

Botswana: trade, foreign direct investment and economic diversification

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Remarks at the BOCCIM Northern Branch Dinner

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The topic for our discussion tonight, “Economic Diversification: Which Way To Go?” is one that has been very much on our minds for some time. The theme for the last Biennial National Business Conference held here in Francistown in August 2002 was, “towards meaningful economic diversification”.

The resolutions that emanated from that conference should contribute to ongoing efforts by Government and business to work together in taking concrete steps to achieve economic diversification. It is good that the organisers of this event chose Economic Diversification as a topic for our discussions. This is a subject that we must continually keep at the forefront of our agenda if we are to succeed in attracting productive investment that can help broaden the economic base, create jobs and help us achieve “prosperity for all”, as espoused in Vision 2016.

In line with Vision 2016 is the Ninth National Development Plan (NDP9) the theme of which is “Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets”. NDP 9 is our blueprint for achieving economic diversification over the next six years. This plan, however, will only be realized if we maintain a strong partnership amongst all Stakeholders, Private Sector, Government, Labour and Civil Society. As in any good plan, we have put in place the necessary structures to measure performance and monitor progress. Together, we will regularly examine where we stand and BOCCIM has an important role to play.

The question that we must all ask ourselves is why is it that economic diversification has remained such a major challenge to Botswana? Why is it so, when Botswana’s economic indicators are relatively good. We have put in place a sound macroeconomic framework and adopted a range of policies aimed at promoting industrial development and sustainable diversification of our economy. It would seem to me that we are doing all the right things. But we have not fully succeeded, at least up until now, in attracting sufficient domestic and foreign investment to make a difference in broadening the

structure of our economic activity, and in creating new job opportunities for our population, particularly the youth.

The mining sector still accounts for the largest share of gross domestic product (some 35 percent in 2001/2002), based on Bank of Botswana provisional figures. The contribution of the mining sector to GDP (constant 1993/94 prices) has remained relatively steady over the last decade. For its part, the contribution of the agricultural sector to the economy has continued to decline. It represented only 2.5 percent of GDP in 2001/2002. The manufacturing sector has also shown a drop from 4.6 percent of GDP in 1997/1998 (in constant 1993/94 prices) to 4.0 percent in 2001/2002. On the other hand, the trade sector accounted for 9.5 percent and the banks, insurance and business services sector for 11.4 percent of GDP (in constant 1993/94 prices), in 2001/2002.

These figures indicate that while some measure of progress has been achieved in our drive towards diversification, the Botswana economy is still dependent on the mining sector for growth. Second, the tertiary sector or services sector, particularly the trading sector, is expanding and contributing more and more to the economy. Third, the manufacturing sector is flat, if we look at the market value of goods produced (in constant 1993/1994 prices). Fourth, the agricultural sector is declining in importance.

This picture also tells us that we should pursue those areas of the services sector that show promise. In fact, many successful economies including some that, unlike Botswana, are devoid of natural resources, are driven by the services sector. A case in point is Singapore. Given our relatively good natural resource base, I believe that we, in Botswana, should strive to achieve, to the degree possible, balanced diversification by promoting the development of key strategic economic activities where we have a comparative advantage.

For example, we have reason to be optimistic at the interest shown by the international financial community since the establishment of the Botswana International Financial Services Centre (IFSC). I am told that 18 companies are now registered, eleven of which are operational. As a result, Botswana is acquiring new state of the art technology and creating employment for highly qualified citizens.

Another potential focus area is that related to the Information and Communications Technology (ICT). The Botswana Export Development and Investment Authority (BEDIA) has been promoting niche ICT opportunities as one of its strategic priority sectors. BEDIA undertook a mission to India in April of this year and its specific focus was in attracting joint venture investment in the ICT sector. As a follow up, an invitation has been extended to India to send an inward mission.

We should also more actively promote the tourism sector in Botswana as this country has the necessary attributes to attract high spending tourists from Europe and North America. We need, however, to target specific potential tourist markets and use effectively new and innovative marketing approaches

in promoting Botswana as a tourist destination. The new state of the art Gaborone International Conference Centre (GICC), a conference facility that can accommodate some 1800 people (cinema style), is now open for business. Business and government will need to explore together ways to maximize the use of the facility and to generate additional complementary business opportunities.

