

Integration and Policy Constraints to Industry and Trade in Botswana, Lesotho and Swaziland

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Abstract

The Southern African Customs Union (SACU) is comprised of Botswana, Lesotho, Swaziland (BLS) and South Africa and until 1975 when Botswana withdrew to establish her own central bank, all the four countries were members of the Rand Monetary Area (RMA). In this paper we review the performance of the BLS countries under both institutional arrangements focusing on industry and trade.

The SACU and RMA are characterised by restraints and controls that have a negative impact on the growth and development of the smaller partners. While we recognise the effect of polarisation due to market forces, we point out that polarisation is a result of institutional restraints and controls which enable South Africa to take advantage of the gains of economic co-operation in all aspects of economic activity particularly consumption activities, capital, supply of raw materials and labour resources.

Introduction

The countries of Botswana, Lesotho, Swaziland (BLS) and South Africa are members of the Southern African Customs Union (SACU) and until 1975 when Botswana withdrew to establish her own central bank, all the four

countries were also members of the Rand Monetary Area (RMA). In this paper we review the performance of the BLS country's economies under both institutional arrangements focusing on industry and trade.

We argue that unlike conventional views concerning advantages inherent in such arrangements, SACU and RMA are characterised by constraints and controls that have a negative impact on the growth and development of the smaller partners. While we recognise the effect of polarisation due to market forces, we argue that polarisation is a result of restraints and controls introduced by South Africa to take advantage of the gains of economic co-operation. Our analysis views polarisation in the context of institutional approach.

In this analysis emerges the strategy of South Africa to protect its industry in all aspects of economic activity including consumer, capital, input industries and labour resources to the disadvantage of her partners. The implementation of this strategy requires that competition from the region be controlled through existing institutional arrangements.

The South African Customs Union (SACU)

The Southern African Customs Union was established in 1910 between South Africa, Botswana, Swaziland and Lesotho. The incorporation of the BLS countries in this arrangement was rationalised on administrative convenience. It was supposed to make it possible for these countries to generate revenue of their own to pay for their administration on the basis of trade flows to these countries. Consequently, the economic impact this arrangements would have on the BLS was not taken into consideration.

The objectives, principles and provisions of the Agreement as revised in 1969 are as follows:

- (a) A common customs tariff based on that of South Africa for all goods entering the customs area;
- (b) Free movement of goods between member countries within the area;
- (c) Only in special cases are the BLS countries allowed to impose a protective tariff on imported goods from member countries with the purpose of protecting their own infant industries. Such protection is subject to approval by the Customs Union Commission and can be for only 8 years and not longer.
- (d) Freedom of transport and transit through the area.
- (e) A Common Revenue Pool administered by South Africa. All revenues, excise taxes and sales taxes are collected into the pool and eventually divided among member countries on the basis of an agreed upon formula.

Market Size and Industrial Performance

The BLS countries cannot support large scale industries requiring economies of scale to be profitable. The smallness of their markets determine to a great extent their industrial structure, competition in manufacturing and policies. As a result, import-substitution and export oriented strategies have been selected carefully with market constraints.

On the basis of gross domestic product per capita, Swaziland is the largest market. The low per capita GDP for Lesotho is compounded by the fact that not only does she have a higher population but she also has the lowest GDP. When we compare Botswana and Swaziland we find that GDP per capita for the latter is higher than that of the former despite her higher overall GDP. This difference is accounted for by the higher population of Botswana compared to that of Swaziland as indicated in Table 1.

Unequal Partners and the Polarisation Effect

The polarisation of growth in SACU is partly explained by Myrdal's theory of the backwash effects.¹ According to Myrdal's theory regional inequalities at the national and international level come about as a result of the free market system. The backwash effects are the adverse effects of economic development on a given locality and the spread effects are the expansionary momentum of development on the regions. Regional inequalities are caused by strong backwash effects over spread effects.

The Myrdal's theory explains well the regional inequalities that exist within SACU. Polarisation has occurred over the years to the extent that backwash effects far outweigh spread effects for the BLS countries. What is different however is that polarisation is not the result of the free market as Myrdal's theory assumes but it is a result of various restrictions imposed by the SACU articles of Agreement on the BLS countries. It is these restrictions or institutional constraints that are central to our analysis.

Polarisation within the SACU Agreement affects particularly sectors with industrial potential, trade flows and resource allocation on the basis of the revenue formula. Under Article (6) a member of SACU cannot set up an industry if such an industry already exists in one of the member countries. The agreement specifies that 'As a result of unforeseen developments, if a product is being introduced into a territory of one of the member countries from another, 'in such increased quantities and under such conditions as to cause or to threaten serious injury' to producers or manufacturers of 'like or directly competitive products', then such a member 'shall' have the right to require consultation to find a mutually acceptable solution as soon as pos-

sible".² South Africa has actively taken advantage of this clause by complaining repeatedly to other members about possible injury to their industries by developments in other countries. In some cases industries have had to be abandoned as a result of restrictions based on these articles. The advantage South Africa has is that its industry dates earlier compared to that of her partners.

The Revenue Formula and Polarisation

The revenue sharing formula is central to the polarisation effect because it affects the allocation of resources. This formula is provided for in Article 13 of the SACU Agreement. For each country, the revenue shares are based on the indirect taxes that include customs, excise taxes, sales and surcharges based on trade volumes of member countries. The formula is described below:

$$M = (A + B + C) / (D + E + F + G) * H * 1.42$$

where

M = amount of revenue that will accrue to a given BLS country for the financial year.

A = CIF value of duty paid on imports to the BLS countries.

B = Value of excisable and sales duty goods produced and consumed within the BLS countries.

C = Excise and sales duties paid on goods referred to in B during the year.

D = CIF value of merchandise imports into SACU area.

E = Customs and sales duties paid in D.

F = The value of excisable and sales duty produced and consumed in the SACU area.

H = The common Revenue Pool of customs, excise and sales duties collected during the given year. ($H = E + G$)

Note: B and F exclude any export of domestically produced excisable and sales duty goods which actually benefit from export drawbacks.

The 1.42 or 42% compensates for the price raising effect of the South Africa's import control; tariff protection to industry; polarisation effect on industry and development and loss of fiscal discretion. All these factors are both quantifiable and non-quantifiable. Fiscal discretion and polarisation effects are qualitative and the price raising effects of import control and protective tariffs can be measured.

Proceeds from the customs union are a major source of revenue for the

BLS governments. However, revenue shares of BLS have been declining over the past several years. Specifically the ratio³ of collected sales and customs duties to total revenues per BLS country has been declining over the years. It has been argued that this decline is due to double counting resulting from duplications built into the revenue formula.

Double counting occurs because some of the dutiable goods imported into SACU are processed further as inputs for the manufacture of other final goods. If such input goods are duty free or fully rebatable they are included in D and F as dutiable goods. But they are also included in E as duty free goods since they are rebatable and are therefore ignored in H. The overall effect is that M is reduced hence the share accruing to any BLS country.

