EXPLAINING BOTSWANA'S GROWTH
- WITH A COMPARISON TO CHILE -

Author: Fiona Tregenna[1]

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1. Introduction

At independence in 1966, Botswana was amongst the poorest countries in Africa and in the world, with a GDP per capita of just $91[2]. 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.

[1] I would like to thank Léonce Ndikumana and Gabriel Palma for comments and suggestions, with the usual disclaimers applying. This is a draft paper and comments are most welcome, at fmt21@cam.ac.uk.
[2] Calculated from World Bank World Development Indicators.

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[3]. 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[4]. 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.

In the first section of the paper I will discuss the record of Botswana's growth and development since 1966, and explain the economic policies pursued by the state in this. In particular, the extent to which Botswana suffered from Dutch Disease will be discussed. Secondly, I will review and critique the literature concerning the different explanations that have been advanced for Botswana's rapid growth. Finally, I will put forward some suggestions for what I consider to be the explanations of Botswana's trajectory since independence.

2. Overview of Botswana's Growth and Development Experience

This section will briefly review Botswana's growth and development experience since independence in 1966 from an empirical perspective. Firstly, Botswana's rates of economic growth will be reviewed and an overview given of different periods. The changing sectoral composition of Botswana's economy and the extent to which Botswana was able to diversify its economy beyond mining are then discussed. Finally, Botswana's development experience is discussed in terms of its success in human development and in distributional terms, and in terms of the extent to which freedom and democracy were upheld while economic growth was pursued.

2.1 GDP growth

The following table summarises average real GDP growth rates by decade (with the 1960's split into the pre- and post-independence periods). Annual growth rates are shown in Figure 1 at the end of the paper. Growth accelerated significantly after independence, and was at its highest in the decade of the 1970's. It peaked in the early 1970's, with annual real GDP growth rates of about 26% in 1971 and 1972. The exceptionally high growth rates of the 1970's – in which annual growth was in double digits in eight years of the decade – are particularly striking in the light of the general world slowdown in growth relative to the 1960's. Growth remained high in the 1980's, with the lowest annual growth rate during any year of the decade being 7.13%. Growth however slowed significantly from the 1990's until the present.

Table 1: GDP growth 1960-2004

1960-1965	1966-1969	1970-1979	1980-1989	1990-1999	2000-2004
6.31%	10.47%	15.40%	11.35%	4.89%	4.92%

Source: derived from World Bank World Development Indicators

2.2 Sectoral composition of the economy over time

Figures 2-4 show the changing sectoral composition of Botswana's GDP over time. Several observations can be made from Figure 3, which shows the sectoral composition by value added from 1960 onwards.

[3] Calculated from World Bank World Development Indicators.

[4] Or on a per capita basis: 6.71% for Botswana, 1.92% for low income countries, 2.57% for middle income countries, and 0.27% for Sub-Saharan Africa.

Firstly, the declining share of agriculture, from 43.2% of GDP (in terms of value added) in 1960 to 39.3% at the time of independence to just 2.3% in 2004; although the real value added by agriculture about tripled from 1966 to 2004. Secondly, the phenomenal growth of non-manufacturing industry – predominantly mining – which increased its value added in real terms one hundred and fifty six fold between 1966 and 2004. From a share of GDP of 6.5% in 1966, the share of non-manufacturing industry increases to a peak of 56.8% in 1988, and is currently at about 40%. Thirdly, the share of manufacturing is consistently low and actually declining somewhat. From 11.6% of GDP in 1965, manufacturing actually reached its lowest share ever of just 4.3% in 2003 and 2004. Although in absolute terms the value added of manufacturing grew twenty seven fold in real terms from 1966 to 2004, this consistently low and falling share of GDP is a critical issue, which is discussed in more detail elsewhere in the paper. Finally, the share of services is exceptionally high and rising, having increased thirty two fold in real terms from 1966 to 2004, and from 46.3% to 53.5% of GDP. Overall, in terms of shares of GDP, we see a slight decline in manufacturing and some rise in services, but essentially a reversal of the shares of agriculture and non-manufacturing industry.

According to Debswana, the diamond company owned in equal parts by the Government of Botswana and De Beers, it currently, produces over 70% of Botswana's export earnings, 30% of GDP and 50% of government revenue, and is the largest employer outside the public sector[5,6].

To contextualise these shifts in the sectoral composition of Botswana's economy, Figure 5 shows the sectoral composition of GDP (by value added) at 5 points in time: 1966, 1975, 1985, 1995, and 2004; in each case for Botswana and four relevant country groupings: Low income countries, Lower middle income countries, Upper middle income countries, and Sub-Saharan Africa. This attempts to compare the sectoral structure of Botswana's GDP internationally at these various points in time. In 1966 the sectoral composition of Botswana's GDP is similar to the average for Low income countries, although Botswana has a slightly lower share of agriculture and slightly higher share of services. For later years, the key distinction between Botswana's economy and the international means shown is the large size of Botswana's non-manufacturing industrial sector, owing of course to its mining activities. This large share of non-manufacturing industrial activities appears to be at the "expense" of the agricultural share specifically – for example, in later years when Botswana is actually classified as an Upper middle income country, its service share is actually smaller than the mean for this group of countries. Although Botswana's agricultural activities might be expected to be relatively low given its adverse climactic conditions, it has traditionally had a very strong livestock sector and agriculture's current contribution to GDP value added of just 2.36% is very low in both absolute and comparative terms. Finally, one can note the very small manufacturing share of GDP in Botswana relative to international comparisons, at all time points shown.

Figure 6 shows a more detailed breakdown of the non-mining economy for 2001/02 (the last year for which such a breakdown is available). The tertiary sector accounts for 89% of the non-mining economy (by value added), of which the largest shares are general government, banks insurance and business services, and trade.

2.3 Lack of Diversification, and Dutch Disease effects

Given the centrality of mineral wealth as a basis of Botswana's success, it is relevant to ask to what extent Botswana has managed to diversify its economy over time and to integrate the mining sector with the rest of the economy. This is relevant both in terms of the sustainability of Botswana's growth, and in terms of how narrow- or broad-based the growth was.

[5] 93% of Debswana's workforce of 6300 people are citizens of Botswana.
[6] Company website of Debswana, http://www.debswana.com/.

The Botswana government has deliberately attempted to promote diversification, both through sector-specific and general economic policies, such as a concessionary tax rate and various incentives such as wage subsidies. Botswana's Industrial Development policy (IDP) was published in 1984, and was intended to advance economic growth and independence, diversify the economy away from minerals and cattle, and promote social justice; as have various National Development Plans.

