

Political Economic Digest Series 28

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Welcome to the twenty eighth issue of Political Economic Digest Series. In the last issue of Political Economic Digest Series we discussed on Political and Economic Freedom. This issue will cover readings on BOTSWANA'S GROWTH by Fiona Tregenna.

We hope you enjoy the reading.

Introduction

At independence in 1966, Botswana was amongst the poorest countries in Africa and in the world, with a GDP per capita of just \$912. 95% of the population was rural and over a fifth of the total population was dependent on famine relief. The country had just 7km of paved road, 2 secondary schools, 22 Batswana had graduated from university and only 100 from secondary school (Botswana Human Development Report 1995, Acemoglu et al 2003, and World Bank WDI). The only significant “manufacturing” activity at independence was an abattoir that was built in 1954.

Botswana subsequently experienced the highest rates of growth in the world, with average real GDP growth of 9.90% per annum over the period 1966-2004. This compares to average rates of 4.26% for low income countries, 4.19% for middle income countries and just 2.99% for Sub-Saharan Africa. Botswana is currently classified as an upper-middle income country, and its GDP per capita in 2004 was \$5 014, or \$9 267 in PPP terms.

This sustained growth record has been spectacular by any standards. Botswana’s developmental record is however less impressive. Botswana has the highest or second highest rate of HIV/AIDS prevalence in the world, at about 40%. Further, Botswana is one of the most unequal countries in the world, and the extent to which the majority of the population has shared the benefits of growth is questionable.

Human development

The 2005 Botswana Human Development Report notes that while countries such as Tunisia and Algeria have income poverty rates below 10%, almost half of Botswana’s population is below the poverty line (based on 1993/94 Household Income and Expenditure Survey data), and that poverty declined by only about 12% from 59% to 47% between the 1985/86 and 1993/94 surveys. (However, the Report does observe that these measures may underestimate the reduction in poverty by not accounting for public provisioning of basic needs.) The report argues further as follows:

Consensus has emerged that Botswana’s problems of poverty and unemployment are ultimately structural. Some of the frequently cited factors are that:

- Outside mining, Botswana’s resource endowment is actually very poor. In particular, the climate and the soils are not well suited to the low-tech small-scale arable farming of the type Batswana are used to and people, as a resource, are too few;
- The market is, at 1.7 million people, too small to support employment creation on the scale required to make rapid progress against poverty and unemployment. It limits the nature and size of firms setting up in Botswana and so influences Foreign Direct Investment (FDI) inflows, technology transfer and growth;
- Botswana is landlocked, which creates high export and import costs because road haulage and air transport are considerably more expensive than shipping and;
- The size of the country and sparse distribution of the population make service provision to this fragmented market costly and difficult. (UNDP 2005a)

50.1% of Botswana's population is reported as subsisting below the \$2 per day poverty line, and 23.5% below \$1 a day (over the period 1990-2003). The 2005 Botswana Human Development Report notes that employment generation has not kept pace with economic growth: while real GDP grew by 5% per annum between 1991 and 1999, formal sector employment grew by only 1.6% per annum from 222 800 people in 1991 to 255 607 in 1999, representing a poor growth to employment conversion rate of 3.1 percentage points of GDP growth to one percentage point increase in employment. Formal sector employment grew at 4.9% per annum between 1997 and 2001, declining to 1.8% between 1999 and 2002.

Botswana is amongst the most unequal countries in the world. The ratio of the share of income or consumption of the richest to the poorest decile is 77.6%, the fourth highest of the 123 countries for which data is available. Measured in quintiles the figure is 31.5%, the fifth highest. Botswana's Gini coefficient is listed as 0.63, the third highest in the world. If anything, these figures may understate current levels of inequality in Botswana in absolute and relative terms: firstly, the figures for Botswana are based on consumption data, whereas those for some of the countries which appear to have slightly higher levels of inequality are based on income data. Secondly, Botswana's data is from 1993, and one might suspect that the levels of inequality have risen since then, particularly in the light of the partial liberalisation measures that have been implemented. These international comparisons should be treated with a degree of caution, given non-comparability of methodologies; nevertheless it is clear that Botswana is extremely unequal by international standards.