In other situations, for example, items may be recorded twice. First, as government excise duties (G), and as sales duty (F). It has been suggested that these discrepancies can be overcome by applying excise duty (G) only to goods produced in SACU and not sales tax (F).

The other controversial point is that the Agreement is not clear on the treatment of re-exports. Imports that are subject to re-export by way of further manufactured processing are subject to duty as well as the importation of military equipment.

Equally undesirable is the fact goods sent for repairs are treated as dutiable upon re-entry into the SACU region or a specific BLS country. This requirement is equivalent to importing a new product into the region and has the effect of reducing M.

Under SACU, the BLS does not qualify for duty free import of inputs into industry. For the BLS countries, duty is defined in Article 4(4) to include only imports intended for disaster relief, those under technical assistance agreements as well as those tied to international obligations⁴.

The revenue accruals to BLS are further reduced because the duty free goods are excluded from (A) in the revenue formula. But for the RSA, similar imports are included in (D) but excluded from (H), thus having an overall effect of reducing (M).

Rebates on duties are granted on a discriminatory basis in favour of South Africa. Under the Agreement, The BLS qualify for rebates, but these are allowed for a limited number of industries and for a short period compared to similar industries in South Africa. For example, when Lesotho wanted to start a TV assembly plant, it was granted a rebate for six months after which she would have to pay 100% duty on imported inputs.

The rationale for treating rebates in this manner, is to encourage South African industries producing import competing products. BLS is required to buy their input requirements from RSA industries further increasing the costs of the former because alternative sources would be cheaper. South Africa retains the monopoly to import additional inputs only if there is a

shortage of supply relative to demand in the region. This arrangement is clearly for the industrialisation of South Africa. The BLS is at a disadvantage because RSA prices are higher than alternative import prices.

Where it is unable to impose tariffs on imports as a result of international agreements, South Africa offers protection to affected industries on the basis of market protection. The high tariffs and subsequent generous rebates for which only South African registered companies qualify, (as per article 4(4)) is offered as an incentive because of the price raising effects of the tariff which might disadvantage home industries.

The import control system is intended to encourage domestic content in the manufacture of South African domestic goods as well as to protect industries requiring economies of scale. The protective effect has increased effective rates of protection over nominal rates and as a result, while South African industries enjoy market protection at home, SACU exports are not doing as well because export prices are high than those of competitors in foreign markets. The overall effect is the poor export performance of agricultural goods for the BLS.

The revenue sharing formula has an adverse impact on resource allocation as a result of the manner in which it is applied. In addition to the above, it should be noted that prices of some goods included in the formula have been marked up or increased as a deliberate policy by South Africa to subsidise some of her specific industries. For example, the price of petroleum has been marked up to subsidise the SASOL project which is a scheme to extract petroleum from coal. Included in the petroleum price is the road tax and the third party or accident insurance.

Industrial Performance in the BLS Countries

One of the objectives of the BLS countries is to achieve growth with equity through the export promotion and import substitution strategies. Both strategies are perceived to be complementary contrary to common views that they may be competitive. This has been demonstrated elsewhere.⁵

The BLS countries have not benefited from this relationship between exports and imports because of polarisation effects cited above. As a result, they are having to concentrate on the production and export of semi-processed goods for which there is no internal demand. Botswana exports meat and diamonds in semi-processed form, Lesotho, wool and mohair in the raw and Swaziland pulp semi-processed. In some ways, they are enclaves fitting the 'vent for surplus' models.⁶

The import-substitution performance of the BLS countries was measured and is reported in Tables 3, 4 and 5.⁷

All the three economies experienced negative import substitution over the period 1970\71 to 1980\82. The Chenery measure portrays a much worse picture compared with the Desai measure. Import substitution has remained negative under both measures with the exception that the Desai measure paints an optimistic picture compared to the Chenery measure which does not.

Import substitution has remained negative for the economies of the three countries and slight improvements have been indicated in the food and beverage sector and to an extent in the metal industry. The ranking reverses depending on the particular measure being used. The Desai measure ranks the metal industry highest while the Chenery measure ranks it last. Ranking is in a descending order suggesting that import substitution becomes worse over time.

The descending order in the ranking is not surprising. In his study on India, Desai observed a similar pattern.³ Desai concluded that none of the two measures is superior to the other. Consequently, he suggests that both should be used and cautious interpretation should be made about the ranking.

Many factors operate to constrain import substitution in these countries but clearly, institutional constraints within SACU take a great share. The role of these constraints has been to exacerbate the impact of the backwash effects by reducing the benefits of spread effects.

Export Performance

An analysis of factors operating on exports reveals interesting results⁹ as reported in Tables 7, 8 and 9.

Columns (1) and (4) show actual exports for the periods 1970\73 and 1980\82. In column (3) export value for 1980\82 are given in terms of 1970\73 prices. Column (2) gives a projection of exports from the base period of 1970\73 based on the assumption that the country maintained its share of major exports in the world market. Column (8) gives a total change in exports. The total change is in turn broken down into "market effect", column (5); "competitive effect", column (6); "price effect", column (7). In other words, the "market effect" reflects the growth of world markets in the given commodity, "competitive effect", the change in market shares and "price effect" changes in export prices.

Between 1973\76 and 1980\83, the share of major exports for Botswana relative to total exports remained steadily at 92%. However, for Lesotho there was a decline of the major exports relative to the total from 86% to 70% over the period. Swaziland on the other hand improved this proportion

from 67% to 70%. The exports for Botswana were concentrated in meat and meat products and diamonds, for Lesotho in food and live animals and crude materials, and for Swaziland, sugar and woodpulp. Most encouraging for all these countries is the fact that there was an improvement in the export of minor commodities.

It is important to note that this method concentrates on demand factors in the export market. It treats supply factors as the residual. According to this methodology exports are influenced by trends in world demand. Thus some will tend to do well because they are in high demand internationally. Accordingly, some exports for the BLS have done well internationally due to these effects. Exports of meat and minerals have done particularly well in this category.

The price effect is influenced by direction of trade so that some exports might do well in some markets and badly in others. The performance of the BLS is positive in terms of market direction but clearly less so in terms of market effect.

The competitive effect measures all the composite factors which influence the performance of exports in a given market. These factors include commodity composition of import demand in the export markets. Such factors include the level and distribution of real income, tastes, technology, commercial policy and the competitiveness of import competing industries in a given market.

The direction of trade statistics indicates what BLS exports are to sophisticated markets. Because they enter these markets semi-processed, and under special agreements, they remain uncompetitive. Most of these exports would compete favourably in the domestic markets particularly in SACU. Table 10 on the direction of trade is typical of the BLS economies. In 1984 of the total imports into Botswana, the proportion of imports from South Africa was 78% while that of her exports was 76% to the EEC. Her exports to South Africa was⁹ of her total exports.

