BOTSWANA

Growth sans Development

Botswana's economic growth has been unique. It rose from the status of a newly independent underdeveloped state in the 1960s to become one of Africa's fastest growing countries by the 1980s. However, economic growth has not been accompanied by a corresponding improvement in development, especially with regard to education and health. Botswana's economy relies largely on its mineral and cattle wealth and its dependence on South African industry exercises a constraining influence on the country's future growth prospects.

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Botswana is a land-locked country in southern Africa with a very small population of about 1.7 million. The country became an independent democratic republic in 1966 after 80 years as a British protectorate. The country continues to dominate the world's fast growing countries and therefore its economic performance may be of wide interest to policymakers and development planners. No country in the world, over a period of more than three decades, recorded an uninterrupted higher growth rate than Botswana has had, not even the Asian tigers; between 1966 and 1980, Botswana's gross domestic product grew at an average annual rate of 14.5 per cent and was for a long time one of the fastest growing economies of the world [Harvey 1992]. Per capita income quintupled over the first 20 years after independence in 1966. Though the growth momentum slowed down in the mid-1990s, there has been a recovery of sorts. The country has the unique distinction of graduating from a less developed country (LDC) to a middle-income one, according to the World Bank. When Botswana achieved independence in 1966, its prospects for development were considerably weak whereas resource-rich British colonies around Botswana and in particular the former Rhodesia (Zimbabwe) and Zambia attracted significant resources for infrastructure development from colonial powers. Botswana had only 12 km of paved road, and there were only 22 Botswanians who had graduated from the university. Since then, real GDP per capita has increased 25 fold, the fastest growth rate in GDP per capita in the world. However, today, the country is also referred to with a sense of despair, as the growth process does not deepen into a development process and poverty and unemployment remain unabated, while the economy remains undiversified. In this paper, we shall examine the key processes that accounted for the successful performance of the economy. Following this, we shall explore the major social and economic challenges that have contributed to the ongoing developmental crisis of Botswana.

Substantial diamond reserves were discovered shortly after Botswana's independence and major diamond operations began in the early 1970s. A combination of effective institutions, political stability and economic policies allowed Botswana to take full advantage of its natural riches, especially in diamonds, an exception from other mineral rich developing countries.

However, when we assess the success of Botswana, we should not, be led by the feeling that all went well in the course of transformation of that country leading to a high growth trajectory. Botswana had a traumatic beginning and a critically dangerous regional context. In the early years of independence, the growing political instability in South Africa had spilled over into Botswana with tragic consequences; the country was surrounded by white majority regimes in South Africa, Rhodesia and Namibia.

Structural Transformation

Botswana, ruled by Britain as Bechuanaland Protectorate from 1885 to 1966, had been dependent on South Africa and is still a member of South African

Customs Union, for all its imports and for an exit route for its exports. South Africa has manipulated this dependence as a leverage to attract undue political concessions from Botswana [Oommen et al 1985; Tsie 1995]. Apart from these structural features, natural calamities too did not spare the region. Botswana had to bear the brunt of severe drought in the mid-1980s. There were two outbreaks of foot and mouth diseases. Despite these Botswana did succeed in laying the foundations of a strong economy. Botswana's success is distinctly different in view of the fact that neighbours such as Zambia and Zimbabwe whose economies were also afflicted by both economic and political mismanagement, succumbed to them.

There has occurred a structural shift in the economy from a purely agrarian and beef-exporting economy to an economy based on mining for export and the growth of a service sector. As seen from the table, macroeconomic fundamentals have remained strong, and budget surplus has been achieved in most years. Diamond exports led to dramatic increase in government revenue. The surplus revenues have been transferred to the reserve fund. By 2004, this was equivalent to 28 months of import of goods and services. The rate of inflation has been steadily declining over time and remained at around 9 per cent in 2004. The balance of trade has remained strong, and was around 6.5 of GDP in 2004.