Still, there has not been substantive diversification beyond mining and services, with the manufacturing and agricultural sectors actually shrinking further in recent years. Further, the mining sector is not well integrated with the rest of the economy through forward and backward linkages. Although this lack of integration does not appear to have hamstrung Botswana's growth, it could limit the long-term sustainability of high growth rates as well as potentially limiting how broad-based this growth is.

As discussed in section 2.2 above, the share of agriculture in GDP has completely collapsed since independence, while the share of manufacturing never really became significant (although both sectors did grow significantly in real terms). By 2004 the combined share of agriculture and manufacturing in GDP value added was a tiny 6.6%. In the context of Botswana's minerals boom, it would appear to present a *prima facie* case of Dutch Disease. However, to the extent that Botswana did experience Dutch Disease, this certainly did not prevent the economy from growing.

Exchange rate appreciation is one of the central mechanisms through which Dutch Disease tends to operate, which can squeeze other tradable sectors of the economy and lead to the relative or even absolute contraction of these sectors, notably manufacturing. Botswana consciously attempted to avoid exchange rate appreciation as part of its pursuit of economic diversification, which was only successful to a limited degree. Figure 9 shows Botswana's nominal exchange rate over time (vs. the US$), and shows almost continuous appreciation up until 2003. Figure 10 shows the bilateral real exchange rates with South Africa and the US. This shows that the periods of real appreciation against the US$ were the first half of the 1980's, and to some extent in the 1990's, and against the Rand in the period around 1980 and in the early 1990's. Figure 11 shows three different authors' calculations of the real exchange rate over time. These different series unfortunately appear to bear only limited relationship with one another, making it difficult to draw any conclusions concerning trends and the actual degree of real appreciation.

In the decade after Botswana's independence Botswana was part of the Rand Monetary Union and simply used the South African currency. In 1976 Botswana introduced its own currency, the Pula, but this was pegged to the US$ at exactly the same rate as the rand, but revalued by 5% the following year. After the rand was taken off the dollar peg in 1979, in 1980 the Pula was pegged to a basket of the rand and SDR and revalued by 5% later the same year. The Pula was subsequently devalued in 1982, 1984, 1985, and 1990, and 2004, and revalued in 1989, as well as the composition of the basket being adjusted at times. In May 2005 Botswana switched to a crawling peg, pegged to the rand and SDRs, and devalued the Pula by 12% against this basket.

It appears that the policy of the Botswana government has been informed by, on the one hand, a focus on stabilisation and avoidance of inflation, and on the other hand the pursuit of competitiveness and economic diversification. It can be hypothesised that Dutch Disease effects were realized in Botswana primarily through resource reallocation rather than through the channel of exchange rate appreciation. Mining and services have grown phenomenally. Agriculture's share has shrunk almost to nothing although it has grown substantially in absolute real terms. The share of manufacturing in GDP declined over time although increasing in absolute real terms, but more significantly it has never developed in any real sense. There was a reallocation of the structure of production within the tradable sectors, rather than from non-tradable to tradable sectors. Mineral exports have freed the economy from any real foreign exchange constraints, allowing the services sector to increase thirty two fold in the 38 years after independence. Although Botswana mostly appears to have managed to avoid significant exchange rate appreciation, one of the key channels through which Dutch Disease tends to operate, there does appear to have been a resource and skilled labour squeeze that could have inhibited the development of the manufacturing sector. This issue is discussed further in the context of the literature review in the next section of this paper.

2.4 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 citied 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[7]. 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).

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[7] All data in this paragraph sourced from the 2005 Human Development Report.

Table 1 in the Appendix presents selected human development indicators for Botswana for the period 1971-2004. Some progress is certainly evident, although there is a worsening in infant mortality and child malnutrition in recent years, which is probably due at least in part to the HIV/AIDS pandemic. The probability at birth of not surviving to age 40 is 69.1 for the period 2000-2005 – in other words, only 30.9% of Batswana are expected to reach age 40 – which is the second worst of all 177 countries reported by the UNDP (UNDP Human Development Report 2005)[8].

Meisenhelder (1994) argues that the income gap between rich and poor grew along with economic growth. He cites several studies from the 1980's demonstrating the neglect of the poorest: the rural areas received only one third of development spending despite having eighty percent of the population. He argues moreover that government economic policies have enriched state officials and the cattle elite, served the interests of South African capital, and reinforced dependency in Botswana; and that the benefits of the diamond bonanza for the majority of the population have been limited.

Good (1992) cites what he considers to be a consensus in the literature that in the early years of post-independence in particular, the political elite actively neglected rural development, postponing this and preferring to emphasise minerals development in the interim; leading to a decline in the condition of arable agriculture and a worsening of the condition of the rural poor.

Hope (1998) explains poverty in Botswana in terms of grossly skewed distribution of income and the lack of potential for income generation, particularly deriving from high rates of unemployment. Discussing the rural-urban dynamic, he argues that the core of poverty is in the rural areas and that this triggers urbanisation which increases urban poverty and unemployment.

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 reconceptualise 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

[8] This statistic is for the period 2000-2005, and it is likely that it has even worsened further over the period given the HIV/AIDS pandemic.

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.

2.5 Democratic conditions of Botswana's growth experience

This final section of the review of Botswana's growth and development experience will briefly consider the extent to which this growth took place in an environment of freedom and democracy. At a formal level, Botswana is one of very few African countries to have an unbroken record of democracy since independence. Nine multiparty democratic elections have been held since independence, with the Botswana Democratic Party winning each time.

However, the extent to which this has been a meaningful democracy needs to be interrogated. Botswana's political system has been variously characterised as authoritarian liberalism, paternalistic democracy, and a one-party democracy. While the country has not experienced the extreme authoritarianism of some other countries, it has lacked full political democracy and freedom. This includes the lack of a vigorous free press, an imposed depoliticisation of potentially contentious issues, strong curtailment of trade union activities, and the marginalisation of the majority from effective participation in political decision-making. For some time Botswana could be said to have operated as a de facto one-party state. Civil society in Botswana is relatively weak.

It is also noteworthy that Botswana has a large and strong military. Its military spending as a percentage of GDP, at 3.97% in 2003[9], is amongst the highest in Africa. This compares to average expenditure of 2.32% of GDP for Middle Income countries and 1.80% for Sub-Saharan Africa. Only 5 other African countries report higher (proportionate) expenditure, and each of these is engaged in or emerging from

[9] All data on military expenditure and employment sourced from World Bank World Development Indicators.

internal and/or external conflict; and other African countries that are engaged in full-scale wars have proportionately lower military expenditure than does Botswana. 1.39% of Botswana's labour force is in the military, compared to 0.93% for Middle income countries and 0.51% for Sub-Saharan Africa. The military as an institution is powerful in domestic politics. As an example of this, the head of the military (who is also the son of the founding President, Sir Seretse Khama) was appointed Vice-President of the country in 1999.