Supply factors affect competitiveness and to the extent that the BLS have developed neither the domestic market nor the SACU market in manufactured goods, it makes it difficult for them to compete in distant markets. Tables 6, 7 and 8 indicate that according to world trends the exports of the BLS should have been much higher. Column 2 shows the hypothetical values which are much higher than the actual values. The results in these tables are indicative because accurate and disaggregated data was not available. The volume of exports will be affected by the different rates of increase in productivity and levels of prices in a given BLS economy. The development of new products for exports and their quality affects competitiveness. Improvement in the efficiency of marketing and improved terms of Financing for export promotion, and the ability to fill out ex-

port orders promptly and the overall environment and the willingness to export. The inability to compete stands out as the major reason for poor export performance of these countries subject to re-exports.

Migrant Labour Remittances

The migrant labour system is not covered by the SACU Agreement, however, it is not in conflict with it. Table 11 shows the relative sources of labour recruits. Lesotho and Mozambique provided the highest means of recruits for the period 1975 to 1985. According to the relative standard deviation, recruitment is more persistent from the BLS countries. This suggests that South Africa prefers to recruit from the BLS over the non-BLS countries, a fact that would encourage external policies to maintain these areas as traditional labour sources.

Of the BLS countries, Lesotho is the most dependent on migrant labour and she derives revenue from its membership to SACU. The revenue so derived plays an important role in the economy. First, it plays a crucial role in paying for the recurrent costs of government. Secondly, it has an influence on the allocation of resources by providing subsidy funds for various productive activities especially in the agricultural sector. Thirdly, it influences the pattern of trade and hence the import structure of the economy by catering to the consumption needs of the migrants and their families.

The relationship between migrant's remittances and the government budget is simple to deduce. The money that the migrants send home provides revenue for the government by providing revenue in the form of customs levies as well as sales taxes. These two items rank first and second as major providers of government. Consequently a sudden repatriation of migrant workers would result in the immediate collapse of revenue sources for the government.

Income taxes would also dry up as they are paid from recurrent government expenditures which are as we have just indicated, are tied to migrant remittances. The ratio of deferred pay to GDP and that of deferred pay as a proportion of imports are given in Tables 8 and 9.

The Relationship Between Gross Domestic Product and Remittances: If these workers were employed in Lesotho, the remittances would be generated at home and would be reflected by a higher gross domestic product value. It should be noted that the remittances are 60% of the migrant's earnings. The other 40% is paid out to them directly in the mines, it finds its way to Lesotho outside official channels.

The Rand Monetary Area (RMA)

Lesotho, Swaziland and South Africa are the remaining members of the Rand Monetary Area. Botswana withdrew from the Agreement after she complained about her inability to meet her objectives under the Agreement. Like South Africa, the BLS have the objective of maintaining their balance of payments in equilibrium while at the same time maintainin a desirable trade-off between employment and inflation.

As in SACU, the RMA is dominated by South Africa. The currency of the area is the South African Rand and member countries peg their currencies against the Rand on a one to one basis. This arrangement has had its advnatages and disadvantages. But the withdrawal of Botswana from the agreement clearly indicates that the disadvantages exceed the advantages.

The benefits of membership in this arrangement is that the LS do not need reserves to maintain their balance of payments because of pooled reserves kept at union level. Secondly, the rand and the loti circulate and exchange freely in the LS and as a result, foreign exchange is not needed for intra-RMA trade. For example, it was not until the promulgation of the Financial Institutions Act 1975, that Botswana was required to maintain capital reserves, comply with liquidity requirements, primary reserves and capital requirements.

The obvious disadvantage is at the policy level. Lesotho and Swaziland argue that they have not had a fair share in the management of monetary and exchange rate policy. Exchange rate policy is not determined at the union level. South Africa normally takes unilateral action on such matters and member countries have little say. Consequently, they are unable to influence their balance of payments through expenditure switching policies.

The monetary policies of the LS are equally ineffective due to lack of harmonisation policies. Policies to control money supply through reserve requirements do not have the desired effect because the South African Rand is legal tender in the RMA while LS currencies are not. They are legal tender only in the issuing country. The result is that South Africa is able to control money supply defined within the RMA area while LS is not in a position to do so. South Africa is able to use its monetary policy to control employment, and inflation imports these factors without any control over them.

The overall impact of this arrangement is to reverse gains normally assumed in classical integration models. As a result of this arrangement, manufacturing output and capital markets have been in favour of South Africa.

The Financial Rand

The Rand is a dual exchange currency in that as a commercial Rand, it exchanges at commercial rates and as a Financial Rand it exchanges at a discount of up to 40%. The Financial Rand is a securities Rand because it is applicable only to investment in securities. Purchasers of the Financial Rand are expected to buy into existing companies only and not in direct investments. Most of the trading favours industries posted at the Johannesburg Stock Market even though some trading is allowed through official channels.

The LS countries qualify for the Rand Monetary facility, albeit recently, subject to the approval of the South African Central Bank on a case by case basis. The disadvantage that the LS experience outside the probable delays in filing applications is that investment in the LS is in direct investments and invariably in small enterprises with uncertain returns. This compares unfavourably with South Africa which has a relatively well developed capital market. The impact of the dual currency on the BLS is to further polarise investment resources in favour of South Africa by attracting investment to that country.

It should be pointed out that the objective of the financial rand is to keep investments that are already in South Africa within the country and to attract new investments. The manner in which this mechanism works is that investors who intend to divest must dispose of their assets at an officially determined discount rate. This rate ranges between 30 to 40%. The investors that qualify to purchase the divested stocks must be from outside the Rand Monetary Area. Thus trading in the financial rand is only between non-RMNA residents. New investors enter the market by purchasing divested stocks at the going discount rate or by buying shares in a newly formed company. Since the financial rand is similar to an exchange of assets, the costs of the transaction are borne by investors who entered before the financial rand was introduced.

The exports of the BLS are also at a competitive disadvantage because they are priced at a relatively higher commercial rand compared to a lower financial rand. On the other hand, the BLS cannot attract large scale industries because of market constraints already cited.

Exchange Rate and Subsidies

The greatest appeal about managing one's own currency is that the country is in a position to devalue or revalue its currency as it deems necessary. The underlying advantages of the ability to manipulate one's own currency in this manner is that the depreciation has the advantage of affecting the structure

of the economy by influencing the allocation of the resources and also of reducing aggregate demand.

Botswana opted out of the RMA to enable her to control exchange policy. Lesotho and Swaziland (LS) remain as members of the RMA and they do not have influence over their exchange rate policies.

In an attempt to maintain a flexible price policy and to provide for subsidies especially for domestic agricultural production the LS countries have had to be innovative. Lesotho has introduced cost-plus pricing strategy. The cost-plus price is determined at the beginning of the year before harvest time and it remains fixed until the following season. It is calculated by first establishing total cost per hectare which includes all production activities such as labour and raw materials. The cost is divided by estimated yield per hectare to arrive at the cost per bag. A percentage margin is added to arrive at the profit per farmer.

