

## Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.

These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

### Vol. 12: Botswana

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“A Diamond is Forever.”

I think almost everyone has heard this iconic phrase at least once. It is actually the long-time advertising slogan, which was selected as the “slogan of the 20th century” by the magazine *Advertising Age*, for De Beers, the world’s largest diamond producer which is said to have nearly half the global market in rough diamonds. Did you know that the main mine for this famous company is located in Botswana?

This time I will introduce to you diamond-laden Botswana (table 1).

**Table 1: Botswana Country Information**

Basic Data (2014)	
Population	2.1 million
Land Area	567 thousand km <sup>2</sup>
Nominal GDP	\$16 billion
Per Capital GDP	\$7,500
Official Language	English

Source: IMF

Botswana is located in southern Africa and is bordered by Zambia in the north, Zimbabwe in the east, South Africa in the south and by Namibia in the west. Although it is found at a southerly latitude of 18 to 27 degrees, it has a sub-tropical climate with average yearly temperatures of between 20 and 23 degrees centigrade. This is due to its location in the highlands at an altitude of around 1,000 meters. In addition, it is a rather dry country as 70% of it is occupied by the Kalahari Desert. Much of the rest of Botswana’s land is pasture allocated for livestock grazing. Botswana beef is known to be of high quality and relatively inexpensive at only about \$10 per kilo for filet (picture 1).



Picture 1: Botswana steak



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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company’s strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

The capital of Botswana, Gaborone, is near the border with South Africa, and is about a four-and-a-half-hour drive or a one-hour flight from Johannesburg. Gaborone also hosts the headquarters (secretariat) of the Southern African Development Community (SADC) (note 1).

Botswana is a tourist resource-rich country. Representing a kind of oasis in the Kalahari Desert, the Okavango Wetlands make up the world's largest inland delta. As they contain rare waterfowl and such endangered species as the cheetah, white rhino, black rhino and the African wild dog, as well as other large mammals, they were designated as a World Heritage Site (number 1,000) in 2014. Botswana is also home to the Chobe National Park which has one of the largest concentrations of elephants and other game in Africa and is one of the tourist attractions that Botswana prides itself on (picture 2).

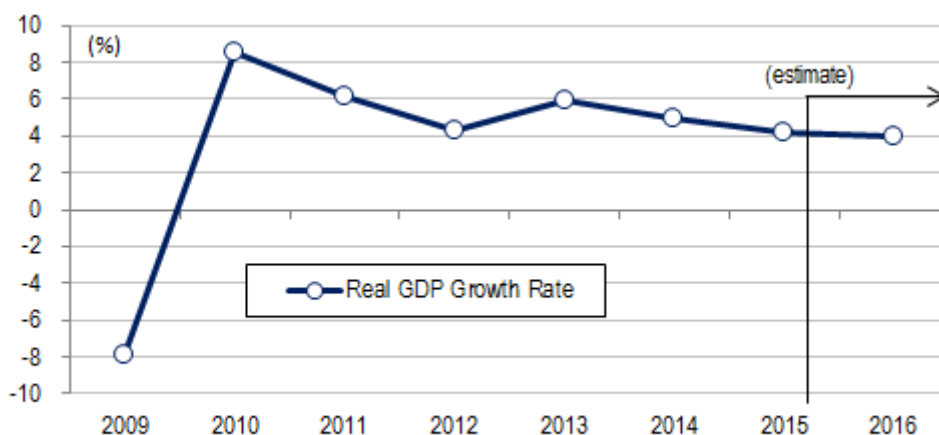


**Picture 2:** Chobe National Park

Botswana has had a relatively stable history compared to other countries in Africa. Botswana was a British protectorate called the Bechuanaland Protectorate until 1966 and under Mr. Seretse Khama and the Bechuanaland Democratic Party (now the Botswana Democratic Party or BDP) the country gained independence from Great Britain peacefully. Mr. Khama became Botswana's first president and his party, the BDP, has remained in power to this day. Due to his moderate political stances aimed at avoiding conflict with neighboring countries, it is said that Mr. Khama laid the foundation for Botswana's prosperity. Following his death in 1980 his vice-president, Mr. Ketumile Masire, assumed the presidency. Due to the lengthy rule of President Masire, his government came under criticism during his tenure. As a result, his ruling party lost seats in the 1994 elections and legislation was passed to limit the president's term of office to two 5-year terms with Mr. Masire leaving office in 1998. The vice-president, Mr. Festus Mogae, was appointed president and was then elected in his own right twice but retired in 2008 before his second term was finished. The sitting vice-president, Mr. Ian Khama, the son of Botswana's first president Seretse Khama, was designated president and won the ensuing election. In the most recent general elections in October of 2014, Mr. Khama was re-elected as president. In this way, as a functioning multi-party democracy, Botswana, ever since independence, has been able to avoid civil war and strife with this political stability serving as one of the country's biggest advantages (note 2).