The treatment of the Basarwa people in Botswana has attracted increasing attention in recent years. This has included discrimination, forced relocation (including forced displacement from traditional living areas which had been previously been allocated to them, allegedly to make way for diamond mining), and denial of basic services. However, the government of Botswana has denied mistreatment of the Basarwa.

Finally, labour conditions in Botswana were historically fairly repressive, and unions were in a rather "co-operative" or paternalistic relationship with the state. The Botswana Federation of Trade Unions (BFTU) was formed in 1972 with governmental "assistance", and government historically had an ex officio seat in all union meetings. The BFTU was politically affiliated to the ruling party, which led to a split in the federation in 1988 with affiliates wanting political independence breaking away. The split has since been reconciled in favour of allowing individual affiliates to decide which party to support. All unions in Botswana are currently affiliated to the BFTU, but it only has around 25 000 members nationally, meaning that only about 10% of the formal labour force is unionised[10].

It is only since 2003/2004 that public servants have been allowed to organise (with certain exceptions). Other repressive anti-union restrictions were also removed, such as restrictions on joining unions, the power of the Minister of Labour to investigate trade union membership, and the requirement for the permission of the Minister to affiliate to international trade unions. Other restrictions on trade unions still maintained include the power of the Minster of Labour to determine the conditions for trade union membership, the requirement of trade unions to be registered with the Minister of Labour, and the right to strike is restricted, including by only allowing workers to strike if their demands are first submitted to complex arbitration procedures and a particularly broad definition of "essential services" in which strikes are not allowed (ICFTU 2004). As recently as 2004 there was a mass firing of striking Debswana mineworkers.

These repressive labour conditions may have contributed to Botswana's growth rate by increasing the rates of exploitation of workers and enhancing profitability, as well as increasing the attractiveness of Botswana for investment relative to some of its neighbours. To some extent a parallel can be drawn between these repressive labour conditions and those in the East Asian Tigers during their rapid growth. However, in the latter countries the benefits of growth were much more widely shared, with growth being relatively egalitarian and associated with rising wages and living standards. In the case of Botswana, however, repressive labour conditions seem to have been associated with a relatively elitist and non-inclusive growth path.

3. Review and Critique of the Literature on Explanations of Botswana's Success

Several common themes emerge in the literature explaining Botswana's successful growth record. One of these is to attribute the success to some sort of (broadly defined) institutional factors: variously, cultural values and institutions, the strength of private property institutions, and the role of the state. Within these types of explanations there are of course divergent views on substantive issues, such as the actual role that the state played and how effective this was. A second commonly cited source of growth is Botswana's mineral deposits, usually with some discussion of how Botswana was able to use these productively.

[10] According to the Friedrich Ebert Stiftung, http://botswana.fes-international.de/.

Thirdly, several analyses cite the influence of Botswana's good post-independence political leadership. In this section I will draw out the key explanations advanced by a number of different authors. At the end of the section I will make some brief comments on these explanations and on gaps in the literature.

Acemoglu, Johnson and Robinson (2003) essentially attribute Botswana's success to its institutions of private property, which protect the property rights of current and potential investors, provide political stability, and ensure that political elites are constrained by the political system and by a broad cross-section of society. In turn they explain these institutions in terms of the following five factors. Firstly, inclusive pre-colonial traditions and institutions, which ensured that political elites faced effective constraints. Secondly, the relatively limited effects of British colonisation on these institutions because of Botswana's peripheral relationship (in the sense of Botswana's "benign neglect" compared to other colonised countries). Thirdly, the political power of important rural interests upon independence and the alignment of the interests of the post-colonial elite with the protection of private property. They consider it important that the political elites in Botswana did not fear becoming political losers from the process of growth, which both derived from and reinforced political stability. Fourthly, the income of diamonds which generated sufficient rents to the main political actors that it increased the opportunity cost of further rent-seeking, and together with the above institutional features ensured that diamond revenues could be productively utilised. Lastly, they credit far-sighted decisions by post-independence political leaders. They argue that the particular combination of these factors in Botswana facilitated its successful growth. The authors acknowledge that they cannot test their hypotheses empirically.

Acemoglu et al dismiss two of the reasons cited in the literature for Botswana's success. Firstly, the attribution of success to Botswana's equality, since they argue that it is actually relatively unequal. They also dispute the explanation that Botswana's success is owed to limited government intervention, arguing that the opposite was in fact true. From this they conclude that the credit must be accorded to good institutions, which they define as corresponding to a social organization which ensures that a broad cross-section of the society have effective property rights. In this they rather narrowly and with distinct ideological bias equate good institutions with private property.

Beaulier (2003) argues that Botswana's weak pre-independence economic growth record actually calls into question the explanatory significance which Acemoglu et al accord to its inclusive pre-colonial traditions and of the "hands off" British involvement. He actually disputes whether it can accurately be described as benign neglect, noting for example the socially and economically devastating effects of the Hut Tax. He accords "good leadership" a central role in explaining Botswana's success, in contrast to the "disastrous leadership" elsewhere in the continent – referring in part to its Marxist-Leninist orientation (sic). Successful aspects of Botswana's post-independence leadership under Seretse Khama are said to include his decisive and pro-market policies, at a crucial moment in Botswana's history, which in turn is attributed to his Western, pro-market education and his "cosmopolitan personality". Generalising this, he suggests that one good leader or one ideological shock may be enough to allow an African country to escape a poverty trap.

Good[11] (1992) also seeks an explanation in institutional factors, but concentrates more on social relations. Unlike most other authors who praise traditional institutions for their inclusivity and participatory nature, Good is more critical. He characterises pre-independence social relations in Botswana as highly stratified, sharply hierarchical, and with a concentration of wealth among the Chiefs. While the *kgotla* functioned at one level as an indigenous form of popular participation, they essentially facilitated social control by the leadership by imbuing largely pre-determined policies with an appearance of consensus. Good actually argues that there has been a continuity in social control between the pre-colonial, colonial and independent political systems, and that the smoothness and brevity of the decolonisation process (in contrast to the rest of the continent) also demonstrates this. Post-colonial elites pushed for political quiescence, especially in rural areas. This passivity and stability facilitated the economic neglect of rural

[11] Good was deported from Botswana earlier this year.

areas as part of Botswana's development strategy, and resulted in growth without redistribution. Instead of opposing formal democracy as elites elsewhere attempted to do, in Botswana the political elite used the system as a means of social control.

Good attributes the strength and efficiency of the Botswana state to the avoidance of rapid localisation, high remuneration, and the maintenance of well-defined lines of authority and accountability. The shared stake of the political elite and the senior bureaucracy in cattle farming has brought a closeness of confidence and interests. The state had coherent and sustained development capabilities. Economic interventions were selective, but where they were made they were decisive and very significant, such as in infrastructure development. Foreign donors were strategically dealt with, being obliged to contain their programmes within governmental priorities.

