CAN THE INDUSTRIAL SECTOR PLAY THE CENTRAL ROLE IN DRIVING AND DIVERSIFYING THE SADC ECONOMIES? THE CASE OF BOTSWANA AND TANZANIA

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ABSTRACT

The thrust of this article is to examine the industrial sector and explain whether it can play the central role in driving and diversifying SADC economies paying special attention to Botswana and Tanzania. It is argued that SADC or Sub-Saharan Africa in general- including Botswana and Tanzania should industrialise further despite the small level of the industrial sector dominated by small and medium enterprises. Implementation of the industrial development initiatives should be strengthened; development of relevant industry skills should also be strengthened; and the private sector should be promoted with the assistance and guidance of the relevant governments. Furthermore, there should be effective use of technology for industrial development and global competitiveness. The industrial sector in SADC or Sub-Saharan Africa in general, should be implemented in stages. The first stage, for instance, should involve strengthening SMEs participation in industrial development initiatives and promoting the current light consumer and labour intensive industries. The second stage would be strengthening the intermediate good sector. The long term stage would involve industries with strong backward and forward linkages; promote capital good (investment) industries; and create innovation-driven industries. Nevertheless, effective economic diversification should also incorporate the promotion of other sectors throughout the various stages.

Keywords: *Industrial Sector, Central Role, SADC economies, Botswana and Tanzania*

1. INTRODUCTION

The justification of the industrial sector in playing a central role in driving and diversifying an economy may be summarised from various literature a follows: First, the industrial sector has relatively high growth elasticity

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and many backward and forward linkages to other sectors especially the primary sectors (agriculture and mining). Retrospective evidence from more developed economies and the increasing industrial sector contribution to GDP over time in the long run adds weight to the afore-stated proposition. Second, diversifying an economy from the traditional primary sector toward the industrial (secondary) sector would reduce risks, uncertainty, vulnerability and deteriorating commodity terms of trade. Third, the industrial sector, especially when it is defined broadly to include manufacturing plus main supporting sector to manufacturing (e.g. public utilities- electricity and water and construction) leads to expansion of employment if labour intensive techniques are chosen. Fourth, the possibility of technological transfer, adoption and creation of technology is great in the industrial sector. Last, but not least, industrialisation ensures economic independence (SADC, 2015:14, Kapunda, 2005, Kapunda and Akinkugbe 2005:151, Bank of Botswana 2000: 75).

No wonder currently the African Union (AU) and the Southern African Development Community (SADC) including Botswana and Tanzania, are emphasizing industrialisation as a long-run strategy for economic independence. Recently (2015) SADC adopted an industrial development strategy to leverage the region's resources for sustainable development and economic independence (SADC 2015). SADC's industrial development strategic plan underscores efficient use of resources, economic diversification and competitiveness to propel the region into innovation-driven industrialisation by the year 2063.

This article aims at examining the industrial sector and explaining whether it can play the central role in driving and diversifying SADC economies paying special attention to the case of Botswana and Tanzania. Both are SADC countries. While Botswana is dominated by the mineral sector Tanzania is relatively fairly diversified.

After the introduction the article looks into industrial development and policy in SADC in section 2. Section 3 examines the industrial sector and its role in driving and diversifying the economies of Botswana and Tanzania economies. The conditions for the industrial sector to play the central role in driving and diversifying SADC economies including those of Botswana and Tanzania are explained in section 4. Section 5 provides the conclusion.

2. INDUSTRIAL DEVELOPMENT AND POLICY IN SADC

Most African countries including SADC countries have been trying to promote industrial development since gaining independence mainly in the 1960s. The main arguments for this are similar to the ones spelt out in the introduction.

Retrospectively, the New Partnerships for Africa's Development (NEPAD) adopted in 2001 identified economic transformation through industrialisation as a critical vehicle in the continent. This was followed by a Plan of Action for Accelerated Industrial Development of Africa (AIDA) in 2006 (Kapunda, 2016).