Cattle are an important store of wealth in Botswana (as elsewhere in Southern Africa), yet 47% of traditional farming households own no cattle and a further 24% have between one and 11 cattle, while 2.5% of farming households own 40% of all Botswana's cattle (Botswana HDR 2005).

The traditional policy approach to poverty in Botswana seems to view it as arising from droughts, with the assumption that in years of adequate rainfall redistribution between individuals, households and generations takes care of those temporarily disadvantaged. Jefferis and Kelly criticise this approach, arguing that even in non-drought years many rural people are mired in poverty, especially as they are pushed onto increasingly marginal lands; and thus re-conceptualise rural poverty as structural and chronic rather than transient. Additional sources of poverty that they identify are the unequal distribution of access to and control over assets; low capabilities (both as a cause and a consequence of poverty); high population growth; the low population density and remoteness of many communities; government policies and spending decisions that favour certain groups (such as cattle farmers) over others (such as rural female-headed households); and certain social organisations, beliefs and practices such as patriarchy, fatalistic cultural beliefs, extended family obligations and discriminatory attitudes against some ethnic minorities. They state that close to 50% of the population have not experienced direct income growth, although some have benefited from government infrastructure spending. Analysing data from the official household surveys, they conclude that income at the tenth percentile increased by an average real rate of four percent a year between 1985/86 and 1993/94 – but this is significantly below economic growth over the period.

Overall Jefferis and Kelly point to several reasons as to why Botswana's rapid economic growth has not reduced poverty more effectively. Firstly, the mineral-led nature of this growth has led to little direct job creation. Secondly, the agricultural sector has not provided adequate incomes. Thirdly, the formal sector has been unable to absorb labour market entrants as well as those leaving traditional agriculture. Lastly, there has been inadequate diversification of the economy.

The spread of HIV/AIDS requires particular discussion. Life expectancy in Botswana has declined to 36.3 years (UNDP HDR 2005). This is just over half of the mean life expectancy for middle income countries (World Bank WDI). Life expectancy in Botswana is predicted to fall below 30 years by 2010, by which time two out of five children are expected to be AIDS orphans (IMF 2001). The IMF projects the impact of AIDS on GDP growth in Botswana's non-mining economy as reducing growth from a baseline scenario of 5.5% p.a. in the period up to 2010, to between 1.5% and 2.5% p.a. (depending on which potential effects are modeled), meaning that the economy in 2010 would be 33-40% smaller than it would have been without AIDS (IMF 2001).

At a minimum, the explosion of HIV/AIDS in Botswana can be considered a major public policy failure. However, if the pandemic is analysed in a primarily social rather than narrowly medical light, it is not merely an incidental blot on Botswana's otherwise successful record, but calls this record itself into question. It is unlikely that HIV would have been able to spread the way it did if the Botswana economy and society was not characterized by great inequality, marginalisation, and a sense of disempowerment of large sections of the population.

Further, the scale of the pandemic must tell something about Botswana's institutional character and quality. As discussed earlier in this paper, some authors have been eager to give credit to Botswana's institutions for its growth performance, yet these much-vaunted institutions have been unable to deal in time with perhaps the greatest crisis that has faced the country. It was only from around 1998 onwards that the country began to deal systematically with the HIV/AIDS issue, and there is currently a comprehensive programme in place, including provision of anti-retroviral medication. However, the fact that infection rates were allowed to escalate to their current levels does suggest that Botswana's institutions may not be as great as they are sometimes made out to be.

Botswana has the second-greatest negative gap between its GDP (per capita US\$ PPP) ranking and its Human Development Index ranking of all 177 countries for which data is available (UNDP Human Development Report 2005). This discrepancy is indicative of the extent to which human development has not kept pace with Botswana's economic growth. While there have been significant improvements in various human development measures, the benefits of economic growth have not been widely shared, and Botswana is one of the most unequal countries in the world. Further, the ravages of HIV/AIDS are undermining some of the progress that had been made in human development.

Explanations of Botswana's Growth

Mineral resources

Botswana's mineral wealth can be understood as a necessary though insufficient condition for its growth. Given the large proportion of GDP derived from the minerals sector, there can be little doubt that this was central to Botswana's growth record. 70-80% of diamond revenue accrues to the state, and these have been channeled to investment rather than to current spending. Mineral rents were thus crucial for the state's fiscal capacity, and still constitute about half of total government revenue (Government of Botswana National Development Plan 9). Mineral exports have been critical in essentially freeing Botswana of foreign exchange constraints.