Carroll and Carroll (1997) identify Botswana and Mauritius as two among a handful of developing countries that have achieved growth while maintaining democratic institutions and procedures. They attribute this to three common factors: firstly, the personal commitment of talented political leaders to democratic government and economic development. Secondly, a competent and politically independent state bureaucracy that is meritocratic but broadly representative in its composition. Thirdly, a public realm in which there are some modest checks on the actions of the state, in which there is a balance between universalistic and paternalistic norms, and in which the role of tribal/ethnic roles and institutions in recognised.

Maundeni (2001) attributes Botswana's success to what he terms an "indigenous initiator state culture" that endured through the Protectorate stage and was inherited by the post-colonial state elites. This facilitated an indigenous developmental state in which "executive" state powers – the appointment, training and promotion of state personnel, and the command and discipline over security forces – are promoted over "theatrical" powers such as ceremonial functions and state institutions. The state is also promoted through explicit principles in a state culture that elevates the state above (and actually marginalises) other social institutions.

He traces this back to traditional Tswana culture in which all political and religious functions were institutionalised in the state, with no fragmentation of social power. The notion of "god" was vested directly in the state (without external religious intermediaries such as priests) and state leaders were considered to be possessed of magical powers. Like Good, Maundeni also characterises *dikgotla* as always being highly centralised institutions geared towards generating consent (among adult males) for decisions already taken by the chief with his close advisors. Furthermore, in contrast to most tribes in the region, Batswana lived in very large settlements in which political discipline and political loyalty to the states were enforceable and achievable. The Tswana states were also economically central as functional institutions through which new wealth was created and maintained. Further, traditional inheritance laws promoted the concentration of wealth.

Maundeni characterises the establishment of the Bechuanaland Protectorate as "invited colonialism", in that the Tswana had actually been requesting protection from the British for some time (this is controversial in that the required protection was actually from other colonising threats, and not for its own sake!) This form was useful in that it sheltered Botswana from fully-fledged colonisation and allowed the survival of the Tswana initiator state. Post-independence, the new government set up new institutions but often appointed members of old elites (such as chiefs) to leading positions in them, thus blending the old and new elites and easing the institutional reform process. Maundeni refers to this as using an inherited indigenous state culture to construct an indigenous developmental state that was disciplined, developmentally oriented, and intimate with business.

Maipose and Matsheka (undated) focus on the central role of the Botswana state in explaining its economic success. They describe the role of the Botswana state as similar to the East Asian Tigers in that it has been strategically interventionist, but institutionally different in that Botswana has a multi-party democracy. They attribute Botswana's economic success essentially to the qualities of both the policy environment and governance, underpinned by the quality of leadership and effectiveness of both inherited and newly established institutions.

Meisenhelder (1994) makes a distinctive contribution to the literature on Botswana by drawing on the dependency school of thought, and combining this with Becker's theory of "bonanza development", in which a local elite drives development and a natural resource bonanza allows a peripheral nation to move beyond dependency. Meisenhelder points to several aspects of Botswana's trajectory consistent with the "bonanza development" theory: the centrality of diamond exports to Botswana's economy; there was a conscious strategy to maximize surplus from mining from which state revenues are derived and cautiously used; and the active solicitation of foreign investment by transnationals in mining. Further, bonanza development allowed the state to productively use a portion of the surplus from mining as a substitute for direct linkages between mining and other sectors, resulting in some diversification and employment creation, and the emergence of a working class. Meisenhelder then suggests than other characteristics of Botswana's development are more consistent with the Evan-Cardoso thesis of dependent development, given the persistence of inequality in Botswana and its continued dependence on South African capital. This is reinforced by Botswana's policy emphasis of promoting foreign investment and mineral exporting as the primary machines of economic growth. He thus characterises Botswana's trajectory of bonanza development as featuring both growth and dependency, with the growth itself being conditioned by the country's dependency as manifested in increasing inequality. He argues that the economy remains "disarticulated" in that diamond mining produces little employment and is not well integrated with the rest of the economy. Botswana's vulnerability to price fluctuations in the diamond market makes it potentially less self-sufficient.

Hope (1998) draws out what he considers to be the six key explanations of Botswana's success as lessons of development, in particular for the transition economies of sub-Saharan Africa. Firstly, the importance of "good governance": political accountability, bureaucratic transparency, the exercise of legitimate power, political freedom and human rights, sound fiscal management and public financial accountability, respect for the rule of law and a predictable legal framework, an active legislature, enhanced opportunities for the development of pluralistic forces, and capacity building. Secondly, the control of corruption and rent-seeking activities. Thirdly, the importance of institutional development and capacity building, so that the state has effective implementation capacity. Fourthly, the need to control and manage external debt within the national capacity to service such debt. Fifthly, Hope argues that the Botswana experience points to the importance of high rates of saving and investment. Lastly, the need for outward-oriented export promotion and economic diversification strategies.

The Botswana experience must also present a challenge to the "resource curse" and Dutch Disease literature. The resource curse literature essentially seeks to explain why the economic performance of resource-rich countries has not been better than it has, and how natural resource endowments can actually be a liability rather than an advantage. Channels discussed in the literature through which resource endowments can actually hinder long-term economic growth include: exchange rate appreciation, decline in terms of trade, volatility in export revenue, crowding out effects (of capital, skills, etc), underinvestment in human capital, promotion of rent-seeking and corruption, and political mismanagement.

Sachs and Warner (1995) in their seminal paper within this literature, hypothesise several mechanisms through which a negative relationship between natural resources and economic growth might operate. Firstly, "social" mechanisms, by which they essentially mean that "easy riches" make people lazy. Secondly, political economy explanations, basically that natural resources can give rise to rent-seeking behaviour which inefficiently exhausts the public good. Thirdly, economic channels, including declining terms of trade of primary exports relative to manufactures and declining world demand for primary goods relative to manufactures, that primary exports had minimal forward and backward linkage with the rest of a domestic economy and a less complex division of labour and lower externality learning effects on growth relative to manufacturing and Dutch Disease effects, particularly where there is something "special" about manufacturing as above where the economy loses positive externalities or increasing returns to scale associated with manufacturing.

Viewed in the context of this literature, Botswana would *prima facie* appear to be a recipe for economic disaster: a single natural resource, whose exploitation is capital-intensive and virtually exclusively for export, with little actual or potential up- or down-stream linkages with the rest of the domestic economy, with domestic ownership both absolutely concentrated and in state hands. From the Dutch Disease and resource curse literature, this could be expected to have effects such as an overvalued exchange rate, political mismanagement and corruption, wasteful and non-sustainable investment projects, diversion of existing human resources into the minerals sector and underinvestment in broader human capital formation, and a squeezing and constraining of the manufacturing sector; all of which would depress growth rates. While Botswana appears to have avoided some of these effects and featured others, it has certainly avoided the non-growth outcome! However, the literature does not deal substantively with the challenge that Botswana presents to the Dutch disease and resource curse hypotheses.