Turning to Botswana's economy, prior to independence the country's main industry was livestock and it was dependent on beef exports. However, diamonds were discovered in the country soon after independence in 1967 and replaced livestock as Botswana's most important industry. Due to the discovery of diamonds Botswana experienced fairly rapid economic growth and its per capita GDP has reached \$7,500, the 5th highest in sub-Saharan Africa (note 3), and its economy currently continues to maintain its high growth rate (graph 1).

**Graph 1: Real GDP Growth Rate**



Source: IMF

Botswana is the world leader in diamond production on a value basis and number 2 in terms of volume (2013), and the diamond industry makes up 20% of the country's GDP, 80% of its exports in value terms and accounts for 30% of the government's revenues. The major portion of Botswana's diamond production is handled by Debswana, a 50%-50% joint venture between the previously mentioned De Beers and the Botswana government (picture 3).



Picture 3: Debswana managed Diamond Trade Center

The main mines owned by Debswana are the Jwaneng Mine and the Orapa Mine, which are number 1 and 2 in the world in diamond production by way of value (table 2). In terms of De Beers itself, it is 85% owned by Anglo American and 15% owned by the Botswana government, which means that De Beers and Botswana have a nearly inseparable relationship.

**Table 2: World's 10 Largest Diamond Mines by Production Value/Volume (2015 estimate)**

Mine Name	Country	Production Value million US\$	Production Amount thousand carats
Jwaneng	Botswana	2,365	11,000
Orapa	Botswana	1,200	12,000
Jubilee	Russia	945	9,000
Diavik	Canada	702	6,100
Nyurbinskaya	Russia	683	6,500
Debmarmine Namibia	Namibia	630	1,200
Ekati	Canada	620	2,100
Catoca	Angola	553	6,500
Argyle	Australia	438	17,500
International	Russia	420	4,000

Source: Paul Zimnsky

Other than diamonds, Botswana also has such mineral resources as copper, nickel and coal among others. However, diamonds are still the bedrock of the economy, and breaking away from their dependence is one of the biggest challenges facing the government (note 4)

Regarding the current state of industrialization, while the country is obligated to fully develop its domestic diamond industry, including such areas as diamond processing, as the main industrial sector, the government has also given its approval for the establishment of 100% foreign-capital owned companies and entities and is providing corporate tax reductions and exemptions to them for between 5 and 10 years as incentives to attract foreign investment and foster private industry to spur industrialization in Botswana.

I have already described Botswana as being politically stable, and given it is also one of the least corrupt countries in Africa it has an environment in which it is relatively easy to conduct business (note 5). Furthermore, it has a current account surplus which it is likely to maintain. Standard & Poor's has ranked its foreign-currency denominated bonds A-, making it a highly rated African country. This is a strong point for Botswana.

Going forward, with the Kazungula Bridge (note 6) being constructed between Botswana and Zambia logistics are expected to become much more efficient which will help advance infrastructure development and likely lead to an improved business climate in the process. In terms of current specific business, certainly business related to mining would form the main opportunities, while there also might be some possibilities in electric power projects utilizing Botswana's domestic coal. Also, given Botswana's sunlight availability and intensity, solar power might be an area of potential.

I introduced to you this time Chobe National Park and in previous reports Victoria Falls (Zambia/Zimbabwe) which in fact are very close to each other and so could easily be visited as a set if you are on a trip to southern Africa and have time for sightseeing. With access to Botswana from South Africa being good and with infrastructure expected to accompany mid to long-term development in Botswana, there should be ample chances to visit Botswana on business and take in the elephant hordes at Chobe National Park and the fine Botswana beef while you're there.

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**Note 1:** *The SADC is a regional alliance made up of 15 countries; Tanzania, Zambia, Botswana, Mozambique, Angola, Zimbabwe, Malawi, Lesotho, Swaziland, Namibia, South Africa, Mauritius, Congo (DRC), Seychelles, and Madagascar (currently under suspension), with the aim of economic integration and forming a common market.*

**Note 2:** *The president is actually chosen by the ruling party in the National Assembly, so the National Assembly election acts as the presidential election as well. The president may serve up to two terms of 5 years each. However, resigning the presidency early before the end of second term has become the norm in order to make room for their successor.*

**Note 3:** *5th in per capita GDP following Equatorial Guinea, Seychelles, Gabon and Mauritius.*

**Note 4:** *Water shortages, mainly in the south, electric power shortages, and high HIV infection rates are big hurdles to achieving sustainable economic growth in the country.*

**Note 5:** *According to Transparency International's Corruption Perceptions Index, Botswana has the lowest level of corruption in sub-Saharan Africa. Also, in the World Bank's Doing Business 2015 Botswana was ranked 74th worldwide in ease of doing business, and in sub-Saharan Africa it was ranked 4th after Mauritius, South Africa and Ghana, so the country has a fairly good climate for doing business.*

**Note 6:** *Botswana and Zambia are separated by the Zambezi River which flows from east to west, so the Kazungura Bridge will act as a border crossing for both countries. Up until now, there were only two ferries in service to cross the rivers resulting in transportation bottlenecks.*

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