However, a comparison to other sub-Saharan countries with mineral deposits is illuminating of the fact that this in itself is no guarantee of growth. Mineral wealth (diamonds in particular) seems to have been more of a liability than an asset in other African countries. Other African countries that are significant producers of diamonds, such as the Democratic Republic of Congo (DRC), Sierra Leone, and to a lesser extent Angola, are amongst the poorest nations in the world and have had amongst the weakest growth records. Further, virtually all other African countries endowed with diamonds have undergone civil wars – such as Angola, Sierra Leone, Liberia, the Central African Republic, and the DRC. Diamonds and other natural resources have often both contributed to the origins of these wars, as well as sustaining and financing them once they are underway. Particular characteristics of diamonds compared to other natural resources, such as their extremely high value relative to volume, ease of transporting them, and relative “anonymity” as to origin once on the market – seem to render them particularly relevant to conflict.

Given that, in other African countries, diamond endowments seem to be more strongly correlated with civil war than with economic success, this alone cannot explain Botswana's growth record. The question in Botswana is why its rich diamond deposits were able to launch it onto a growth path and the avoidance of conflict. Explanations of this may lie in its relative ethnic homogeneity; consensus-generating institutions, and the strength and cohesion of sites of power (especially military power) and their exclusive vesting in the legitimate state.

The manner in which Botswana managed its relations with the foreign private sector in mining was also advantageous. The initial agreement with De Beers over the Orapa diamond mining project, made when the Botswana government was in a relatively weak bargaining position, gave the latter 15 percent shareholding and dividends, a 10 percent royalty over sales, and 35 percent company tax on profits of the De Beers Botswana Mining Company. This was renegotiated by the Botswana government in 1975 to give a 50/50 shareholding in a jointly held company, Debswana with the government getting an estimated 75-80 percent of profits. This could be thought of as a negotiated “nationalisation” of part of the operation, and certainly enhanced the benefits of Botswana's mineral resources for its economic growth.

Role of the state

A consideration of the policies pursued by the government of Botswana clearly shows the central role of the state in its growth performance. Upon independence the government nationalised what was then virtually the only form of industry, the single abattoir at Lobatse. The Ministries of Finance and of Development Planning were combined and located at the centre of state power.

Descriptions of Botswana's growth as a free-market success story are simply fallacious. Even Acemoglu et al note that there was "massive government intervention in the economy, detailed planning, and central government expenditure...well above the African average" (Acemoglu et al 2003, 4). There is clearly a rising trend in this series in Botswana, especially from the beginning of the 1970's onwards, and it is significantly higher than for the international comparisons. About two thirds of government revenue comes from state owned enterprises and government ownership of property. An estimated 43% of the labour force works in the public sector.

In addition to the large size of the state, in terms of its actual role the Botswana state was central and highly active in economic planning. Throughout its economic growth record, Botswana's planning system has revolved around a five/six-year planning cycle, with mid-term reviews to modify the plan where necessary. Central targets/ceilings for the public sector are set around skilled labour, recurrent expenditure, and development expenditure. Donors are obliged to channel their funds into projects that have already been identified as national priorities in the plan. National Development Plans are approved by Parliament and enshrined into law, and it is illegal to implement any public sector project that does not feature in the current plan, without going back to Parliament. Planning is also closely integrated with budgetary cycles. Projects are not started unless provision has been made for their recurrent costs. The strength and competence of the bureaucracy gave the state a high implementation capacity. It appears that the particular planning model adopted by Botswana, and especially the integration of planning with fiscal cycles with planning cycles, has been highly effective.

Another aspect of Botswana's active industrial policies has strict rules allowing only approved (generally domestic) companies to bid for government contracts. Although Botswana's fiscal policy is generally characterised as conservative, the rate of increase in public spending has consistently outstripped economic growth. Further, in 1972 the Government adopted the National Policy on Incomes, Employment, Prices and Profits. One aspect of this was to establish government as the wage/salary leader in the economy, in terms of both the structure and level of wages.