A partial exception to this is Sarraf and Jiwanji (2001), who examine why Botswana has "beaten" the resource curse. However, they argue that Botswana managed to avoid most of the problems typically associated with export booms by adopting "appropriate" macroeconomic policies, geared on the one hand towards avoiding external debt and stabilising economic growth, and on the other hand towards promoting economic diversification. Specific policies that the authors argue Botswana adopted towards these objectives include firstly accumulating international reserves and running budget surpluses during boom periods for use during lean periods, which reduced inflationary pressures and also meant that government could avoid radically cutting expenditure during downturns; and secondly managing the nominal exchange rate to avoid real currency appreciation, which was achieved largely through the accumulation of international reserves, which allowed other tradable goods to maintain international competitiveness hence allowing for Botswana's economic diversification. They argue that these policies enabled Botswana to avoid the problems typically associated with export booms, and hence to sustain high growth rates.

The contribution by Mogotsi (2002) stands out in the literature for its treatment of the question of whether Botswana suffered from Dutch Disease as a result of its diamonds boom. Firstly, she finds that diamond exports do not explain (in terms of econometric significance) changes in the real effective exchange rate. Secondly, in terms of spending effects, she finds that a positive relationship between government recurrent spending real effective exchange rate appreciation during the boom period, but not during the pre- and post-boom periods, which she interprets in terms of the difficulty in reducing government recurrent expenditure post-boom, particularly given that the bulk of government spending is accounted for by civil servant salaries. Mogotsi argues that these results point to a significant "spending effects" channel of Dutch Disease with respect to both government and household spending. She also finds a decline in wages for the manufacturing sector relative to the non-tradable sectors, which she interprets as "a resource movement effect of the Dutch Disease type". Further, she finds that the growth rate of manufacturing output was lowest at the beginning of the diamond boom period, particularly for the export-oriented sub-sectors of manufacturing. Although Mogotsi interprets this as supportive of Dutch Disease effects, issues of sequencing and causality certainly arise given that the manufacturing slump was at the *beginning* of the diamonds boom. Finally, she finds higher growth rates of three non-tradable sectors in the boom period relative to the pre- and post-boom periods, which she interprets as being consistent with a movement of (skilled) labour from the tradable manufacturing sector to the non-tradable sectors, and hence as supportive of the conclusion that there were indeed Dutch Disease effects. Mogotsi's paper makes an important contribution in terms of situating Botswana within the Dutch Disease literature and specifically in attempting to empirically test for whether or not Botswana did suffer from Dutch Disease effects, and hence begins to address an important gap in the literature. However, this paper points to further work particularly in terms of the measures of relevant variables and appropriate specifications for testing hypotheses and interpretation of results.

Concluding comments on the state of the literature

This review of the existing literature explaining Botswana's growth reveals major deficiencies. Firstly, the body of literature itself is fairly small (although growing), and it appears that Botswana is both "understudied" and undertheorised. This may arise partly from ignorance of either its very existence or its success, and the tendency to paint all of Africa with the same brush.

Secondly, of the literature that holds Botswana up as a model of success, analyses tend to be somewhat uncritical of its record, particularly in terms of developmental success. While some authors mention that more could have been done in terms of rural development, equality and so on, and recent studies mention the alarming growth of HIV/AIDS, they do not seem to be comprehensively critical of the development side of the Botswana experience.

Thirdly, the weight of the literature seems to be overwhelmingly biased to free-market explanations of Botswana's success[12]. Despite the critical role of the state in growth (as discussed elsewhere in this paper), some ideologically blinded authors still hold it up as a free market success. Similarly, mainstream literature (especially initially) sought to explain East Asian success in market terms, an explanation that over time was largely displaced by explanations that recognised the central role played by the state.

Fourthly, and related to the above point, many of the explanations tend to focus on relatively incidental factors such as "good leadership", focusing on the strengths of individuals. Without dismissing the role that individuals can play in history, I would argues that any such accounts need to be located within more structural explanations. Surely there were other African countries that also had good leaders, yet did not attain growth rates anywhere close to that of Botswana. Another problem with this explanation is that it tends to equate "good" leadership with pro-market, pro-Western policies.

Finally, as discussed above, the direct challenge that Botswana's growth success poses for the natural resource curse literature has barely been dealt with.

4. Additional and Alternative Explanations of Botswana's Growth

In this final section, I will suggest some explanations of Botswana's growth and development trajectory, both building on some ideas that have emerged in the literature and developing some new explanations. This discussion seeks to begin to explain both the rapidity of Botswana's growth, as well as the political economy character of this growth.

- Although Botswana's mineral wealth is widely acknowledged as having been critical to its economic growth, the reasons why Botswana was able to use this resource productively require further attention.
- The state played a central (and typically under-recognised) role in Botswana's growth and development.
- Historically, the fact that Botswana was not "fully" colonised actually put it in a better position to grow upon independence. Further, it avoided the destructive and divisive effects of a protracted anti-colonial struggle.
- Botswana has been relatively attractive to as well as receptive of foreign aid and foreign direct investment. Further, it has consciously integrated these inflows into its own development plans by attempting to discipline capital.
- Particular aspects of Botswana's political system and institutions were conducive to consensus-generating and the avoidance of resistance to a particular accumulation path.

[12] In fact this literature review does not reflect the extent to which this is the case, as this paper focuses in particular on contributions that give some sort of alternative explanation.

- Finally, the relationship between Botswana and South Africa is germane to Botswana's growth trajectory (a relationship which of course changed over time).

4.1 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 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 seems 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[13]. 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.

4.2 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

[13] Renamed Debswana Mining Company in 1991.

government expenditure…well above the African average" (Acemoglu et al 2003, 4). Figure 12 shows Botswana's government final consumption expenditure as a % of GDP from 1960 onwards, and also compares this with the averages for low and middle income countries and for Sub-Saharan Africa. 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 NDP8 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.

4.3 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.

4.4 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.

4.5 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.

4.6 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.

4.7 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.

5. 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.

6. Chile

<This section to be completed>

There is an influential mainstream empirical and theoretical literature on Chile's recent economic success, much of which emanates from the Washington institutions. This literature argues that Chile is a good (if not the best) example that confirms the view that the critical state capacities for development are those that maintain efficient markets and restrict the activities of states to the provision of necessary public goods to minimise rent seeking and government failure - if states can ensure efficient markets (in particular by enforcing property rights, the rule of law, reducing corruption and committing not to expropriate) then private investors will drive economic development. The same literature tends to blame the relative failure of other Latin American countries on the attempts of their states to do 'too much'; this is said to have resulted in the unleashing of unproductive rent seeking activities and the crowding out of productive market ones.