The weakness of this pricing strategy is that it does not discriminate between the quality of output. Thus, maize and wheat are not graded because they are sold in quantities of bags. Farmers, whether they be traditional, semi-traditional or modern, receive the same price for their produce irrespective of quality. This pricing strategy clearly subsidises the traditional farmer but evidence indicates that this type of farmer has not responded by producing a surplus for the market. Among the modern farmers, it is those who are able to produce at low cost that are in a position to benefit from this type of pricing structure.

Since cost-price strategy is a proxy for lack of exchange rate option and it is fixed for the entire season compared to some of flexible exchange rates, it is not unusual for Lesotho producers to run into difficulty against competition with South African counterparts. When prices have been fixed higher in Lesotho compared to South Africa consumers prefer the South African market over the local one and exporters are unable to export. The latter carry surpluses which act as a disincentive for increased production during the coming season. Since Lesotho is a consistent high cost producer this pricing system acts as a disincentive rather than a subsidy to the producers. It is responsible for depressing commercial production.

It is interesting to note that cost plus pricing technique has an adverse effect on the cropping patterns in that it reverses comparative advantage. This happens because of the impact of the mark-up technique on the different producers. When the market for a given product is good, producers shift to the production of that good irrespective of the suitability of their land for the production of that good. The farmer is persuaded by the fact that if he is able to keep his costs low, he will be able to profit as a result of the institutionally fixed margin. Most farmers however end up losing because of the wrong price forecasts and resultant low prices in South Africa which cause trade

flows to favour South Africa. It has been suggested that Lesotho should resort to parity pricing as an alternative to cost-plus pricing technique. Parity pricing could be based on market prices of major wholesalers in South Africa compared to cost-plus which is based on farm gate prices in Lesotho and to it could be added the transportation costs to Lesotho. Since these goods would be emanating from Lesotho, the imputed transportation element would be regarded as the subsidy element to the producers. This pricing strategy would make it uneconomical for consumers in Lesotho to buy in South Africa because they would have to pay transportation costs and the base price would be the same as in Lesotho. On the other hand, this strategy would act as a disincentive for exporters because their transportation costs would not be subsidised. They would find it advantageous to sell in the domestic market and therefore having the effect of reducing adverse effect on the current account.

It is instructive to compare the two pricing strategies with that of Botswana. Botswana bases her prices on the landed cost of imports in South Africa. As in Lesotho, the prices are fixed prior to planting time. Since Botswana uses a different currency from that of South Africa, prices may change as a result of changes in the relative exchange rates of the two countries. A depreciation of the Pula against the Rand increases the prices of Botswana imports. This pushes the price of imports above the guaranteed price and the farmers gain. If the Pula appreciates relative to the Rand, the new price will be lower than the guaranteed price and producers will receive transfer payments from government as subsidy.

The exchange rate is clearly being used to subsidise farmers by either depreciating the Pula against the Rand or paying out to farmers in transfer payments in the event of the appreciation of the Pula. Since Botswana Marketing Board has a statutory monopoly in the grain market, it is impossible for consumers to enter the speculative market between Botswana and South Africa. The pricing system in Botswana is maintained through a Stabilisation Fund provided by government.

Since its inception, Botswana has had problems maintaining her exchange rate at parity with that of South Africa, her major trading partner for imports. This has further been complicated by the exchange rate of the Pula with the currencies of her major export partners in Europe. Consequently, she has had fluctuations in her foreign exchange rate.

Part of the reason the Pula stays relatively revalued is that its value is distorted by the high export of diamonds and meat. This clearly distorts the Pula relative to other export sectors of the economy which would have to devalue at devalued Pula rates. Consequently, industrial potential is affected by the revalued Pula relative to the Rand. The high relative exchange rates favour the imports of manufactured industrial goods against which local

producers cannot compete. Most entrepreneurs have found it profitable to import finished consumer goods than to produce them.

Another dilemma is that since the country depends on imports, devaluation is not a prudent policy because a devalued currency will increase the price of imports. Given the further constraints of SACU, especially the revenue sharing formula, Botswana would be unable to reduce the cost of input through rebates.

It is not evident whether the Stabilisation Fund has been able to absorb the shocks in the Pula exchange rates but it is necessary that the exchange policy be reformed to enable it to stimulate industrialisation and to increase the absorptive capacity of the sector. Table 1 shows that Botswana's imports of manufactured goods is higher than that of the other BLS countries. This suggests that despite the overall constraints of the SACU environment as already stated, Botswana has a market for manufactured goods and that she could stimulate her manufacturing industry through a strategy of promoting small to middle size industries.

It is demonstrated elsewhere that pricing policies in Botswana favour cattle farming over crop farming.¹⁰

Three pricing strategies which are cost-plus pricing used in Lesotho and Botswana system practised in Botswana. Parity pricing has been suggested for Lesotho. The three systems have a subsidy element. In the cost-plus pricing strategy, the subsidy is in the form of a margin of 20% determined by the government. In parity pricing the subsidy is the form of imputed transportation costs if commodities originating in the country had been sourced in major commodity markets in South Africa. In Botswana, the subsidy is worked on the basis of exchange rate fluctuation around a guaranteed price determined by the government. The subsidy is paid in the event of the Pula appreciating over the Rand. In terms of the budget, the Botswana system is expensive especially during the times when the Pula has appreciated at the same time it has the same impact on resource allocation as the cost plus pricing because it maintains a fixed price despite the fluctuations in the exchange rate.

The BLS are resorting to these strategies in an attempt to work out means that would give them independence from South Africa. But it is clear that if they go it alone such as is the case with cost plus pricing strategy, misallocation of resources results and domestic producers lose their markets to South Africa. On the other hand, when guaranteed prices are used such as is the practice in Botswana, the strategy is too expensive because it requires high subsidies to maintain fixed prices which will continue to maintain the market for domestic producers. Parity pricing is the most efficient of these strategies but that would also have to use South Africa as the point of reference. The BLS are clearly in a dilemma in that first, monetary intergration has not

worked because of institutional constraints emanating from unilateral policy actions by South Africa, and secondly, by their reluctance to introduce controls which would further be difficult to implement because of their membership to the South African Customs Union. (SACU).

Investment Incentives

Lack of a uniform investment code is another factor that acts as an obstacle to economic development of the BLS within SACU area. While member countries are free to introduce whatever incentive and subsidies they deem appropriate, these cannot compete with those offered by South Africa. The fact is made worse by lack of harmonisation of factors such as taxation import controls, indirect taxes, road tariffs.

The competition between the RSA and BLS for small investors is keen. The BLS economies do not offer conditions different from similar regions in South Africa. They are vulnerable to South Africa's decentralisation strategies of locating industries on their borders in competition with similar industries that would opt to locate inside their borders.