Between 2000 and 2009 the narrowly defined industrial sector (manufacturing) in Africa grew by 3.2 percent. Resource-based manufacturing (mainly consumer goods, glass and other non-metallic minerals) grew by 2.6 percent, while low-technology manufacturing (mainly textiles, apparel and fabricated metal products) grew by 1.6 per cent. The growth of medium/ high technology manufacturing (mainly chemicals, machinery and equipment and vehicles) was 5.7 percent (Kapunda 2016).

The broadly defined industrial sector (manufacturing, mining and construction) grew by an average of 1.9 percent in 2009. Many countries especially those which depend significantly on mining experienced negative growth rates. Examples include Angola, Botswana, Namibia and South Africa, (Kapunda, 2016). As argued elsewhere, this might be attributed to the shrink in global demand for minerals like diamond due to the 2009 crisis. In Botswana, for instance, the mining sector which accounted for about 70 percent of the government revenue was hit the hardest by the crisis. In 2009, the diamond giant Debswana succumbed to lay off some workers and some mining sub-sectors had to close (Kapunda, 2015).

However, the after the 2008/2009 economic crisis, growth rates in Africa including SADC became generally impressive, (UNIDO and UNCTAD, 2011:81).

It should be noted that the industrial sector in Africa is still dominated by small and medium enterprises (SMEs) which contribute over 50 percent of employment and GDP, (UNIDO and UNCTAD,2011:23).

Recent trends, however, indicate the need to strengthen first regional industrialisation. In this regard, recently (2015) the Southern African Development Community (SADC) introduced Industrialisation Strategy and Roadmap (2015-2063).

While SADC is endowed with abundant and diverse natural resources, the productive sectors do not practise value addition. In agriculture, SADC countries continue to export unprocessed agricultural produce, earning approximately 10 percent of the potential values of the products. SADC industrialisation strategy aims at reversing this trend in order to ensure self-sustaining development and economic independence, (SADC, 2015: IV).

3. INDUSTRIALISATION IN BOTSWANA AND TANZANIA: POLICIES, ROLE AND PERFORMANCE

3.1.The Case of Botswana

3.1.1. Industrial Policies

Since 1984, Botswana's industrial development has been guided by various documented industrial policies and strategies. The first Industrial Development Policy, launched in 1984, underscored import-substitution strategy to meet mainly domestic demand. The subsequent (1998) Industrial Development Policy emphasized export-oriented strategy.

According to Moffat and Kapunda (2015) the 1998 Government Paper No.1 shifted the strategy to export-oriented growth. However, the theme to diversify the economy was again underlined. The 1998 Industrial Development Policy underscored the importance of SMMEs in rural industrialisation, employment creation, citizen empowerment and economic growth in general. As a follow up to the policy, the subsequent Government Paper No 1 of 1999 focused on the policy of SMMEs in Botswana (Kapunda and Akinkugbe 2005: 154).

The objectives of the SMMEs policy were:

- Fostering citizen entrepreneurship and empowerness;
- Achieving economic diversification;
- Promoting exports;
- Encouraging the development of a competitive and sustainable SMME community;
- Creating sustainable employment opportunities;
- Promoting the development of vertical integration and horizontal linkages between SMMEs and primary industries in agriculture, mining and tourism; and
- Improving efficiency in the delivery of services to businesses.

The guiding principles for the SMMEs policy were:

- Creating an enabling environment within which SMMEs will flourish and grow;
- Providing an integrated approach to SMME development which ensures cohesion ad linkages between the various programmes;
- Ensuring that the SMME policy is implemented effectively and assessed against measurable objectives; and
- Discouraging dependency upon Government.

The most recent (2014) Industrial Development Policy is also centred on export-led growth, aiming at meeting both export market and domestic demand. All the industrial policies recognise the importance of industrialisation in driving and diversifying the economy.