As the table shows, Botswana has made progress by improvements in literacy rate, nutrition status, etc. However, the development challenges of the country reflected in indicators such as poverty, life expectancy, infant mortality, etc, appear considerably more complex. Botswana has a serious problem of poverty (the proportion of population below the poverty line is estimated at 36 per cent by 2001) compared to countries of similar economic stature. The advent of HIV/AIDS has eroded the gains in the health status.

Managing the Economy

This uniqueness of Botswana's economic growth strategy centred around two factors: fiscal discipline and national control of natural resources. While fiscal discipline enabled Botswana in mobilising resources for planning for sustainable long-term growth, national control of resources empowered the country for optimal bargaining with foreign corporations, enabling high economic returns from its mineral deposits. Land is held in some form of public ownership and can only be leased out; the same is true regarding mineral resources. All mining enterprises must obtain mining leases and partnership to exploit the mineral resources. Private capital or transnational corporations do not own mineral resources in other southern African states like Namibia and South Africa. The mineral-exploiting companies are required to pay royalties, taxes and dividends to the government in return for partnership with government. As a consequence, most of the diamond revenues went to the state, which spent a lower share of revenues than other African countries did. This does not mean that Botswana has been following a strategy of economic autarchy; rather the broad strategy was one of an open and liberal economy. Import licences are freely available. Private investment is welcome and widespread. The development policy has given explicit emphasis to commitment to market forces, liberalisation and an outward looking policy framework.

The limits to government spending have been largely defined within the framework of "Budget Sustainability Ratio", the ratio of non-investment recurrent expenditure to non-mineral domestic revenue. The mineral resources are excluded from the sustainable budget calculations. Since the nation's mineral revenues are derived from depleting a non-renewable asset, recurrent spending excluding health and education, has been restricted to the use of non-mineral revenue sources. Consequently, the budget has remained typically in surplus. Mineral revenues have been used for development/capital expenditure on physical infrastructure, and strengthening, education and health services and the rest were kept in the foreign capital market rather than consuming it away at home. As a rough guide, about 30 per cent of the recurrent expenditure is considered investment, which is on education, training and health. The budget sustainability ratio ideally is considered to be less than unity, certainly not more than unity [NDP 2002].

It is to be reckoned in this context that, given the small and land-locked nature of the country, the economy has been kept open under a very liberal exchange regime. The availability of foreign exchange to finance imports has been an important factor in controlling inflation. Due to the check in inflation, the real exchange rate did not fluctuate widely but centred on a narrow band.

In this regard, one major achievement of the government has been the avoidance of, though not totally, the "Dutch disease", i e, a strong currency crowding out all but the most robust export activities. In any economy the large build-up of foreign exchange due to the mining boom is likely to generate symptoms of the Dutch disease. But in Botswana, the capital-intensive nature of mining reduced the scope for large-scale labour movements between sectors and also different skill levels. Weak unions and interventions by government in wage-setting prevented the transmission mechanism of the Dutch disease through wage inflation. As a major portion of the diamond revenue went to the government and government spending was conditioned by the normative approach outlined above, the country was saved to a considerable extent from the Dutch disease [Norbert and Blomstrong 1993].

Botswana has also had a relatively better record of governance. Botswana has retained its formal multiparty democracy, and held elections every five years, although the same party has dominated government in the last 40 years. There is

Table: Key Socio-Economic Indicators

Indicator	1980	1985	1990	1995	2000	2004
GDP ($ billion)	1.13	1.19	3.77	4.90	5.30	7.0
Annual GDP growth (per cent)	11.50	10.10	10.20	5.10	9.10	8.0
GDP per capita ($)	1247	1101	2945	3331	3312	3800
Life expectancy at birth	56	–	65	68	–	56[a]
Infant mortality (death/1,000 births)	–	71	48	56	–	60[b]
Adult literacy	57.6	63	65	68.9	–	76.4[c]
Ratio of poverty, percentage of population below PDL	59	–	42	–	–	36[d]
Under five malnutrition rate	16	–	13	–	–	10
Ratio of reserves (months of imports of goods and services)	4.00	–	16.00	22.00	26.00	28.00
Inflation	13.67	8.10	11.39	10.51	8.70	9
Current account balance/GDP	–	–	5.9	7.5	6.2	6.5