In response to the constraints relating to investment stimulation within the SACU and RMA arrangements, the BLS has promulgated the industrial incentive Acts in an attempt to attract foreign investments. The investment laws typically allow for investment allowances and tax holiday. The competition for investors is rigorous since prospective investors have to choose between South Africa and the BLS. South Africa offers higher incentives to the Bantustans on the basis of political decisions rather than economic consideration.

The effectiveness of these laws is in question for different reasons.¹¹ First, the question of identifying industries that would locate in the BLS as a result to tax incentives and those that would do so irrespective of such incentives is subject to speculation. Empirical studies to investigate these issues have not been carried out. In Lesotho some industrialists have claimed that they were attracted to the country by incentives. But there is no way of determining whether they would have come if incentives were not available.¹²

Among the BLS countries, Lesotho was the first to introduce tax holidays. Botswana and Swaziland operated on the basis of investment allowances of tax allowances. The latter countries were unable to attract investors as most prospective ones preferred tax holidays. Consequently, both countries have recently introduced tax holidays, Botswana having the most attractive of the three countries. But the incentives provided by the three countries still fall far short of those provided by South Africa.¹³

The enterprises that are attracted to the BLS are mobile in nature and they

are always moving around seeking to locate in areas promising higher returns. The nature of the laws make it easy to have limited commitment to the BLS countries. Because of their temporary nature, their high turn over with short pay back periods, their selectivity, and the fact that they are a subsidy to the firm and not to investment, their value is in question. Botswana adopted the tax holiday strategy its opportunity cost was zero and that it would only stand to gain by doing so. But evidence is Lesotho indicates that where tax holidays and investment incentives are made available and are mutually exclusive, new entrepreneurs opt for tax holidays and old ones appeal for the same privileges. The result is that as the distortions in the economy occur investors shift from investments with long gestation periods to the ones with short pay back periods. Long-term opportunity costs increase as the economy shifts from long-term to short-term high turn over investments. This point is elaborated upon below.

The investment laws offer different advantages to different investors. Investors who opt for tax holidays, do so because they are interested in making high profits in a short time. Tax holidays are preferred when profits are high and capital can be paid for within a short time. Under tax holidays, the envisaged investment is done only once. On the contrary, under investment allowance, investment is planned for a long period and profits are expected in the distant future. Investors opting for this alternative, usually spread their investment over several periods expecting to get their returns after a specified period. Under tax holidays, the government concentrates on new and usually expatriate firms. In this regard it is a selective technique. It is, however, neutral between capital intensive and labour intensive types of business.

Investment allowance makes no distinction between new and established firms and allows for several investments into the future. It has general applicability. It, however, has a bias toward capital intensive techniques while tax holidays are suitable for labour surplus economies.

All these elements have been experienced within the BLS economies. Complaints that investors tend to invest in capital with a short life span are common. Short life span of capital is a mere symptom of the effect of subsidies which tend to shorten the life of capital. The tendency of subsidies to attract capital with a short life span has been demonstrated in the theoretical and empirical studies of D.W. Jorgenson and others.¹⁴ This tendency has been observed in many other parts of the developing world.

The level of investment is affected indirectly by the fact the the BLS have equity investment in the industries that locate in them and management contracts are usually awarded to the foreign concerns. That is, investment in the BLS is characterised by joint ventures. So that despite the fact that the national development corporation monitors the operations of these enterprises,

such monitoring is often confined to financial evaluation. Other aspects surrounding the approval of the contract, such as utilisation and development of local resources are hardly considered and where they are found to have been neglected, cannot be enforced due to local resources are hardly considered and where they are found to have been neglected, cannot be enforced due to lack of monitoring systems.

Prospects for the Future

The depreciation of the rand can be expected to increase the debt servicing burden of the LS countries. The impact of the depreciated Rand on the exports of the LS may not be as significant since these countries' exports are in raw materials and are thus relatively inelastic.

In this paper we have examined the economic status of the BLS within the institutional constraints of SACU and the RMA. Our analysis has revealed that Agreements embodied in these institutions have had a greater impact on economic polarisation compared to what would be the case if development was autonomous on the basis of market forces.

The BLS economies have not benefited from advantages of economic integration. Instead, this has predisposed them to further exploitation as suppliers of raw materials and a captive market. This complex relationship has made it difficult for the to mount a constructive economic response to the constraints, however, passive. Having lost the ability to influence tariff arrangements and to compete in the capital markets, the BLS has resorted to subsidising investment through tax holidays and investment allowances. This approach has had the effect of creating an additional burden since BLS has to compete against RAS investment packages.

In the incentive packages, the BLS has offered the only concrete response to the SACU constraints. But this strategy is similar to that offered by South Africa. Specifically the BLS consider themselves to be in competition first among themselves and secondly with South Africa's Bantustans. The incentives offered to the Bantustans are very costly as they are politically determined. The BLS risk increasing their budgetary incentives to the extent of providing subsidies whose grant element is equivalent to the purchase of machinery for the investors.

A further leakage may occur through this incentive package. For example, it is possible that an owner of several firms qualifying under tax holiday incentives and tax allowances might show profits under the former and losses under the latter so as to maximise his profit gains.

The BLS desire for an independent monetary system is to have the ability to control inflation and to influence output and employment, have a stable ex-

change rate and a strong balance of payments position. While the Central Bank has performed satisfactorily in most aspects of its activities, her pricing policies have not been as satisfactory. This is due to the fact that Botswana imports inflation through her total import bill of 70% from South Africa. To combat inflation she has had to rely on manipulating the Pula/Rand exchange rate. These moves have proven expensive on the budget. Revaluations of the Pula has had the effect of increasing imports resulting in a negative impact on import competing industries.

Subsidies have had to be increased during periods of devaluation. Because of her high imports from South Africa, when she revalues to combat imported inflation, imports increase thus increasing competition with import competing industries. On the other hand, when she devalues imported inflation increases. In terms of her agricultural policies, revaluation calls for subsidies to the agricultural sector.

Lesotho and Botswana have been affected by the persistent decline of the Rand. The Rand has experienced secular decline since 1981. In 1981, it depreciated by 11%, 1983 by 12%, in 1984 by 38%. The Rand is currently at \$0.45 compared to \$1.3416 in 1980.

Due to the high protective structure of South Africa, and subsidies, deflation of the Rand did not have an immediate adverse effect on the price index as indicated in Table 12. According to this data the price index has moved up only steadily while the cost of foreign exchange increased rapidly. The limited impact of the devaluing Rand on inflation is cushioned by subsidies and administered prices. South Africa has otherwise build-in inflationary mechanism caused by an inflexible social system with lopsided wage structure which is not necessarily correlated with productivity; oligopolistic economic structure with limited markets to enable it to achieve economies of scale; and persistent economic fluctuations tied to fluctuations in the price of gold.