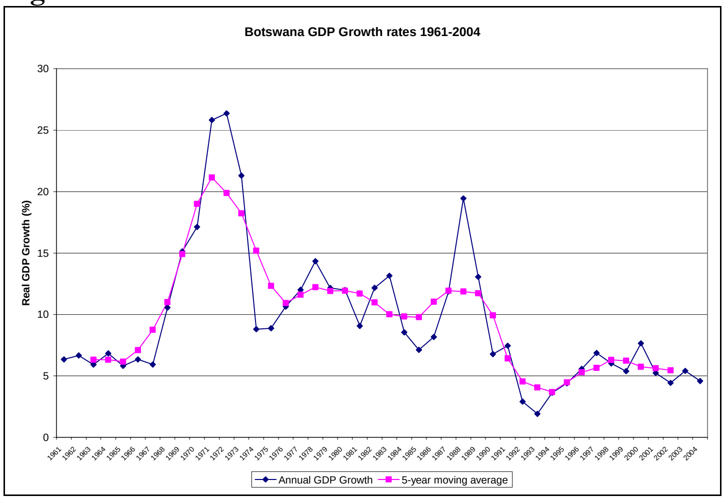
There is little doubt that Chile was able to achieve a much faster rate of growth than other Latin American countries; however, one of the aims of this paper is to show that Chile (like Botswana) was able to do this via a much more complex process than what the mainstream literature would like us to believe. Basically, after the debacle of the 1982 debt crisis (Chile's GDP fell by 14% in 1982) the military regime not only got rid of the 'Chicago Boys' who had been running the economy since 1973, but also began to follow a more pragmatic approach regarding policy making and institution building. On the one hand, the export sector continued to be the engine of growth of the economy, but on the other the state began to use policy making and, in particular, the rents it acquired from copper exports towards achieving and sustaining high rates of investment and to implementing policies that encouraged the rapid acquisition and learning of new technologies (especially in order to diversify the export sector towards other primary commodities such as agriculture, forestry and fishing).

This policy was later reaffirmed and strengthened by the democratic governments that have ruled Chile since 1989. As a result, the rate of accumulation that had plummeted to almost single digit figures in the early 1980s rose to above 25% of GDP in the late 1990s. This increase in the rate of accumulation is essential to understand why Chile was not only able to achieve a rapid rate of growth of exports (7.5% between 1982 and 2004 in real terms), but that this rate was associated with a relatively fast rate of growth of GDP (5% during this period). This is in marked contrast to the rest of the region where a relatively similar rate of growth of exports during this period (6.8%) has been associated with a very poor growth record (2.2%; a rate that is hardly above its population growth).

From this perspective, Chile, like Botswana, seem to have been able to do exactly what the resource curse literature thinks is most unlikely to happen in a developing country. A mainly mineral exporting country has been able to associate a rapid rate of growth of exports with a relatively rapid rate of growth of the rest of the economy, mainly via 'growth enhancing' type of governance. The main characteristic of this governance has been a state capable of both appropriating a substantial amount of the rent of the mineral exports, and using it in productive way. As in Botswana, however, growth has not been accompanied by improved distribution: income inequality today is at approximately the same levels as at the time of the democratic transition after sixteen years of Pinochet's regime. This perhaps illuminates the limits of these types of growth models in terms of equity and development.

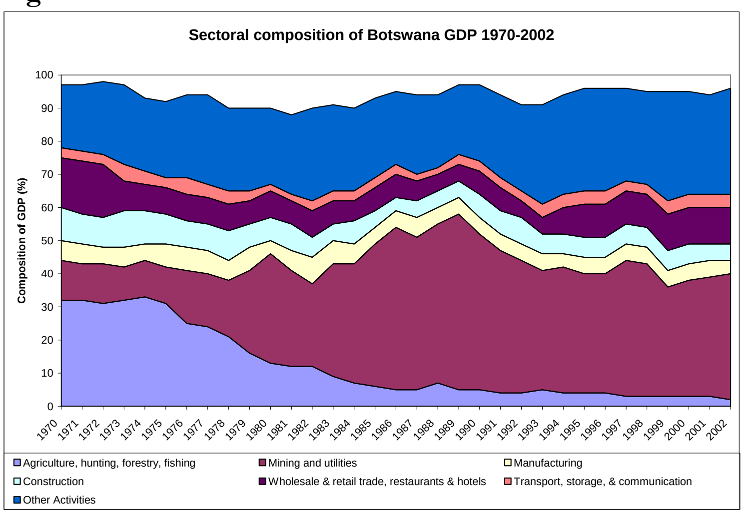
Tables and Charts

Figure 1



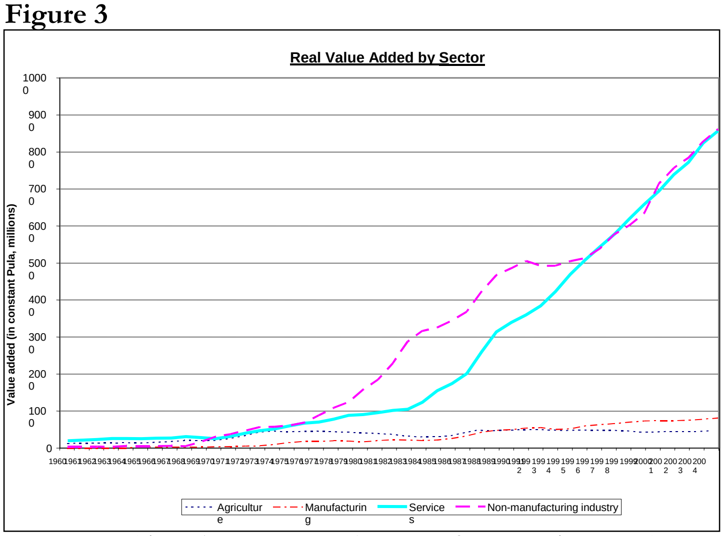
Source: World Bank World Development Indicators

