparations	15	0.0
3	Fish, crustaceans & aquatic invertebrates	51	0.0
29	Organic chemicals	189	0.0
45	Cork and articles of cork	2	0.0
8	Edible fruit & nuts; citrus fruit or melon peel	54	0.0
78	Lead and articles thereof	2	0.0
51	Wool & animal hair, including yarn & woven fabric	18	0.0
5	Products of animal origin, nesoi	7	0.0
26	Ores, slag and ash	66	0.0
14	Vegetable plaiting materials & products nesoi	1	0.0
91	Clocks and watches and parts thereof	49	0.0
31	Fertilisers	69	0.0
7	Edible vegetables & certain roots & tubers	102	0.0

Source: TIPS, ITC COMTRADE and own calculations



Except for the fact that Botswana has an RCA in very few products, the country also suffers from ‘Dutch disease’ – the large export of diamonds means that the real exchange rate appreciates, hindering the development of local manufacturing capacity as imports become significantly cheaper.

According to the principle of comparative advantage, a country can increase its income by trading and buying goods whose world price is less than the price of the same good if produced domestically. The principle explains why Botswana’s growing import commodities, which fall within the HS 13: Lac, gums, resins and other vegetables category, are the ones in which it has the least RCA (see table 20).

7. Revealed trade barriers

Botswana experiences trade barriers within SADC on some commodities. The least trade barriers occur for exports to SADC of copper and its articles, which shows that trade within SADC is becoming more open – one would have expected at least some barriers to trade because of some SADC members’ (such as Zambia’s) high dependence on copper.¹³

Our analysis also reveals low barriers to trade in sugar and sugar confectionary. This can mainly be attributed to the SADC sugar protocol – an annex of the broader trade protocol – which is reflective of the need to mitigate the potentially destructive ‘beggar-thy-neighbour’¹⁴ practices of the bloc’s respective members.

Another area of low trade barriers is the explosives sector. This is not surprising as the industry is generally export oriented, since expansion opportunities within national borders tend to be limited. The sector is a good example of Botswana developing manufacturing capacity from its experience with mining.

Trade barriers on a number of goods relate to the fact that Botswana does not actually produce the specific good. Once again we are confronted with the fact that Botswana’s has a comparative advantage in a very narrow band of goods. Most of the goods listed in Table 22 appear there because Botswana does not have the capacity to produce these goods.

While substantial steps towards more liberal trade have been taken, there are still some restrictions on free trade. Many countries still impose some type of tariff or non-tariff restriction which prevents Botswana from effectively trading in some commodities.

¹³ Copper exports account for more than 50% of the value of Zambian exports (World Bank, 2004).

¹⁴ This usually defines a policy of promoting oneself or a country at the expense of others.

Table 21: Revealed trade barriers with respect to SADC: top 20 commodities (HS2)

HS code	Product	Exports 2003 (BWP '000s)	Index value
74	Copper and articles thereof	1,138,556	41.0
17	Sugars and sugar confectionary	33,680	13.5
36	Explosives; pyrotechnics; matches; pyro alloys etc	2,854	8.8
19	Prep cereal, flour, starch or milk; bakers wares	21,621	6.7
57	Carpets and other textile floor coverings	6,976	5.1
63	Textile art nesoi; needlecraft sets; worn text art	19,088	4.7
87	Vehicles, except railway or tramway, and parts etc.	409,883	3.9
73	Articles of iron or steel	52,256	3.2
61	Apparel articles and accessories, knit or crochet	128,342	3.2
11	Milling products; malt; starch; inulin; wht gluten	3,291	2.4
41	Raw hides and skins (no furskins) and leather	9,971	2.1
60	Knitted or crocheted fabrics	3,795	2.0
62	Apparel articles and accessories, not knit etc.	42,944	1.8
49	Printed books, newspapers etc; manuscripts etc	14,201	1.6
96	Miscellaneous manufactured articles	3,674	1.4
48	Paper & paperboard & articles (inc papr pulp artl)	24,100	1.4
10	Cereals	6,884	1.2
58	Spec wov fabrics; tufted fab; lace; tapestries etc	1,317	1.1
86	Railway or tramway stock etc; traffic signal equip	1,947	1.1
25	Salt; sulphur; earth & stone; lime & cement plaster	3,843	1.1

Source: TIPS, ITC COMTRADE and own calculations

Table 22: Revealed trade barriers with respect to SADC: bottom 20 commodities (HS2)

HS code	Product	Exports 2003 (BWP '000s)	Index value
13	Lac; gums, resins & other vegetable sap & extract	–	0.0
75	Nickel and articles thereof	–	0.0
80	Tin and articles thereof	269	0.0
53	Veg text fib nesoi; veg fib & paper yns & wov fab	0	0.0
54	Manmade filaments, including yarns & woven fabrics	4	0.0
81	Base metals nesoi; cermets; articles thereof	2	0.0
43	Furskins and artificial fur; manufactures thereof	1	0.0
6	Live trees, plants, bulbs etc.; cut flowers etc.	8	0.0
18	Cocoa and cocoa preparations	15	0.0
3	Fish, crustaceans & aquatic invertebrates	51	0.0
29	Organic chemicals	189	0.0
45	Cork and articles of cork	2	0.0
93	Arms and ammunition; parts and accessories thereof	106	0.0
8	Edible fruit & nuts; citrus fruit or melon peel	54	0.0
78	Lead and articles thereof	2	0.0
51	Wool & animal hair, including yarn & woven fabric	18	0.0
5	Products of animal origin, nesoi	7	0.0
26	Ores, slag and ash	66	0.0
14	Vegetable plaiting materials & products nesoi	1	0.0
91	Clocks and watches and parts thereof	49	0.0

Source: TIPS, ITC COMTRADE and own calculations

8. Summary and conclusions

Botswana's main export destination is the UK and its main revenue earning commodity – diamonds – are sold to the DTC in the UK. Although this survey shows that Botswana has a comparative advantage in the trade of diamonds, it is encouraging to note that its fastest growing export and import partners are within SADC. Unfortunately, these do not include SA.

Botswana's imports are dominated by commodities from SA. The country mostly exports vehicles to SA and base metals to the RoSADC. However, vehicle export to SA is expected to decline due to the closure of the Hyundai and Volvo motor assembly plants.

The fastest growing export commodities to SADC are fabrics and textiles. The Botswana government has invested substantially in the development of an export-oriented textile hub.

It is disappointing to note that Botswana's trade intensities with other SADC members have been declining; however, the emergence of IIT between SADC members is encouraging. Such trade is more beneficial than inter-industry trade because it stimulates innovation and exploits economies of scale.

More than 80% of traded goods face no or very low tariffs amongst SADC members, a welcome development to stimulate trade. Although some barriers to trade still exist on a few traded goods, trade protocols such as the sugar trade protocol (implicitly, at least) represents an endeavour to optimise the positive socioeconomic dimensions of sugar production across the region (Lincoln, 2005).

Botswana is faced with serious problems relating to 'Dutch disease', which are obvious when one examines the RCA indices. Botswana's comparative advantage is limited to very few goods, and its strong advantage in diamonds has had a detrimental effect on the production of other goods.



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