The desire of South Africa to support these economic imbalances and the fear of economic sanctions will strengthen her resolve to maintain the BLS as her economic domain. It is not likely that she will encourage companies to locate in the BLS except in those cases where such moves are consistent with her economic interests.

Footnotes:

1. Myrdal's *Theory of the Backwash Effects. Economic Theory and Underdeveloped Regions*. 1957
2. Umesh Kumar, *The South African Customs Union and the Industrial Property Laws of Botswana, Lesotho and Swaziland*. IIC -- Verlag Chemie. D-6940 Weinheim. January 1985 and Assistance and Incentives to industry in Lesotho

- through Customs Laws. Maseru: Department of Customs and Excise. First Edition. 1978 pp.10.
3. $M(A + B + C) = 1.42 / (D + E + F + G)$
4. Dr. Hunsu Kisliyalil, *Revenue Sharing Formula of the South African Customs Union*. Maseru: Ministry of Finance. August, 1980. p.10.
5. Mitra, P.K. *Import substitution and export promotion as a means of industrialisation*. *Economia Internazionale*, August/November, 1974. pp.524-537.
6. H. Mynt, *The 'Classical Theory' of International Trade and the Underdeveloped Countries*, *The Economic Journal*, June, 1958. pp.317-337.
7. For procedures see Jagdish N. Bhagwati and Padma Desai, *India: Planning for Industrialisation - Industrialisation and Trade Policies since 1951*. Paris: Organisation for Economic Cooperation and Development. 1970. pp.637. Chenery, H.B. *Patterns of Industrial Growth*, *American Economic Review*, September, 1960. pp.624-654. V. Seshamail, *The Manufacturing Sector of Zambia Since Independence: An Analytical Profile*, in *The Zambian Economy: Problems and Prospects*. International Development Research Centre. IDRC - MR106e. May 1985, pp.344.
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8. Padma, Desai, *Alternative Measures of Import Substitution* *Oxford Economic Papers*, Vol.21 No.3. November, 1969. pp.312-324.
9. The procedure we have followed is the one adopted by Bela Balassa, *The Structure of Protection in Developing Countries*. Baltimore: Johns Hopkins Press. 1971 pp.375. Tyssynski, H. *World Trade in Manufactured Commodities 1950-1958*, *The Manchester School* Vol.XIX Sept.1951 and Stern, R.N. *Foreign Trade and Economic Growth in Italy* New York: Frederick A. Praeger, 1967 pp. 33-42 and 161-63.
10. W. Masanya and M. Kibuki, *Exchange Rate Policy and Agricultural Incentives*, *An Interim Report presented at the Workshop on Economic Structure and Macro-Economic Management*. Harare: December 8th to 12th, 1986. pp.42.
11. Dan Usher, *The Economics of Tax Incentives to Encourage Investment in Less Developed Countries*. *Journal of Development Economics*, 4, 1977. pp.119-148.
12. R.M. Kirk, *Industry in Lesotho*. Central Bank of Lesotho Quarterly Review. Volume 3, No.1. March, 1984.
13. See Jack Thompson, *A Comparative Study of Incentives Offered to Foreign Manufacturing Investment in Lesotho and Nearby Countries*. Maseru: Lesotho National Development Corporation. February, 1982.
14. Jorgenson, D.W. *Tax Policy and Investment Behaviour*, (*American Economic Review*, New York, June 1967, pp.391-414).

TABLE 1
Market Size and Trade Shares of Manufacturing
1972-82 Averages
All Values in SDR

		Botswana	Lesotho	Swaziland
Local Currency per SDR		1.0613	1.0848	1.0848
Population ('000)		845	1,300	581
Gross Domestic Product ('000)		435	192.34	319
Per Capita G.D.P.		515	151	695
Manufacturing Output ¹ (Millions)	A	34	8.67	115
	B	-	-	-
Export of Manufacturers (Millions)	A	52.12	8.20	108.79
	B	10.08	6.36	65.66
Imports of Manufacturers ² (Millions)	A	263.02	181.84	177.12
	B	203.72	130.16	151.27
Domestic Consumption of Manufactured Goods (Millions)	A	244.81	182.32	183.44
	B	227.56	132.47	200.61
Exports as a Proportion of Manufactured Goods (Percent)	A	144.79	87.28	-
	B	27.32	67.33	46.86
Imports as a Proportion of the Consumption of Manufactured Goods (Percent)	A	101.23	91.93	96.48
	B	84.45	90.58	82.41

¹ A includes food processing, beverages and tobacco. B excludes them. Both A and B exclude unwrought metals.

² The consumption of manufactured goods is derived by adding imports to and deducting exports from the value of

SOURCE:

- Lesotho:** Annual Statistical Bulletin 1972-82
 Census of Industrial Production 1972-82
 Central Bank of Swaziland 1972-82
- Swaziland:** Annual Statistical Bulletin 1972-82
 Central Bank of Swaziland 1972-82
 National Accounts, 1972-82
- Botswana:** External Trade Statistics
 Statistical Bulletin 1972-84
 National Account of Botswana 1972-82

TABLE 2
Industrial Origin of GDP 1973 and 1981

Sector	PERCENTAGES					
	Botswana		Lesotho		Swaziland	
	1.0613		1.00848		1.0848	
	1973	1981	1972	1981	1973	1981
1. Agriculture, fishing and forestry	33.75	10.00	32.66	19.25	18.67	20.11
2. Mining	8.65	18.32	0.31	4.69	2.82	2.73
3. Manufacturing	5.46	9.36	4.35	5.14	15.37	16.08
4. Construction	10.87	2.87	4.04	9.12	1.73	0.61
5. Electricity, Gas Water	1.78	6.26	0.62	0.49	0.75	1.29
<u>Commodity Production</u>	<u>60.51</u>	<u>46.81</u>	<u>41.98</u>	<u>38.59</u>	<u>39.34</u>	<u>40.82</u>
6. Transport, storage and communication	4.06	2.51	2.33	1.32	2.35	1.27
7. Public administration	9.84	16.73	7.78	13.92	3.57	10.31
8. Private services	3.68	4.31	0.93	1.00	1.85	1.34
<u>Services</u>	<u>17.58</u>	<u>23.59</u>	<u>11.04</u>	<u>16.24</u>	<u>7.77</u>	<u>12.92</u>
9. Gross Domestic Product	100.00	100.00	100.00	100.00	100.00	100.00
Share of Manufacturing in Commodity Production	9.03	19.95	10.37	13.36	39.07	39.39
Share of Agriculture in Commodity Production	55.76	21.41	11.90	49.89	47.89	49.26

SOURCE:

Botswana: National Accounts of Botswana 1973/74

Lesotho: Annual Statistical Bulletin of Lesotho 1977 and 1982

Swaziland: Annual Statistical Bulletin of Swaziland 1975 and 1982

TABLE 3
Import Substitution in Botswana
1974/75 to 1982/83

Period	Q	M	S	U	ΔU	ΔQ	$\Delta U \times S$	$\Delta U \times S / \Delta Q$
1974/75	208.50	147.60	356.10	0.59	0.00	0.00	0.00	0.00
1975/76	273.90	187.50	461.40	0.59	0.01	65.40	4.25	0.07
1976/77	315.10	209.00	524.10	0.60	0.02	106.60	9.73	0.09
1977/78	360.30	259.20	619.50	0.58	0.00	151.80	-3.41	-0.02
1978/79	516.10	355.90	872.00	0.59	0.01	307.60	7.33	0.02
1979/80	708.40	446.20	1,154.60	0.61	0.03	499.90	37.87	0.08
1980/81	784.30	565.70	1,350.00	0.58	0.00	575.80	-6.49	-0.01
1981/82	789.00	638.40	1,427.40	0.55	-0.03	580.50	-58.03	-0.10
1982/83	1,021.70	749.80	1,771.50	0.58	-0.01	813.20		

Q = Domestic Production

M = Imports

R = Intermediate Demand

D = Final Domestic

E = Exports

$S = Q + M$ = Total Supply

1. $\Delta S = \Delta R + \Delta D + \Delta E$ = Change in total supply

2. $U_1 = Q_1 / S_1$ = Ratio of domestic production to total supply in the base year

3. $U_2 = Q_2 / S_2$ = Ratio in the next period

4. $\Delta Q = U_1 (\Delta R + \Delta D) + U_1 (\Delta E) + (U_2 - U_1) \times S_2$ where

$U_1 (\Delta R + \Delta D)$ = change in domestic output of intermediate goods and final domestic demand on the assumption of a constant U_1 .

$U_1 (\Delta E)$ = change in domestic output for exports on the assumption of a constant U_1 .

5. $(U_2 - U_1) \times S_2$ = change in domestic supply output as a proportion of total supply to

6. $\frac{(U_2 - U_1) \times S_2}{\Delta Q}$

ΔQ

Expression (5) is the Chenery measure of import-substitution while expression (6) is that of Desai.

TABLE 4
Import Substitution in Lesotho Economy
1974/75 to 1980/83

<u>Period</u>	<u>Q</u>	<u>M</u>	<u>S</u>	<u>U</u>	<u>ΔU</u>	<u>ΔQ</u>	<u>ΔUxS</u>	<u>ΔUxS/ΔQ</u>
1974/75	98.00	96.10	194.10	0.50	0.00	0.00		
1975/76	111.00	139.50	250.50	0.44	-0.06	13.00	-20.65	-1.59
1976/77	143.30	191.00	334.30	0.43	-0.08	45.30	-31.62	-0.70
1977/78	186.40	228.40	414.80	0.45	-0.06	88.40	-28.64	-0.32
1978/79	249.80	266.10	515.90	0.48	-0.02	151.80	-12.53	-0.08
1979/80	267.10	338.50	605.60	0.44	-0.06	169.10	-45.22	-0.27
1980/81	321.70	386.60	708.30	0.45	-0.05	223.70	-43.48	-0.19
1981/82	348.50	509.00	857.50	0.41	-0.10	250.50	0.00	

SOURCE: Annual Statistical Bulletin, 1981/82/83

TABLE 5
Import Substitution in the Swaziland Economy
1974/75 to 1982/83

<u>Period</u>	<u>Q</u>	<u>M</u>	<u>S</u>	<u>U</u>	<u>ΔU</u>	<u>ΔQ</u>	<u>ΔUxS</u>	<u>ΔUxS/ΔQ</u>
1974/74	193.30	93.40	286.70	0.67	0.00	0.00	0.00	0.00
1975/76	213.40	131.60	345.00	0.62	-0.06	20.10	-22.79	-1.13
1976/77	235.30	174.10	409.40	0.57	-0.10	42.00	-41.96	-1.00
1977/78	263.50	158.30	421.80	0.62	-0.05	70.20	-29.42	-0.42
1978/79	323.30	270.80	594.10	0.54	-0.13	130.00	-96.05	-0.74
1979/80	372.90	365.70	738.60	0.50	-0.17	179.60	-158.02	-0.88
1980/81	464.60	468.50	933.10	0.50	-0.18	271.30	-192.48	-0.71
1981/82	572.00	519.70	1,091.70	0.52	-0.15	378.70	-188.57	-0.50
1982/83	692.10	562.80	1,254.90	0.55	-0.12	498.80	-	0.00

SOURCE: National Accounts of Swaziland 1974-1983

TABLE 6
Botswana Export Performance: 1973/76 and 1980/83

	Actual 1973-76 in 1973-76 Prices	Hypoth- etical 1980-83	Actual 1980-83 in 1973-76 Prices	Actual 1980-83 in 1980/83 Prices	"Market Effect"	Competitive Effect	"Price Effect"	Together
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Major Exports:								
Meat and Meat Products	35,531	10,616,663	586	63,959	10,581,131	-10,616,078	63,374	28,428
Animals	129	38,545	2	181	38,416	38,545	179	52
Hides and Skins	1,961	585,947	48	5,262	583,985	-585,899	5,214	3,301
Diamonds	29,948	8,948,462	2,531	276,737	8,918,514	-8,945,931	274,206	246,789
Copper, Nickel Matte	27,341	800,445	685	74,851	7,978,104	-8,945,931	74,166	47,510
Textiles	2,943	879,368	217	23,718	876,425	-879,151	23,501	20,775
Together	97,853	29,238,476	4,068	444,708	29,140,623	-29,234,408	440,640	346,855
All Other Exports	8,833	2,639,300	370	40,495	2,630,467	-26,389,300	40,125	31,662
Total Exports	106,686	3,187,778	4,438	485,203	3,081,092	-3,183,339	480,765	378,517

SOURCES: Statistical Bulletin, Botswana Central Statistical Office, September 1984: Vol 9 No. 3 page 27 Column 1
 Statistical Bulletin, Botswana, Botswana Central Statistical Office, September 1985: Vol. 10 No. 3 page 7

NOTES:

1. All values are in thousands of Pula.
2. The index for deflating current values was calculated from data appearing in The South African Statistics 1976. Pretoria Department of Statistics, p.11. Since data by commodity was scanty, we calculated the average price index for the year 1970/73 in the following major markets: Australia, Belgium, Canada, Germany, Ireland, Italy, Japan, New Zealand, South Africa, United Kingdom, United States of America, Sweden, Netherlands.
3. The growth rates for exports for each country were derived by averaging major exports for each country for the end years and applying the following formula: Growth Rate = $(SQ(X_n/X_i) - 1) \times 100$

