HD **Facets of Value**

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Mar 05, 2014 (Africa In Fact/All Africa Global Media via COMTEX) -- Should African countries be condemned to digging holes in the ground and exporting unprocessed **oil**, **gold**, **iron** and other natural resources?

For the better part of a decade, the international community has advised African countries not to add value to their raw minerals, a process better known as beneficiation. But most African policymakers have refused to accept that this development model is sustainable.

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The World Bank has put considerable resources and research into trying to convince Botswana not to beneficiate its diamonds, Zambia its **copper** or South Africa its **gold**, chromium, platinum and other minerals. Along with the OECD, an intergovernmental think-tank based in Paris, and other opponents of beneficiation in Africa, the World Bank offers two main alternatives.

Their first and favoured proposal is to forego forging forward linkages with the **mining** sector through the beneficiation of unprocessed minerals. Instead, African countries should emulate Australia and Canada, **mining**-intensive economies that have developed strong backward linkages with engineering, services and higher education.

Backward linkages are channels through which a **company** or an entire sector connects with its suppliers and creates economic interdependence. Forward linkages, by contrast, are distribution channels that connect a producer with its customers.

The backward-linkages alternative has one serious flaw, however. Most smaller African countries do not possess the resources or the economies of scale to cultivate the networks found in those **mining** titans.

The second alternative is that countries should diversify their economic base through sovereign wealth funds and earn high returns on their investments.

Neither forward nor backward linkages will work, according to this argument. Small African economies will never compete with **mining** giants when it comes to developing backward linkages, nor with processing behemoths, such as **China**, when it comes to beneficiation. Globalisation has eliminated any possibility of these mineral-based economies undergoing a traditional transformation.

Faced with these constraints, where do most African countries go? Unfortunately the answer is neither backwards nor forwards nor outwards, but downwards. African countries are currently making ever-deeper holes in the ground, with the extracted minerals and their monetary fruits being used more or less prudently depending on a country's internal political management.

Botswana, the world's largest producer of diamonds by value, has in the past several years moved on two fronts to reap the precious stone's economic benefits. In a 2011 marketing agreement, Botswana's government and De Beers--the world's leading diamond **company**, of which Botswana is 15% owner--agreed on two ways to add value to the gems.

The first was for De Beers to move its supply and **sale** of diamonds from its offices in London to Gaborone, Botswana's capital, a transfer that was completed in December 2013. As a result, about 160 positions have relocated to Botswana, industry insiders estimate. Half of the new jobs have gone to locals.

The second part of the 2011 agreement called for Botswana to supply some $500m worth of rough diamonds a year to local cutters and polishers, with the explicitly written expectation that this would grow to some $800m by 2014.

About 3,400 people worked in Botswana's cutting and polishing industry in 2012, according to President Ian Khama's state-of-the-nation address last year. These workers polished some 257,000 carats, according to Botswana's Central Statistics Office, or a little more than 1% of Botswana's estimated 2012 production of 23m carats, according to the Kimberley Process website.

Still, the value of the exports was some $600m, making diamond cutting by far the country's largest industrial sector. For a small country of 2m people, such a new and non-traditional export can be considered an overall success. Challenging questions remain, though. The first concerns the sector's sustainability.

Botswana's cutting and polishing industry exists in large measure because the government has permitted the import of high-value rough diamonds to supplement local supply. With new, capital-intensive cutting and processing techniques, Botswana can now cut and polish higher-value diamonds despite its high production costs.

India, the world leader in the cutting and polishing of diamonds, uses traditional, labour-intensive techniques. If Botswana used these methods, its industry would collapse. The country cannot compete with India, where pay levels are lower and productivity is higher. Although wage levels in the diamond industry are notoriously difficult to ascertain the world over, industry insiders estimate that in Botswana a cutter earns between $300 and $400 per month, significantly more than cutters in Surat and Mumbai.

But is Botswana's diamond-cutting industry viable in the longer term? The answer may lie in looking at the history of India's cutting and polishing industry.

Until the early 1970s most diamonds were cut in Amsterdam, Antwerp, New York and Tel Aviv. Even in the 16th century, when India was the world's only source of diamonds, most of its diamonds were cut in Europe to European tastes.

Soon after India's independence from Britain in 1947, European cutters began training Indians in modern cutting and polishing techniques. In the 1970s India, much as Japan and Korea did in manufacturing, kick-started its cutting and polishing industry by emphasising that its labour costs were lower than those in Europe or Israel. In addition, the subcontinent developed expertise in cutting poor-quality diamonds traditionally rejected because they were too costly to cut.

It was not long before the comparative advantage India gained from low wages extended to higher-value diamonds. It is now globally dominant. In 2012 India processed 80-90% of the world's diamonds, according to a 2013 report from India's Ministry of Commerce and Industry. Diamonds were responsible for 14% of total exports, or $43 **billion** in the 2011-12 financial year, according to the report. Diamond production is one of India's leading growth sectors, providing an estimated 1m jobs in Surat and Mumbai alone. The lessons Botswana can learn from this are complex. While India had diamond mines and was able to develop a cutting industry, this process evolved over centuries. By the time India became a dominant player in diamond cutting, it had long ceased to have a significant **mining** industry.

India's historical entry point in adding value to diamonds--low-cost workers and materials--is not commercially viable in Botswana.

But a crucial lesson, often forgotten, is that comparative advantage can be acquired. If Botswana's government works closely with the private sector it can locate productivity bottlenecks and target cost-raising inefficiencies, a move which it needs to make urgently.

Nevertheless, even if Botswana does not succeed in competing with India, this still does not mean the World Bank's and the OECD's blanket criticism of beneficiation is justified.

Botswana is likely to continue **mining** diamonds into the 2040s. The country can use the next two decades to refine its cutting and polishing industry through training and developing talent, entrepreneurial know-how and linkages in both directions of the value chain. When diamonds run out, these skills and capacities can be transferred to other sectors.

However, without concrete policies to capitalise on the benefits the industry could create, beneficiation in Botswana will indeed fail. The government needs to assist local entrepreneurs to develop connections with suppliers, and assist skilled workers without imposing ever-higher costs on the industry.

Will beneficiation succeed in Botswana? The answer is a conclusive maybe. Its realisation lies in the hands of policymakers.

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