Note: a – year 2001, b – year 2002, c – year 2003, d – year 2001.
Source: BIDPA briefings (2002-05), *World Development Report* (various years).

no racialism in political and civil life and Botswana has maintained the best record of human rights in the continent [Lewis 1997]. The strength of the Botswana democracy derives arguably, from the tradition of' "kgotla", a tribal meeting where all members express their opinion concerning important matters. Another positive factor is that Botswana did not have the major tribal differences as seen in other countries in Africa, since a substantial majority of the people comes from the Tswana-speaking tribe.

Botswana has by now emerged as a middle-income country. The Botswana experience has showed to the rest of Africa that it is possible to maintain "a functioning and prosperous non-racial democracy under the rule of law – the very future that white extremists feared" [Crowder 1987].

Whither Botswana?

In a wider sense of managing development, Botswana has, by and large, failed to distribute the fruits of growth to the majority of its population and thereby assure a fair degree of social and economic justice to the poor. The transformation of growth into development has been an extremely tardy process as is evident from several indicators of development. Botswana has not performed positively with regard to indicators on poverty, inequality and unemployment when compared to the high growth the economy experienced for the past 30 years. The growth elasticities with respect to pro-poor trickle down process have been even historically very negligible, i e, the rapid growth of the real per capita GDP has scarcely touched the relative distribution of income [Leith 2004]. The socio-economic base has not widened and the redistribution process has not occurred in the desired extent despite a democratic process in operation all these years. Most of the poor live in remote rural areas and do not benefit from mineral-based activities. Diversifying the economy beyond diamond is proving to be difficult. Diamond still accounts for 83 per cent of total merchandise export and 35 per cent of GDP. Diamond mining is capital-intensive and accounts for a relatively small share of employment (3.4 per cent of the formal sector). Unemployment, which had stood at 10 per cent of the labour force in 1981, had reached 23 per cent by 2003.

Over 50 per cent of the population lives in rural areas and agriculture is an important source of livelihood. Agriculture's contribution to GDP has declined to 3 per cent in 2003 from a high of 30 per cent in 1981. Historically, the economic base had been dominated by a class of cattle accumulators in various parts of the old Bachuanaland protectorate most of whom were drawn from the traditional aristocracy and the new commercial (trading) bourgeoisie increasingly dependent on South African capital for survival and growth. The development of the cattle accumulators was based on livestock, particularly beef export, to Europe. This class occupied strategic positions within the colonial state and has acquired large herds of cattle and grazing areas resulting in a high degree of concentration of cattle ownership. It is estimated that around 50 per cent of rural households do not own any cattle at all. Around 15 per cent of households own 75 per cent of the national cattle wealth. Though theoretically every member of the tribe is entitled for grazing land, investment in water sources was largely the initiative of private investment by the big herd owners that led to the exclusion of poor farmers. Botswana's participation in the European Union's Lome convention has ensured a higher than world price for a major portion of Botswana's beef exports, the benefit of which is passed on to only a few farmers due to the highly skewed cattle holding pattern.

The "peasantariat", or dispossessed ordinary farmers alienated from land, are forced to seek wage-earning employment as herdsmen and farm labourers and the rest migrate to urban areas. They constitute majority of the poor in Botswana [Parson 1995].

Overshadowing all this is the impact of the HIV/AIDS pandemic (35.8 per cent of the population has succumbed to HIV/AIDS in 2001). HIV sero-prevalence for the population in the age group 15-49 years was 35.4 per cent in 2002.

Households affected by HIV/AIDS will lose the income of affected members as it erodes the capacity to work, wipe out savings and create more and more destitute households [Greener 2002; UNDP 2000]. It is estimated that the proportion of the poor below the poverty line would rise by 6 per cent by 2007 thus eroding whatever gains have been made [UN 2004]. The country experienced a drop in its Human Development Index (HDI) position from 95 to 126 between 1991 and 2002 and fell further to 131 in 2004. It appears that this is the only country to suffer such a big fall during the period of high economic growth!