3.1.2. The Role of the Industrial Sector in Botswana

The recent Industrial Development Policy (2014-2028) regards the industrial sector as the engine of growth. Its main theme is Placing Botswana among the Industrialised Economies of the 21st Century. Its vision is to have diversified sustainable and globally competitive industries. However, the Policy estimates that Botswana is at the transition stage between Stage I and Stage II. Stage I being factor-driven and Stage II being efficiency-driven. The country is behind its regional partners: Mauritius, Namibia, South Africa and Swaziland which are already in Stage II. These countries are aiming at moving to Stage III: the innovation-driven stage- reached by Industrialised Countries and the Newly Industrialised Countries of East Asia. As noted earlier, SADC aims at reaching this stage by 2063.

The 1997-2016 Botswana Vision also underscored the central role of industrialisation in driving and diversifying the economy. However, it pointed out that building up an industrial (manufacturing) sector was a big challenge given the relatively small industrial base.

It should also be noted that the role of small medium and micro enterprises (SMMEs) in Botswana is also great. SMMEs dominate the industrial sector in Botswana as is the case of Africa in general.In Botswana, SMMEs employ more than 300 000 people. Although SMME contribution to Gross Domestic Product has declined from 42 percent in 2008, it is still significant today at 32 percent. The SMME sector accounts for almost 90 percent of registered businesses in Botswana. The Government of Botswana and some donor agencies are increasingly emphasizing the key role played by the SMME sector in promoting economic diversification and social development. Consequently, they provide financial assistance in an attempt to encourage and assist SMEs in the country (Moffat and Kapunda, 2015).

Enterprises are not just suppliers, but also consumers. This plays an important role if they are able to position themselves in a market with purchasing power. Their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. In addition, demand is important to the income-generation potential of SMMEs and their ability to stimulate the demand for both consumer and capital good. SMMEs in Botswana also play a significant role in export diversification through exporting a variety of products such as clothes/textiles, baskets and crafts.

The recent Industrial Development Policy (2014) enhances SMMEs development. It encourages the government to facilitate the SMME capacity development for acquisition of new technology and relevant industry skills for domestic and global competitiveness; provision of appropriate infrastructure to support SMMEs participation in local industry activities; promotion of SMMEs and business linkages between SMMEs and the large chain stores as well as the creation of supply contracts, joint ventures and partnerships between SMMEs businesses and FDI companies and where appropriate allowing local communities and non-governmental organisations to develop business activities and employment opportunities for SMMEs in rural villages. Overall, SMMEs businesses will be oriented to have both domestic and export focus with a view to overcoming the challenges associated with the small global competitiveness (Republic of Botswana, 2014: 24).

3.1.3. Industrial Performance in Botswana

Regarding industrial sector contribution to GDP, Table 1 indicates an increasing trend of the industrial sector contribution from 10.7 percent in 2005 to 13.6 percent in 2014; and also an increasing trend for manufacturing from 4.8 percent to 6.0 percent in the same years. These are positive trends towards innovation driven industrialisation. However, they are well below the average percentage for countries with a similar per capita GDP.

Table 1
Sectorial Contribution to GDP in Botswana (2006 Constant Prices) (%)

Sector	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
manufacturing	4.8	5.3	6.1	5.6	6.4	6.1	6.4	6.4	6.2	6.0
industry	10.7	11.4	12.8	12	13.9	13.3	14.2	14.5	14	13.6
mining	33.2	32.2	28.3	26.7	16.7	18.5	16.3	14.8	16.8	16.8
agriculture	2	2	2.1	2	2.3	2.3	2.2	1.9	1.7	1.7
Primary sector	35.2	34.2	30.4	28.7	19	20.8	18.5	16.7	18.5	18.5
Others (mainly services)	54.1	54.4	56.8	59.3	67.1	65.9	67.3	68.8	67.5	67.9

Source: Calculated from Bank of Botswana Annual Report 2014
Note: Industryisbroadly defined to include manufacturing sector and its main supporting sectors (construction and public utilities –water and electricity).