Figure 2



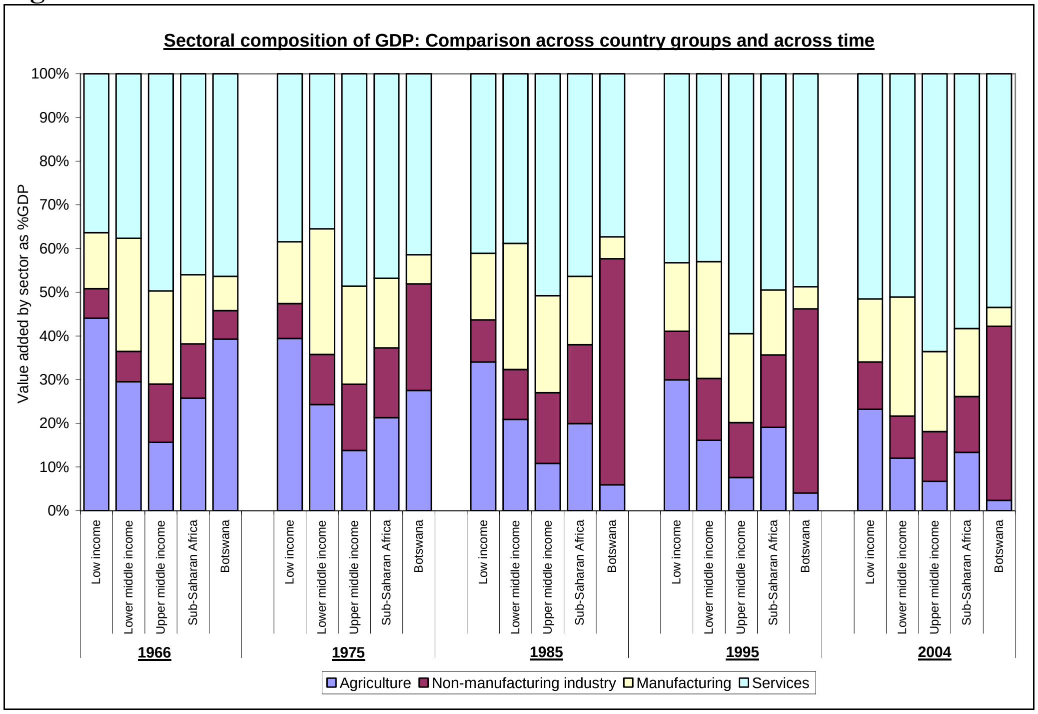
Note: sectors for which data are available do not add to 100%.

Figure 3



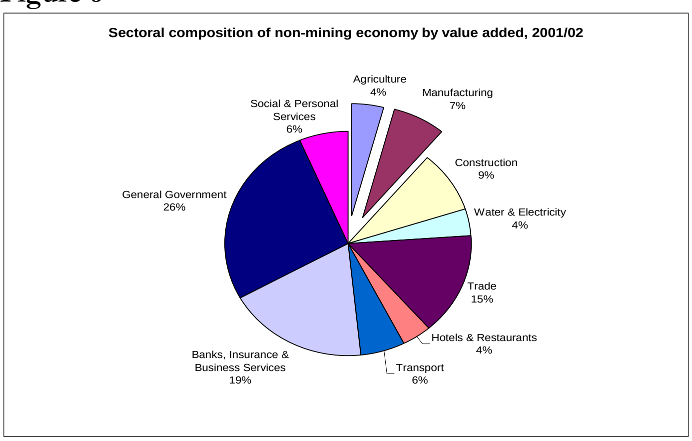
Source: World Bank WDI. Note that manufacturing data is only provided separately from 1965 onwards.

Figure 5



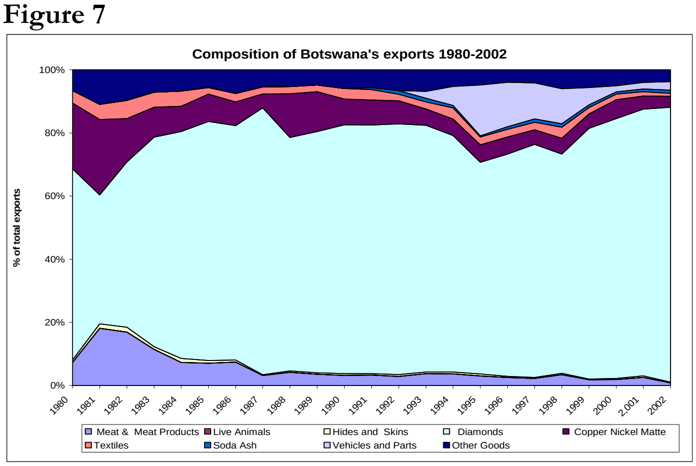
Source: World Bank WDI. Note: the 1966 figures for Upper middle income countries are from 1968.

Figure 6



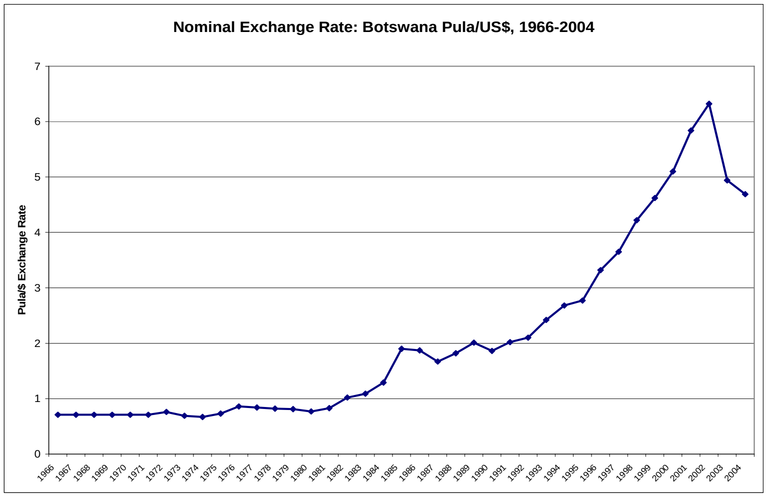
Source: Botswana Central Statistics Office

Figure 7



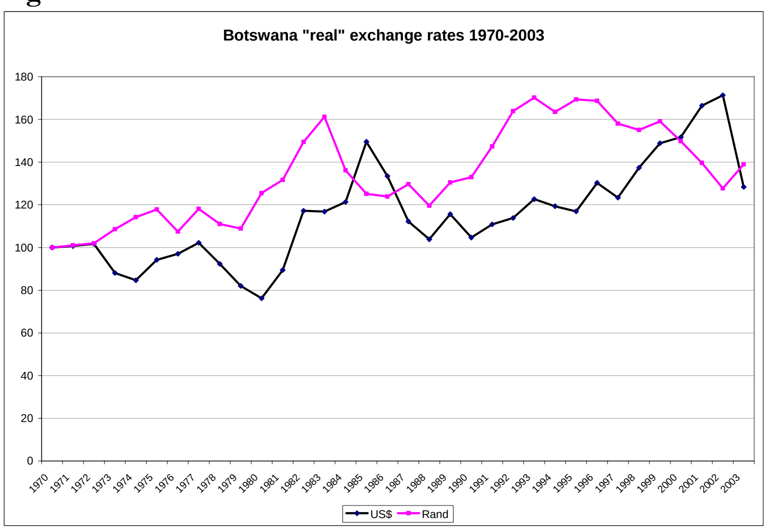
Source: Botswana Central Statistics Office