Since 1990, when Botswana has shifted to a more market-oriented strategy, growth rates have actually slowed down. While this is not enough to suggest a causal relationship, it at a minimum the shift to a less central role by the state has not increased growth. Nevertheless, Botswana continues to plan in a fairly comprehensive fashion. The ninth National Development Plan sets out detailed reviews from the NDP and plans for the period 2003 to 2009 in inter alia economic policy, human resource development, science and technology, the public sector, finance and banking, trade and industry, works, transport, communications, energy agriculture, mineral development, water resources, national parks and tourism, education, health, land management, housing, culture and social services, and various other areas.

The leading role of the state must surely be one of the central factors explaining Botswana's high growth rates. It seems clear that without an active, decisive, and growth-oriented state, Botswana could not have achieved the growth rates that it did.

Lack of full colonisation

During the colonial period 75% of expenditure went on "administration" of the protectorate, with virtually no investment or development (Acemoglu et al 2003). As discussed elsewhere in this paper, Botswana (then Bechuanaland) was merely a Protectorate in which Britain apparently took limited active interest. Further, the "settler" population in Botswana has always been small and never seriously attempted to gain political power. Unlike other countries in the region such as Malawi, Zimbabwe and of course South Africa, Botswana never underwent a period of minority rule (or colonialism of a special type) after its independence from Britain. In fact, the white population was part of the coalition of interests brought in under the BDP post-independence.

Some of the literature on Botswana's growth that makes reference to its colonial experience discusses how Botswana managed to grow so rapidly "despite" it not having been "fully" colonised. Where the literature recognises this as a potential advantage, it tends to be framed rather narrowly in terms of the beneficial survival of pre-colonial social and cultural institutions.

I would argue, however, that Botswana's avoidance of fully-fledged colonisation allowed it to avoid wide ranging devastating effects of colonialism and placed it in a stronger position for growth relative to other newly independent states. Firstly, it largely avoided the devastation of the fabric of its society as occurred under colonialism. Secondly, it was able to retain its natural resources without these being stolen by the coloniser. Thirdly, it was not fully converted into an export market for the coloniser, with implications for the domestic market post-independence.

Fourthly, colonialism tended to distort the entire production and distribution structure of the colonies to meet the requirements of the colonizer. For example, transport networks elsewhere were geared towards exporting the raw materials of the colony to ship to the coloniser. These distortions tended to persist post-independence thereby hindering a country's ability to pursue its own autonomous national development path. The absence of such distortions meant that, upon independence, Botswana was on a relatively "neutral" footing in comparison to other countries that emerged from their colonial experiences handicapped for subsequent economic development.

Avoidance of the fallout of a liberation struggle

Unlike most other countries on the continent, Botswana did not undergo a liberation struggle to free itself from colonialism. Its independence was granted by Britain without a period of intense political or military conflict. This arguably saved Botswana from many of the negative destructive and divisive effects of such struggle. Botswana also avoided a national liberation struggle from minority rule as in some other Southern African countries.

Firstly, liberation struggles – particularly where they took place over a protracted period and especially where they assumed a military/guerilla form, were extremely costly to those countries both in terms of loss of human life and destruction of infrastructure and the means of production. Further, the fallout

from and repressive responses to liberation struggles were destructive in terms of social relationships and cohesion, especially in cases of large-scale displacement, break-up of communities and so on.

Thirdly, and in a related point, the colonising power in many instances attempted to fight liberation forces through local proxy armies such as UNITA in Angola or RENAMO in Mozambique. As these forces took on a life of their own they often engaged in civil wars even after independence, and in the two cases mentioned continue to some extent to destabilise those countries even today. The civil wars and conflict which have been perpetuated by proxy forces of the former colonial powers, often supported (at least at some points in time) by other capitalistic Western powers, came at enormous costs in terms of people being maimed or killed, devastation of infrastructure, and social and economic upheaval. The absence of such proxy forces in the case of Botswana allowed for the political and economic stability conducive for growth.

Botswana's avoidance of a liberation struggle could also be a factor in the subsequent large-scale inflows of aid and investment (to be discussed further below). The absence of radical anti-colonial sentiments made Botswana more receptive to these inflows as well as more attractive to its previous coloniser and other countries.