The generally falling trends of the contribution of the primary sector (agriculture and mining)are expected from Kuznets' hypothesis. The increasing trends of other sectors (mainly services) point to the hypothesis that industrialisation alone is not enough for economic development and diversification. Other sectors like tourism and other service-oriented sectors are important. This applies also in the case of employment. Paid employment in the industrial sector tends to increase over time. For instance, it increased from 59,190 in 2005 to 60,498 in 2005 and that of manufacturing increased from 32,396 to 35,888 in those years (Bank of Botswana 2014). Although the industrial employment tends to increase over time, employment creation still comes from other sectors (mainly the service sector). As the Botswana Vision underscores, the expansion of small and medium sized enterprises (SMEs) is a vital component of the strategy to achieve full employment. However, industrial SMEs still face problems of capital, skills, market and others.

Regarding backward and forward linkages, most industrial activities have only strong backward linkages. More effort should be made in developing the industrial sector, thereby strengthening both backward and forward linkages and hence diversification. Intermediate and capital good production should be developed in the long run.

In Botswana, SMMEs employ more than 300 000 people. Although SMME contribution to Gross Domestic Product has declined from 42 percent in 2008, it is still significant today at 32 percent. The SMME sector accounts for almost 90 percent of registered businesses in Botswana. The Government of Botswana and some donor agencies are increasingly emphasizing the key role played by the SMME sector in promoting economic diversification and social development. Consequently, they provide financial assistance in an attempt to encourage and assist SMEs in the country.

3.2.The Case of Tanzania

3.2.1. Industrial Policies

Soon after independence in 1961 Tanzania (Tanganyika by then) tilted investment towards industrialisation. The industrial policy strategy aimed at diversifying the economy from primary production (Mbelle, 1994: 112). This was guided by general 3 and 5 year plans (1961-64; 1964-69;1969-74). In 1975, however, a long term Basic Industrial Strategy (BIS) was adopted to cover the period 1975-1995. Although the BIS laid the foundation of industrialisation, it did not attract the expected donor finance (ibid: 112).

In 1996, nevertheless, the Sustainable Industrial Development Policy – SIDP (1996-2020) was launched. Unlike the BIS, the SIDP was to be implemented in specified detailed 3 phases (Mwaigomole 2014: 148). Phase one (1996-2000) concentrated on the rehabilitation of the then existing manufacturing capacities through financial, capita; and management restructuring. Privatisation, foreign direct investment, private sector and small and medium enterprises were promoted (ibid: 149). Phase two (2000-2010) concentrated on creation of new capacity in activities with competitive advantage. Export processing zones (EPZs) programme were established to attract and promote such industries (ibid). Phase three (2010-2020) saw the formulation of small and medium enterprises policy (2013) and promotion of consumer, intermediate and capital goods industries. During this phase the long term SADC Industrialisation Strategy and Roadmap (2015-2063) was launched. Tanzania's industrialisation was expected to incorporate the key features of the SADC's policy strategy.

3.2.2. The Role of the Industrial Sector in Tanzania

The basic role of Tanzania's industrial sector is to diversify the economy from primary production based (agriculture and mining) to industrial production. The long run industrial diversification is from light (consumer) industries to more intermediate and capital good industries to meet both domestic and export markets. This is in line with general justification of the industrial sector in playing a central role in driving and diversifying an economy as outlined in the introduction section.

3.2.3. Industrial Performance inTanzania

As was the case for Botswana there was an increasing trend of the manufacturing and industrial sector contribution to GDP over time, for instance, manufacturing contribution to GDP increased from 7.5 percent in 2005 to 8.5 percent in 2014 and industrial contribution to GDP increased from 15.8 percent to 19.4 percent in the period. For details see Table 2. Although these shares are higher than those of Botswana in the same period they have not reached Sutcliffe's minimum point of industrial contribution of 25 percent for a country to be regarded as industrialised (Sutcliffe 1971: 18).