Figure 9



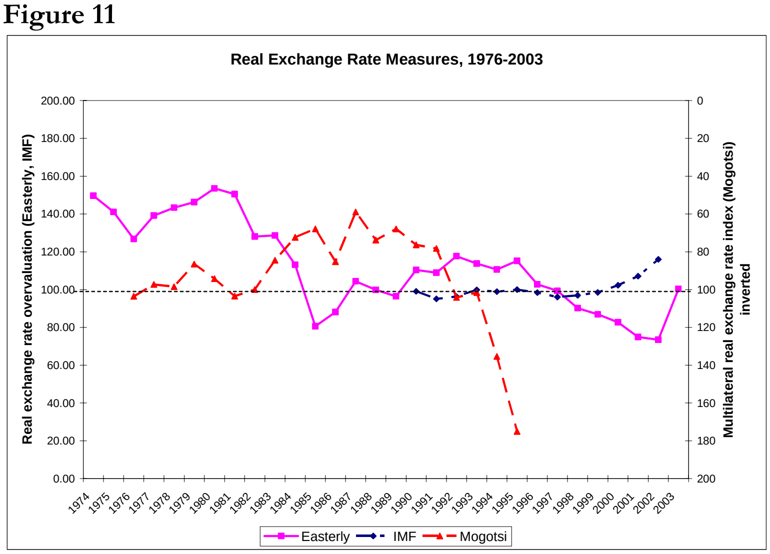
Source: International Monetary Fund International Financial Statistics

Figure 10



Note: Calculated as $\varepsilon = \dfrac{EP^*}{P}$ using relevant GDP deflators for price levels.

Figure 11



Sources: The Easterly series is from the Global Development Network Growth Database at New York University Development Research Institute; it measures the degree of real overvaluation (with a value above 100 denoting overvaluation), and was calculated using Global Development Finance and Global Development Indicators data and the overvaluation index developed in Dollar (1992). The IMF series is of the real effective exchange rate index (period averages) with 1995-100, and is from IMF (2004) derived from the International Financial Statistics. The Mogotsi series is from Mogotsi (2002) and is also a real effective exchange rate index, based on the author's own calculations from Bank of Botswana Annual Reports, CSO Statistics Bulletins, and IFS data. Note that the 2nd y-axis (for the Mogotsi series) is inverted given the inverse definition of appreciation/depreciation used from the other series. For all series shown in the chart, a rise thus denotes a real appreciation and *vice versa*.

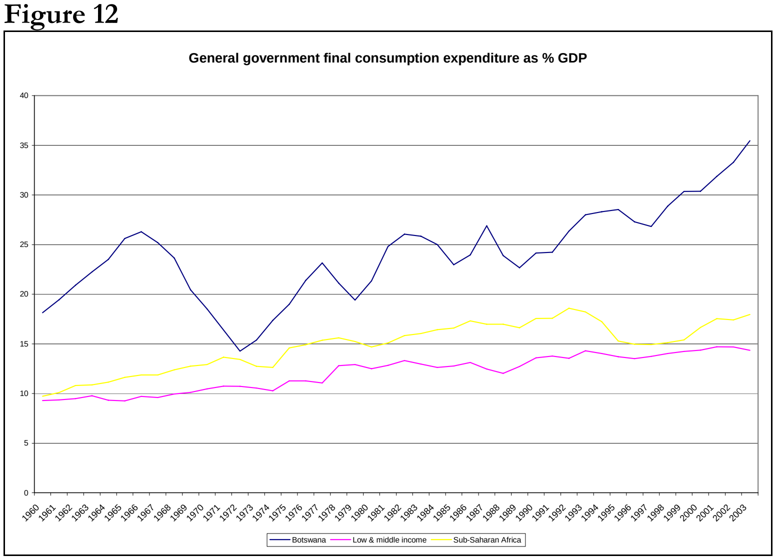
Table 1: Selected Development Indicators 1970-2003 (African Development Bank)

	1970	1975	1980	1985	1990	1995	1998	1999	2000	2001	2002	2003
Infant mortality rate (per 1000)	94.8	80.8	71.2	61.4	59.4	68.8	56.6	56.6	56.6	56.6	56.6	55.5
Female	...	...	...	...	...	...	51.8	52.1	52.4	52.7	53	52
Male	...	...	...	...	...	...	61.3	61	60.6	60.3	60	58.8
Life expectancy at birth (years)	52	55.1	58.3	61.3	61.1	50.7	53	49.7	46.3	43	39.7	38.2
Female	53.7	56.9	60.3	63.3	62.8	51.5	55.1	51.5	47.8	44.2	40.5	38.6
Male	50.3	53.4	56.3	59.2	59.3	49.7	50.7	47.7	44.8	41.8	38.9	37.8
Adult illiteracy rate (%)	52.1	46.4	42.4	36.6	31.8	27.3	24.6	23.7	22.8	21.9	21.1	20.3
Female			41	35	29.8	25	22.1	21.2	20.2	19.4	18.5	17.7
Male			44	38.4	34.1	29.9	27.3	26.5	25.5	24.7	23.8	23
Primary school enrollment ratio (gross) (%)	63.1	71.1	91.3	105.3	113.2	108	103	102	102	103	...	...
Secondary school enrollment ratio (gross) (%)	7.5	15.4	18.8	29	42.7	62.6	71	73	73	73	...	...

	1970-4	1975-9	1980-4	1985-9	1990-4	1995	1998	1999	2000	2001	2002	2003
Human Development Index (0-1)	0.284	0.495	0.558	0.615	0.654	0.621	0.593	0.577	0.572	0.614	0.589	...
Daily per capita calorie supply	2117.6	2283.4	2205.9	2370.7	2324	2316.7	2144.1	2161.3	2146	2168.8	2151.4	...
Daily per capita protein supply (grams)	75.1	71.1	69.2	72.8	74.2	75	63.4	65.8	66.8	68.7	71.2	...
Daily per capita fat supply (grams)	43.4	43.6	49.3	52.4	52.3	59.6	53.2	52.2	50.1	49	50.7	...
Under five mortality rate (/ 1000)	...	...	...	...	...	88.5	88.8	92.6	96.4	100.2	104	103.2
Access to safe water (% total pop)	29	45	...	56	70	...	...	...	...	...	95	...
% rural	26	39	...	33	53	77	...	...	...	...	90	...
% urban	71	95	...	100	100	100	...	100	100	...	100	...
Access to sanitation (% total pop)	...	...	...	36	55	...	...	...	...	...	41	...

Source: African Development Bank Gender, Poverty and Environmental Indicators on African Countries 2005

Figure 12



Source: World Bank World Development Indicators

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