Botswana offers excellent opportunities for investors in many sectors of the economy. However, the attraction of investment into non-resource based business where Botswana has a less obvious attraction profile, requires greater strategic direction, not only for increasing our chances of success in attracting investors, but also because of our limited human and financial resources. In this regard, I am informed that the United Nations Conference on Trade and Development (UNCTAD) has recently completed a draft foreign direct investment strategy for Botswana, as well as a draft foreign investment bill that, hopefully, will lead to a foreign direct investment law. This strategy follows UNCTAD'S foreign investment review for Botswana completed in June 2002.

I am informed that the draft FDI strategy contains a strategic thrust for investment generation whereby sector and sub- sector priorities would be set to focus investment promotion, create targets for investment attraction and determine, a priori, the effort to be devoted to investor facilitation. The priority industries would be those that contribute most to Botswana's national objectives - diversification, creating benefits for local business, and improving national competitiveness.

As I indicated earlier, along with a draft FDI strategy is a proposal by UNCTAD for Botswana to install a new legal regime, encapsulated in a law on foreign investment in which foreign investors would be welcomed while, at the same time, the interests of domestic investors would also be taken into account in a more systematic manner.

In May this year, the Ministry of Trade and Industry and BEDIA, with the assistance of the Foreign Investment Advisory Services (FIAS) of the World Bank, undertook an in-depth study of the administrative and regulatory barriers to investment in Botswana. These entailed delays in issuing work and residence permits, availability of serviced land and factory space, and the high cost of utilities. A draft study report, which contains an action plan to eliminate these barriers to investment, has just been submitted to the Ministry. I would urge BOCCIM and all other stakeholders to closely examine these documents and to provide the best advice possible to Government.

Ladies and Gentlemen, it is all very good to work at broadening our economic base. However, given our small population, Botswana must look beyond its borders to sell its products and services. We must strive for international competitiveness, especially in the light of prospective developments on trade liberalization and globalisation generally.

In order to meet this challenge, the Ministry of Trade and Industry has embarked on the development of a comprehensive national export strategy, in

close partnership with the private sector and other stakeholders. This strategy will not only focus on identifying export markets but also, more importantly, on developing new approaches to strengthening the capacity of our firms to produce goods and services that can compete in the international markets on price, quality, reliability to deliver required quantities on time, and after-sales service. In this regard, the Botswana Bureau of Standards (BOBS) has an important role to play in promoting standardization and quality assurance through the certification of the quality of goods, the quality of environmental management systems and the establishment of a standard mark for Botswana companies.

In order to secure new markets, Botswana is actively involved in international trade negotiations now taking place in various regional and multilateral fora. These negotiations are aimed at opening markets for our goods and services. In this regard, Botswana was actively involved in the fifth WTO Ministerial Conference held in Cancun, Mexico last month. We are also proceeding with negotiations for a Southern Africa Customs Union (SACU)/United States of America (USA) free trade area. Botswana, along with the African, Caribbean and Pacific (ACP) states, is also negotiating economic partnership agreements with the European Union. We are also implementing the SADC Protocol on Trade and the new SACU Agreement signed in October 2002. Botswana's manufacturing sector, particularly the textiles and garments sector, has made significant headway in increasing its exports to the United States under the Africa Growth and Opportunity Act (AGOA).

As you can well appreciate, it is all very commendable for Botswana to be party to all these trading blocs and trade agreements. However, it is another thing to take advantage of the opportunities they offer. Government can only help in opening up new markets. The onus is on the private sector to rise up to the challenge and take advantage of the opportunities arising from these new markets.

I therefore wish to conclude by stating that we must persist and persevere in our efforts to bring about economic diversification. Government has supported particular economic sectors from time to time such as agriculture, manufacturing, tourism, the international financial services centre as well as the development of small, medium and micro-enterprises. However, we believe that the role of Government is that of a facilitator. Government will continue to concentrate its efforts on ensuring that an appropriate macro-economic policy framework is in place to support private sector development. This policy framework for diversified development entails having an efficient public infrastructure, a politically and economically stable system, with business friendly environment, including transparent processes that prevent corrupt practices, credible, stable and predictable policies, low tax rates, low levels of crime, harmonious labour relations to mention but a few. It is our expectation that a combination of these policies and practices will make Botswana more attractive to investors.

Lastly, Ladies and Gentlemen, the valiant efforts that we are making to diversify our economy will all be in vein if we do not succeed in arresting,

urgently, the devastating HIV/AIDS pandemic that is afflicting our nation. HIV/AIDS has already taken a heavy toll on our human resources. As we all realize, the fight against this pandemic is particularly costly, not only in terms of health related costs, such as the Anti-Retroviral Programme, but also in terms of social costs to provide for affected families and orphaned children. We must join hands together, to fight and win against this dreadful affliction.