Fifthly, the experience of a liberation struggle has a huge effect in terms of mobilising and politicising a society. The absence of revolutionary traditions in Botswana can partly explain the apparent relative political "passivity" of the population and the weakness of civil society. This arguably allowed the state to pursue a relatively elitist accumulation path without facing strong opposition and mobilisation, as well as fostering the political "stability" conducive for attracting investment. Further, the absence of a fully fledged anti-colonial or national liberation movement in Botswana might have influenced the character of the policies adopted after independence, and the political economy of Botswana's growth path. There was neither a body of intellectual thought nor a mass mobilisation in favour of socialism, as in a number of other African countries emerging from colonisation or minority rule, or even necessarily a strong commitment to "social justice" in some progressive sense. This might have contributed to the rather elitist character of accumulation in Botswana, manifest in the high levels of inequality and failure to share the gains of high growth more broadly.

These factors would suggest that Botswana's gaining of independence without undergoing a liberation struggle both contributed to its subsequent high growth, as well as influencing the nature of that growth trajectory. There does not seem to be any/much substantive treatment of this factor in the literature.

Aid and investment

Particularly in its early stages of development, Botswana was highly dependent on large inflows of both donor aid and foreign direct investment. These were critical in getting the economy started and in the initial investment to get mining going. The aid that Botswana received was high as a percentage of GNI until the late 1980's in particular, and although having declined from a peak at just 30% in the year of independence was still multiple times the rate for other country groups shown. As a percentage of gross capital formation, aid was high but declining in the 1960's, in the 1970's and 1980's was lower but still

high relative to low and middle income countries and to Sub-Saharan Africa, and subsequently declined to a level of just 1.45% of gross capital formation by 2003.

Several factors seem to be relevant here. Firstly, Botswana was highly receptive to foreign aid and investment, whereas some other countries were more skeptical. Secondly, Botswana was an attractive destination for donors and investors due to its political stability and pro-market, pro-Western outlook. Further, it attracted donor funds initially as only deracialised liberal democracy surrounded by minority ruled states in Southern Africa.

Thirdly, as discussed earlier in this paper, even in its receptiveness to foreign aid and investment Botswana was careful to retain some influence and autonomy – for example, in requiring donor projects to fit into its own national development plans. This arguably allowed Botswana to capture some of the benefits of these flows while minimising their negative distortionary and autonomy-undermining effects.

Political “consensus” and the accumulation path

As discussed above in the section on evaluating Botswana’s experience, Botswana maintained formal democracy but under the continuous role of one party and with very limited popular participation and low levels of civil society mobilisation or opposition. As discussed earlier, Botswana’s traditional institutions tended to give a semblance of popular participation and legitimacy to decisions already taken by those in authority is also relevant here. It could be argued that this system, and its influence on the modern institutional regime, allowed for the pursuit of an elitist accumulation path that reflected in high rates of growth.

The role of the ruling Botswana Democratic Party (BDP) is also germane in this respect. The party was initially formed in 1962 in response to the more radical, anti-colonial Botswana People’s Party, which had links with the liberation movement in South Africa. Since the BDP’s formation, it was inextricably tied in with the resources and apparatus of the state, with even an “informal coalition” between the colonial administration and the BDP leadership before Botswana gained independence. Further, unlike in some other countries the independence constitution was only drafted after the first election, which the BDP had overwhelmingly won. This afforded it state power and influence in writing the new constitution, which consolidated its strength. It managed to displace or marginalise or co-opt both radical nationalist and socialist forces as well as traditional elites (especially chiefs). Over subsequent decades the bulwark of the BDP’s electoral base continued to come from rural areas, despite their relative economic neglect. The relatively hegemony of the BDP over both elites and the masses of people may have been conducive to Botswana’s accumulation path.

Further, the confidence of the BDP of an extended tenure of government gave it the flexibility to undertake medium- to long-term planning cycles and long-term investments that may not be expected to yield short-term visible gains but are conducive to sustainable long-term economic growth. The political stability of this system, together with the approximate ethnic and religious homogeneity of the country, was also conducive to economic growth. Furthermore, the relative neglect of the rural areas

allowed for the concentration and accumulation of surplus. In turn, this neglect of rural areas was facilitated by political passivity and loyalty to the ruling party and government.

Given the power of political elites, economic growth thus tended to be fairly narrowly based. These factors can partly explain why Botswana achieved such a successful record in terms of growth rates, with less success in broader development.

