

Mining the Future: A New Growth Model for Botswana
Dinner Remarks by Tao Zhang, IMF Deputy Managing Director
Botswana, July 26, 2018

Introduction

Good evening and hello everyone – *dumelang!*

This is my first time to Botswana, and I am honored to visit one the most successful stories of the continent. And probably the ‘shiniest’ – no pun intended!

I would like to thank **Governor Pelaelo** and **Minister Matambo** for this opportunity and for organizing this dinner.

I would have liked to follow in the steps of Prince Harry and Lady Markle – but unfortunately my visit this time is too short. I will content myself with seeing rough diamonds stones for the first in my life.

As some of you may know, I just flew in from South Africa, which is hosting the BRICS summit. The overarching theme for this year’s meetings was how to secure growth in an environment increasingly marked with inward looking attitudes, and a fraying of the multilateral system.

True, the multilateral system may need fixing in a few places, but this is no reason to dismantle it altogether. And being an optimist, I am confident that differences will be worked out to avoid further escalations of any economic tensions.

I. Global and regional backdrop

So here are the three main thoughts I took away about how we see the world and regional outlook.

First, understandably, there is anxiety about rising trade tensions and how these can affect growth prospects, especially in emerging and developing economies.

As of now, we project global growth prospects to remain unchanged compared to our April forecasts – at 3.9 percent this year and next. But we believe that downside risks to this forecast have increased.

Clearly, an escalation in trade tensions can derail the global recovery – a recovery that has been powered by a rebound in trade and investment.

But there are other challenges as well – such as sudden shift in investor sentiment and tightening of financial conditions. Emerging market economies with relatively weak fundamentals could be especially vulnerable. Think of the recent experience of Turkey and Argentina.

So, overall, prospects are still good. But the global backdrop could become more challenging, including for Africa.

Which brings me to the **second takeaway – the message on Africa**. I sensed a lot of optimism about this region and the opportunity it holds. It has a huge demographic dividend, plenty of natural resources, and untapped potential in many sectors.

Africa is the youngest continent in the world. By 2035, it could add up to 110 million workers. The implications for the region – and indeed for the whole world – are huge, in terms of potential markets and opportunities.

Yet harnessing this potential means creating 20 million jobs every year through 2035. This is twice the average number of jobs created every year during 2011-2017.

Clearly, the **third takeaway is**: yes, there is huge opportunity. But in order to reap it, **countries must put their house in order**.

Many countries in sub-Saharan Africa need to reduce vulnerabilities from debt, while at same time find ways to finance large infrastructure and social spending needs. These are essential to meet the UN Sustainable Development Goals and achieve higher and more inclusive growth.

II. Botswana: towards a new growth model

So what does this all mean for Botswana? For your country, the global backdrop offers both opportunities and challenges.

The good news is that along with the high growth rates in the United States and China, there is a pickup in diamond prices, and sales and production are on the rise.

On the other hand, the recovery in South Africa, as you may have seen in the latest forecast of the Reserve Bank, is not expected to be strong enough. At 1.2 percent this year and around 2 percent in the coming years, revenues that SACU countries get – Botswana included – are likely to be affected.

Given these developments, we are cautiously optimistic about Botswana's prospects. We expect a rebound in growth this year and next to about 4.5 percent – rising further to 5 percent over the medium term.

Yet here too, there are risks, and efforts are needed to get the house in order and prepare the economy for the future.

III. Near-term priorities: fiscal sustainability

In the near term, fiscal sustainability is essential. But it must be growth friendly and mindful of the poor. This means containing public spending by adjusting its composition – away from non-priority spending while protecting investment and social protection expenditures.

It also means greater revenue mobilization, such as lower exemptions and higher collection from property taxes.

I am confident that the authorities will take the right measures to restore fiscal balance in the coming years and keep high savings for rainy days or future generations.

Beyond the current challenges, we must not lose sight of what is needed for the future. Like other countries in the region, Botswana needs to fulfill the aspirations of its young population by creating jobs, diversifying the economy, and reducing inequality.

How can this be done? I am sure many of you would agree – diamonds are NOT forever! Botswana needs to ‘mine’ a new growth model. One where the role and size of the state is different and where the private sector takes the lead.

IV. Long term priorities: a new growth model

So allow me to offer a few thoughts on the contours of such new model – in light of our own experience and research. I can see four key dimensions.

The first is export diversification. When diversifying, consideration should be given to sectors with large export and employment potential, such as beef and tourism.

Yet, unlocking the potential of these two sectors requires removing distortions and promoting market friendly solutions. This means removing monopolies to enable competition, improving air transportation and tourism infrastructure, and facilitating visa processes.

The second dimension is the role of the private sector. A few things need to be in place for the private sector to play a central role in the economy. This includes a welcoming business environment with high quality public services and lower bureaucratic investment requirements. Technology, such as e-government, can be usefully tapped in this respect.

A thriving private sector also needs the support of a sound and well-developed financial system. Efforts to facilitate the growth of bond markets and increase access to finance will be especially important here.

The third dimension has to do with jobs. Clearly, creating jobs requires the willingness to hire. But it also requires a well-trained labor force. Here, well-executed education reforms, a focus on vocational training, and opening the process of work permits and visas for foreign workers are essential.

Understandably, the latter aspects may be a somewhat debatable. But experience has shown that exposure to qualified and well-trained domestic and foreign workers can help build skills at home. And this is critical to upgrade the skill set of local workers.

The fourth and last dimension involves the public sector and its role in this new growth model.

Clearly, as the private sector develops, the public sector should step back and refocus its objectives. This means providing high quality and cost effective public services, including infrastructure. It also means divesting state owned enterprise and consolidation of parastatals where appropriate.

At the same time, fiscal policy could play a greater role in reducing income inequality. So far, the country did very well in reducing poverty. But improving equity may require revisiting the system of social subsidies and their targeting.

Conclusion

Let me conclude.

Being here in Botswana, I am reminded of a Chinese proverb: *“The finest diamond needs to be cut.”*

Your country has such finest diamond – potential. To unlock it, there is a need to ‘cut’ loose with the old growth model, and ‘polish’ the new one.

I am encouraged by what I heard from His Excellency President Masisi, policymakers, and business leaders when I met them today that the right choices will be made. To transition the country to a new sustainable model, with more jobs, and higher and more inclusive growth.

Thank you.