It is interesting in this context to trace the political economy of growth and distribution in Botswana. Further, the political economy of Botswana has to be understood in terms of the country's continued reliance on South African monopoly capital. Strong historical ties binding Botswana with South Africa and the participation of Botswana in the South African Customs Union (SACU), have assisted the growth process of the economy. Operating within the SACU framework has resulted in the much talked about phenomenon called the "industrial polarisation effect" that was caused by many industries' preferring to relocate to South Africa and the consequent flight of the benefits of agglomeration and inter-industry demand to South Africa. In consequence, South Africa has become relatively cost-effective in manufacturing compared to other SACU members. South Africa's economy depends on exports, especially manufactured products sold to other SACU members for employment generation and value added products. As a member of the Customs Union, Botswana cannot set its own import tariff to protect its industries, the tariff wall has been to the advantage of South Africa. Botswana merely has an embryonic class of entrepreneurs confined to small business and petty trading [Pillai 2005]. Even some of the projects that Botswana negotiated and brought to the country like the kit assembly plant of Hyundai were relocated to South Africa due to stiff opposition from South African authorities [Good 2004]. Indigenous capital is still too weak to challenge the dominance of foreign capital and is nestled mainly in the cattle industry, petty commercial ventures and real estate, as well as in restaurants, bars and bottle-stores. The other sectors, particularly mining, wholesale and retail chains, are owned by South African capital. Almost all commodities traded in wholesale and retail chains like clothing, food and cars are imported from South Africa. The increased income from high growth has only stimulated the spread of these chains owned by South African monopoly capital. The higher income from increased consumption expenditure in Botswana is ploughed back to South Africa through these chains.

Though Botswana has endeavoured to diversify its economy through measures such as an attractive incentive system, in

particular for foreign investment, except in the mineral sector, this did not have any impact despite high scores on several international indices such as investment climate, international openness, sound macroeconomic management, and high growth rates. Botswana has also offered a "congenial" environment for foreign capital by making unionisation of workers a difficult task. Botswana's trade union legislation has been one of the more restrictive ones in Africa. The state has created a web of complex legislations, which makes even legal strikes virtually impossible. There are no restrictions in hiring and firing of workforce, little collective bargaining or organised work stoppage. Surprisingly, the minimum wages in manufacturing has fallen nearly 20 per cent over the last decade [UNCTAD 2003]. Despite this, foreign investment in the manufacturing sector has been minimal. The reasons for this are not very far to seek. The attempt of South Africa to convert Botswana into a market for manufactured goods implicitly meant preventing the region becoming a location for manufacturing through overt and covert strategies of discrimination. Though the SACU provided access to a market to overcome the limitations imposed by the small and fragmented internal market of Botswana, the discriminatory attitude of South Africa prevented development of skilled industrial labour, local entrepreneurship and technological competence.

Conclusion

In conclusion, Botswana's judicious management of its diamond resources did reinforce a growth process compared to other resource-rich countries. Unlike in many African countries that have moved away from pluralism to the centralisation of power in a single party, many attribute the functioning of a multiparty democracy in Botswana to the small size of the ruling class and the fragmented and weak opposition in the system on one hand and to a high growth of the economy for a longer period on the other. The stable democracy has also been responsible for low levels of corruption.

Botswana's experience offers two major lessons. The first one is about the limits to growth, i e, growth alone cannot assure a development process unless it is mediated by appropriate social forces to assure its wide distribution. Secondly, embarking upon bold initiatives for developing and diversifying the economy is rather difficult in a situation in which the essential trait of the ruling class is dependence. The manner in which dependence is built into the structure of production and distribution makes the economy increasingly subordinated to the choices of South Africa against which the puny ruling class is too weak to resist. Does this state of affairs presage the persistence of a predatory and accumulating state for yet more decades in the future? EPW

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