Botswana's relationship with South Africa

It is worth considering to what extent and in what ways Botswana's political and economic relationship with South Africa, and the very fact of its position immediately north of South Africa, affected Botswana's growth trajectory. Particularly in its early stages of growth, Botswana was dependent on South Africa in various ways. Until 1976 Botswana's monetary policies were directly controlled by the South African government through Botswana's membership of the Rand Monetary Area. It was in the main South African companies that extracted Botswana's mineral reserves. It can also be suggested that one reason for the stunting of Botswana's manufacturing sector was the dominance of South African exports within the Southern African Customs Union (SACU).

Politically, Botswana opposed the Apartheid system in South Africa and did suffer some destabilisation as a direct result of this (for example cross-border attacks on ANC cadres based in Botswana). However, Botswana did not provide a similar level of support nor suffer anything near the scale of destruction and destabilisation as other countries in the region. This probably contributed to its attainment of comparatively higher growth rates. As the current President put it, "Botswana also pursued pragmatic economic policies in the light of her geo-political situation. Although Botswana disagreed fundamentally with the racist policies of the then Apartheid South Africa, South West Africa and Rhodesia, trade and business relations were maintained." (Mogae 2005).

An aspect that requires further theorising is to what extent Botswana's relationship with South Africa can be characterised as one of dependency. Especially in the early years Botswana does appear to have been in a semi-dependent relationship with South Africa. This derived in particular from the role of South African mining capital. Capital in South Africa certainly benefited from the relationship, both through the profits that they extracted, from cheap labour from Botswana, and from a market for manufactured exports that posed limited competition.

If the relationship is to be characterised as one of semi-dependency, however, one issue that needs to be explained is how the dependent country achieved growth rates far outstripping South Africa's, such that Botswana currently has higher per capita income as well as better development indicators than does South Africa. The explanation to this arguably lies in the particular accumulation trajectory followed by Botswana. As argued above Botswana elites were able to pursue a narrow-based growth path in which they may well have derived benefits from Botswana's semi-dependent relationship with South Africa, even though the relationship was not of benefit to the people of Botswana as a whole. Over time, and as it has built up its economic strength, Botswana has to a large extent emerged from the semi-dependent relationship with South Africa.

Concluding remarks

Botswana achieved fantastic growth success, in stark contrast to most other countries on the African continent, and its growth rate since independence has been the highest in the world. Understanding the factors that contributed to this success is important from both an analytical and a policy perspective. This growth has allowed Botswana to attain reasonably high levels of human development, although this has lagged far behind its economic growth and Botswana's current levels of human development relative to other countries are much lower than would be expected given its level of economic development. Botswana has grown under unbroken formal democracy, although with limited depth and vibrancy and under rather repressive labour conditions.

This paper is an initial attempt to treat Botswana's economic, developmental and political experiences in a coherent way, considering what aspects of the political institutions facilitated and were in turn strengthened by the accumulation trajectory, and how the narrow base of this growth path limited the degrees of human development and of equitable distribution.

A substantive body of literature has yet to emerge on Botswana, and the literature that exists seems to neglect several critical issues. On the one hand, Botswana is an "outlier case" that presents a direct challenge to bodies of literature such as those dealing with the supposed negative impact of natural resource endowments on economic growth, Dutch Disease, Afro-pessimist literature, and of course that literature which assumes or argues that a large and active role of the state hinders economic growth.

On the other hand, the literature deals inadequately with several factors relevant to Botswana's growth success. This paper has attempted to discuss some of these factors, both in terms of their relevance to Botswana's high growth rates and to the character of this growth: the mineral endowment, the particular role of the state, Botswana's colonial history and path to independence, the flows of aid and investment and the strategic way in which the Botswana government managed these, and the nature of the relationship with South Africa.

Understood holistically, Botswana's high rate of growth on the one hand and on the other hand its relatively poor level of human development, including its devastating rates of HIV/AIDS, make sense as two sides of the same coin. Botswana's growth trajectory has had a very narrow basis, both in a narrow economic sense of the minerals sector remaining poorly integrated with the rest of the economy and a lack of diversification, and in a broader political economy sense of the rather elitist character of this growth.

Botswana's growth has been slowing for some time now, averaging just below 5% per annum since 1990. It seems unlikely that growth will recover on a sustainable basis in the absence of greater economic diversification and integration of various sectors of the economy as well as a different approach to distribution and human development.