TABLE 7
Lesotho Export Performance: 1970/73 and 1980/82

	Actual 1970/73	Hypoth- etical 1980/82	Actual 1970/73	Actual 1980/82 (2)-(1)	"Market" Effect" (3)-(2)	Competitive Effect" (4)-(3)	"Price Effect" (7)	Together (8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Exports by Major Categories								
Food and Live Animals	1,706	12,419.00	30.45	3,329	10,713	-12,388.6	3,298.6	1,623
Crude Materials	2,721	19,808.90	61.96	6,773	17,088	-19,746.9	6,711.0	4,052
Diamonds	336	2,446.08	177.30	19,382	2,110	-2,268.8	19,204.7	19,046
Together	4,763	34,674.64	269.70	29,484	29,912	-34,404.9	29,214.3	24,721
Other Exports	749	5,452.72	112.95	12,348	5,704	-5,339.8	12,235.1	11,599
Total Exports	5,512	40,127.00	382.65	41,832	34,615	-39,744.4	41,449.4	36,320

SOURCE: Lesotho National Accounts 1967/68 to 1979/80: Maseru; World Bank and UNDP Team, June 1981, page 56, for column (1)
 Annual Statistical Bulletins, 1981/83 for column (4)

NOTES:

All values are in thousands

TABLE 8
Swaziland Export Performance: 1970/73 and 1980/83

	Actual 1970/73 in 1970/73 Price:	Hypoth- etical 1980/83	Actual 1980/83 in 1970/73 Prices	Actual 1980/83 in 1980/83 Prices	"Market Effect" (2)-(1)	"Competitive Effect" (3)-(2)	"Price Effect" (4)-(3)	Together (4)-(1)
	(1)	(2)	(3)	(4)	(5)	(6)	(6)	(8)
Major Exports:								
Sugar	15,367	1,213,993	1,134	124,033	1,198,626	-1,212,858	122,898	108,666
Woodpulp	11,380	899,020	4,454	49,644	887,640	-894,566	45,190	38,264
Asbestos	5,595	442,005	159	17,386	436,410	-441,846	17,227	11,791
Citrus Fruit	3,840	303,360	103	11,207	299,520	-303,257	11,104	7,367
Canned Fruit	1,662	131,298	1,238	14,050	129,636	-131,169	13,921	12,388
Meat and Meat products	2,376	187,704	56	6,114	185,328	-187,648	6,058	3,738
Together	40,220	3,177,380	2,035	222,424	3,137,160	-3,175,345	220,389	182,204
Other Exports	19,785	1,563,015	869	94,951	1,543,230	-1,562,146	94,082	75,166
Total Exports	60,005	4,740,395	2,903	317,375	4,680,390	-4,737,492	314,472	257,370

SOURCES: The Monetary Authority of Swaziland Quarterly Review, June 1978, page 36 for (1)
 Central Bank of Swaziland: Quarterly Review, December 1985 page 34

TABLE 9
 Import Substitution in BLS Countries: 1977/78 to 1982/83

1977/78 to 1982/83	Botswana		Lesotho	
	Chenery Measure	Desai Measure	Chenery Measure	Desai Measure
1. Chemical Industry	-0.09	0.82	-0.08	0.26
2. Food, Beverages and Tobacco	4.21	-0.03	4.90	0.32
3. Wood and Paper Industry	-1.70	-3.07	-	-
4. Metal Industry	-6.20	6.87	0.13	0.70
5. Textiles, Tanning and Leather Products	-0.10	-0.01	-	-
6. Printing and Publishing	-	-	1.10	0.01
7. Furniture Industry	-	-	-0.74	-0.84

TABLE 10
 Botswana: Direction of Trade 1981 - 1984
 (All Values in 000's UA)

	1981		1982		1983		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
S.A.C.U.	608,594	57,649	643,603	55,975	680,125	58,586	793,357	85,277
Other Africa	44,018	36,683	47,306	65,217	60,212	59,206	89,156	37,913
U.K.	7,867	23,185	16,914	56,968	10,284	30,995	31,656	20,033
E.E.C.	11,933	144,741	12,974	153,339	42,681	494,272	67,468	734,384
U.S.A.	14,565	84,247	12,209	58,960	8,678	52,666	19,159	79,061
Rest of World	8,082	1,332	11,036	3,785	16,295	11,667	15,616	12,459
TOTAL	695,059	347,837	744,042	494,243	818,275	707,392	1,016,412	969,127

S.A.C.U.: Southern African Customs Union
 E.E.C.: European Economic Community

SOURCE: External Trade Statistics 1983/84; Gaborone: Central Statistics Office, p.26

TABLE 11
The Mean, Standard Deviation and Relative Standard Deviation of Labour
Supply by Sending Country: 1975 To 1985

Country	Mean	Standard Deviation	Relative Standard Deviation %
Lesotho	119,918	5,059	4.00
Malawi	16,965	1,920	11.00
Botswana	20,897	2,650	13.00
Swaziland	14,112	3,289	23.00
Mocambique	54,587	13,026	24.00

SOURCE: Computed from Official Sources in Botswana, Lesotho and Swaziland, 1975-1985

TABLE 12
Ratio of Deferred Pay to GDP by Country

COUNTRY

	Botswana	Lesotho	Swaziland	Malawi
Year	Deferred	Deferred	Deferred Pay	Deferred Pay
1975		13.1	1.4	-
1976	3.64	16.1	1.8	-
1977	3.39	11.6	2.0	-
1978	2.70	10.1	1.5	-
1979	1.72	9.1	1.4	-
1980	2.04	9.2	1.4	-
1981	1.72	11.1	1.4	1.3
1982	1.87	22.1	-	9.4
1983	1.58	-	-	1.6
1984	-	-	-	0.92
1985	-	-	-	1.37

SOURCE: Computed from Official Sources, 1975-85

TABLE 13
 Deferred Pay as a Proportion of Imports
 (1975 to 1985 in Current Prices)

Year	COUNTRY			
	Botswana	Lesotho	Swaziland	Malawi
1975	4.4	11.0	-	-
1976	5.5	10.0	-	-
1977	4.5	8.3	-	-
1978	3.2	8.6	1.7	-
1979	2.1	7.5	1.4	-
1980	2.7	6.8	1.3	-
1981	2.1	8.1	1.5	-
1982	1.9	15.8	-	5.2
1983	2.0	19.1	-	6.0
1984	1.7	19.8	-	7.1

SOURCE: Compiled from Official Sources, 1975-85

TABLE 14
Comparison of Cost of Foreign Exchange and
Consumer Price Index

Year	Average Increase in the Cost of Foreign Exchange	Average Annual Increase in South African Prices	
		Consumer Prices	Prices of Home & Import Goods
1978	-	10.2	10.0
1979-	3.2	13.1	15.1
1980-	7.6	13.8	16.3
1981	11.9	15.2	13.5
1982	24.3	14.7	13.9
1983	2.8	12.3	10.5
1984	29.3	11.7	8.4
1985 (Jan-June)	39.0	16.4*	-

* 12-monthly increase as of July 1985

SOURCE: Official Documents, 1986, Maseru, Lesotho