SADRN

SOUTHERN AFRICAN DEVELOPMENT RESEARCH NETWORK

POLICY BRIEF 5

Export diversification in Zambia and Botswana: Little progress so far

INTRODUCTION

There is increasing evidence that export diversification is linked to growth. However, possibly less than 10 African countries show signs of export diversification, with manufacturing making up at least 25% of total exports.

Botswana and Zambia are both heavily reliant on primary commodity exports. In Zambia, the dominance of copper was such that only 6% of Gross Domestic Product (GDP) was manufacturing at independence in 1964 – 90% of export revenues were with copper. Zambia has had two main eras of economic policy since independence, with a central planning approach in the first period. In 1991 Zambia evolved to a market economy model. Policies and the role of government differed – from that of investor to facilitator – but the outcome was similar: mineral exports have remained high and dominate the portfolio of goods exported.

Botswana had no mining at independence in 1966. Following the discovery of diamonds, mining's GDP reached 12% in 1975, increasing progressively; between 1986 and 2006, mining's share of GDP was between 45% to almost 50%. Manufacturing was only 4% of GDP throughout the 2000s. Botswana is vulnerable with little employment associated with diamond extraction and with a large subsistence farming sector. Employment in Botswana is concentrated in the service sector and predominantly in civil service employment. The authorities thus face the major challenge to jumpstart a process of production and export diversification.

RESEARCH FINDINGS

Zambia

The 1964 Industrialisation Policy Plan placed manufacturing as the generator of growth and the country sought to move away from the dominance of copper exports. Zambia pursued an import substitution strategy in this period. State-owned enterprises also played a key role in the possibility of expanding manufacturing. Steps were in place to develop manufacturing nationally through highly restrictive trade practices and direct financial support. Foreign exchange was allocated to specific firms and products as a way of controlling and protecting the domestic industry. However, production incentives were inadequately designed and allocated. Production capacity was constrained by a lack of spare parts. Support for small and medium enterprises was inadequately organised with insufficient funding to develop these firms.

Against these factors, manufacturing production expanded. First, large resources were deployed to expand manufacturing. Second, the country started from a low base with manufacturing value added expanded from 6.3% in 1964 to 12% in 1974 and 15% in 1990. Significantly, exports were penalised with export licences required, to force production to be channeled onto the domestic market. Thus, government was effectively not supporting export diversification.

Post 1991, sectoral concerns were more evident. National priorities were considered in the selection of sectors with the following defined as priority sectors: processed foods, textiles and garments, engineering products, gemstones, leather and leather products, and wood and wood products for industrial development.

The information in this brief is extracted from two reports prepared under the SADRN programme: *Trade and industrialisation policies: Experiences from Zambia* by Dale Mudenda, and *Linkages between trade and industrial policies in Botswana* by Farai Zizhou. Available on the TIPS/SADRN website www.tips.org.za/programme/sadrn For more information contact TIPS, info@tips.org.za Tel: +27 12 431 7900

Opening up new sectors was tied to sectorally targeted investment support, modernising the technological platform and expanding infrastructure. The focus is on export-oriented industrialisation, while still involving firms to produce for the domestic market.

The bulk of manufacturing activities is still linked to mining and agriculture, although non-traditional exports grew by more than 160% between 1992 and 2008 even though their share is small. Manufacturing exports have also grown since 2005. The new products emerging are "engineering goods", closely linked to the mining industry, suggesting some success in developing linkages and value addition. The share of manufactured goods in total exports fluctuates sharply but increased from 5% in 1992 to 18% in 2004 and to 13% in 2008.

Botswana

The Botswana economy is characterised by sound macroeconomic performance and a sound management of the diamond revenue for its growth. Botswana's challenge is around creating jobs. Government sees economic diversification as offering such opportunities.

The strategy is to provide an enabling environment by supporting investment. Industrial policy also has a procurement programme that favours supply from domestic sources in government contracts. These aspects of policy are around generating employment. Export diversification is explicitly stated and sought through trade policy and increasing export markets. Joint ventures are encouraged.

Little has been achieved by Botswana through its industrial and trade policies. In 2006, diamonds accounted for 74% of the total value of exports; copper another 14%. The rest, 12% of exports, is across a wide range of products, dominated by textiles and clothing. A few new export markets have emerged since 2000: the country's least developed status has boosted its access to the US market for textiles and clothing goods. However, it's notable that these manufacturing products are still exported to a handful of non-African markets. The research highlights the importance of intra-African trade given that such trade is typically more diversified than trade to other areas

On its diversification efforts, Zizhou notes that Botswana has been penalised by failing to link regional trade policy and industrial policy. In spite of initiating the development of an automotive industry, conditions for a support instrument in South Africa for the automotive sector challenged the duty free sales of Botswana vehicles in the SACU market (of which Botswana is a member). The firm involved closed its plant in 2000. This case illustrates the impact of industrial policy beyond the borders when these are framed by a particular agreement.

RECOMMENDATIONS

Both Zambia and Botswana have emphasised export diversification over a long time. Carefully guided sectoral interventions have yielded some small results in Zambia and sectoral interventions should be investigated in Botswana.

Both countries are landlocked economies, but Botswana is close to the South African market. With a small domestic market, how can it induce manufacturing investors to come in against the opportunities of setting up in South Africa and exporting to Botswana? Infrastructure development, particularly power, is linked to export diversification. Botswana has a electricity challenge. Diamond beneficiation was attempted but with limited export diversification results. The country remains vulnerable to factors that influence the price of this commodity. The conditions affecting textiles and clothing production in Botswana also deserve investigation. Positively, export diversification opportunities exist around services. Government has seen strengths in education services and is looking to export services.

Concerns remain around South Africa's influence over Botswana's development. Mineral tax, royalties and dividends are being displaced by revenues from the South African Customs Union revenue pool. The former recently amounted to 35% of all revenues down from 55% in the early 2000s. The latter now amounts to about 27% compared to 14% in the early 2000s. Thus Botswana is also displaying increasingly regional revenue reliance.

In both countries, alternative efforts might be needed in technological improvements. This is theme that is only touched on for Zambia: innovation and the adoption of new technologies are supported in that country. Also, Zambia has pursued quality improvements which are likely to allow new contracts or new markets to emerge. The outcomes of these efforts need to be looked into to encourage greater product variety and enhance competitiveness.

The Southern African Development Research Network (SADRN) was launched in 2007 as a broad-based policy and research network. It aims to increase the supply of policy-relevant research in the SADC region and strengthen evidence-based policy-making. The project is funded by the International Development Research Centre (IDRC)

SADRN focuses on three themes: industrial policy, services sector development at the regional level and trade policy and its linkages to pro-poor growth. The Botswana Institute for Development and Policy Analysis is the host of the trade and pro-poor growth theme working group, Trade and Industrial Policy Strategies hosts the industrial policy theme and the University of Mauritius hosts the services sector