Table 2
Sectorial Contribution to GDP (2007 Constant Prices) (%)

Sector	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014**
manufacturing	7.5	7.8	7.9	8.4	8.3	8.5	8.4	8.3	8.2	8.5
Industry**	15.8	16.8	17.1	17.9	17.2	17.7	18.3	18.0	18.5	19.4
mining	4.8	3.9	3.9	3.4	3.8	3.8	3.8	3.8	3.7	3.7
agriculture	21.3	20.8	19.6	20.0	19.7	19.1	18.0	17.7	17.1	16.4
primary	26.1	24.7	23.5	23.4	23.5	22.9	21.8	21.5	20.8	20.1
Others (mostly services)	58.1	58.5	59.4	58.7	59.3	59.4	59.9	60.5	60.7	60.5

Source: calculated by the authors from (2015) United Republic of Tanzania Economic Survey.
Notes: *provisional data**industry is broadly defined as in Table 1.

Although industrial employment also increased, for instance, from 119,446 in 2012 to 133,231 in 2014 (URT 2015: 197) most of employment came from other sectors. Regarding backward and forward linkage based on promotion of intermediate and capital good industries some effort has been done to improve the shares of intermediate and capital good industries since independence. For detail see Table 3.

Table 3
The Structure of Manufacturing Value Added in Tanzania: Selected Years (%)

Group	*1966*	*1974*	*1986*	*1991*	*2014**
Consumer goods	70.5	56.1	40.2	47.7	44.0
Intermediate goods	21.5	27.2	30.2	33.7	36.0
Capital goods	7.1	12.3	28.5	12.8	20.0
Intermediate + capital goods	28.6	45.6	59.3	46.5	56.0

Source: Mbelle (1994), United Republic of Tanzania (2015) *Economic Survey*
Notes: *provisional

Instead of the expected increasing trend of the intermediate and capital goods after 1996 the trend the shares tended to decline after that year as depicted in Table 3. This indicates the need to promote such industries is required.

4. CONDITIONS FOR THE INDUSTRIAL SECTOR TO PLAY THE CENTRAL ROLE IN DRIVING AND DIVERSIFYING SADCECONOMIES

The industrial sectorin SADC, or Sub-Saharan Africa in general, should be enhanced in stages. The first stage, for instance, should involve strengthening SMEs participation in industrial development initiatives and promoting the current light consumer and labour intensive industries. The second stage is strengthening the intermediate good sector. The third long term stage is to promote industries with strong both backward and forward linkages; promoting capital good (investment) industries; and creating innovation-driven industries. Nevertheless, effective economic diversification should also incorporate the promotion of other sectors throughout the various stages.

Although the industrial sectors in Botswana and Tanzania are showing positive development trends, they are still at a relatively low stage. However, the most recent Botswana Industrial Development Policy (2014-2028) aims at placing Botswana among the industrialised economies of the 21st century and making the industrial sector play the central role in driving and diversifying the economy. Similarly, the Sustainable Industrial Development Policy of Tanzania (1996-2020) aims at sustainable industrialisation by 2020. These policies should be implemented with reference to the SADC Industrialisation Strategy and Roadmap (2015-2063). The industrial sector can play that role if these policies are implemented effectively. Implementation of the industrial development initiatives should be strengthened; development of relevant industry skills should also be strengthened; and the private sector should be promoted with the assistance and guidance of the government. Furthermore, there should be effective use of technology for industrial development and global competitiveness.

5. CONCLUSION

This article has examined the industrial sector and explained whether it can play the central role in diversifying SADC economies paying special attention to Botswana and Tanzania.It has been argued that if the industrial sector has to play that role some conditions are important. Thesehave been spelt out in the article.

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