

Group I. Botswana: The African Growth Miracle

Botswana is a landlocked country located in Southern Africa with a low-density population of about 1.8 million. More than 80 percent of the land surface of the country is occupied by the Kalahari Desert, which makes it suitable for seasonal grazing and raising beef cattle. Upon independence in 1966 from Britain, it was one of the poorest countries in the world. Botswana had only 12 kilometers of paved road, 100 graduates from secondary school and 22 from university. It was a largely rural, cattle-based society.

From being one of the poorest countries in the world, Botswana has enjoyed rapid economic growth with decreasing dependence on foreign aid and is now classified by the World Bank as an upper middle income country with a per capita GDP of more than US \$6000.

The successful growth of the economy is mainly driven by revenue from diamonds - a resource, which the state has used strategically to develop socio-economic infrastructure and human resource that has been rated among the highest levels in Africa since 1992. The country is the largest producer of diamonds - by value - in the world. Diamonds were discovered in the country in 1967, after independence. Kimberlitic diamonds now account for about 75 percent of Botswana's export revenue, 45 percent of government revenue, and 35 percent (approximately US \$3 billion) of the country's GDP.

Botswana's development required significant investment. The government had to persuade foreign investors to sink considerable funds into the search for and development of mineral deposits. The role of the state in Botswana is, in many respects, similar with the development success story of the "East Asian miracle" experience where the state has been strategically choosing the capitalist market economic development formula. But the institutional context of rapid growth in Botswana - that is a multi-party democratic system of government - offers a sharp contrast to undemocratic regimes elsewhere in China and the East Asian miracle.

Botswana is certainly different to most other African countries. Since independence, it has been politically stable, with a multiparty democracy.

The overview of Botswana's development record is captured in one sentence. Initially

based on agriculture and heavily dependent on foreign aid, the rapid economic growth and general development in Botswana have been driven by the mining sector, particularly the diamond industry, and have been strategically led/influenced and managed by the state and decreasingly complemented by foreign aid within the overall institutional context of a liberal market economy and multi-party democratic system of government.

The first phase (1966-1974) is characterized by transitional rapid growth with significant flow of foreign capital - aid and private investment; the capital accumulation stage, recognized by massive expenditures on physical and human capital. The second phase (1975 - 1989) is denoted as a period of rapid economic transformation, marked by fastest economic growth with limited structural diversification. The period is underlined by transitional and fundamental sectoral transformation with agriculture and mining switching their lead positions and also changes regarding the trends in domestic savings and investment over time with the ratio of savings to GDP subsequently exceeding investment, leading to moderate growth or reaching (what some analysts described as) the limit of state-led development model.

The third period, though overlapping to some degree with the end of 1980s, covers the whole of 1990s and the new millennium, characterized by moderate economic growth rates with domestic savings consistently exceeding domestic investment. The period is, in term of policy choices, marked by major re-orientation in economic development strategy and realignment of particular interests and is marked by complex policy choices and efforts towards privatisation and to enhance private sector led development and also consolidation of democratic governance and economic management.

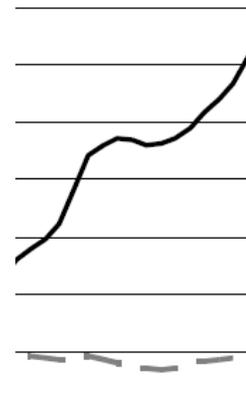
The country's rapid economic growth is attributed to the effective state management - the long track record of good policies, good governance and prudent economic management. Botswana growth record has been paired with a well functioning state structure, with the government spending roughly 40% of GDP on social development, primarily infrastructure, health care and education.

In general nearly every aspect of Botswana economic performance is spectacular. Inflation has rarely been above 10%, investment has been between

20% and 30% of GDP, and there has been significant investment in human capital. The balance of payments has typically been in surplus, there are large accumulated reserves and government has not needed any structural adjustment loans. Although diamonds have clearly fueled Botswana's growth path, these resources rents have been invested rather than squandered.

Figure 1. GDP per capita (100=1990), USD

There is almost complete consensus that Botswana achieved rapid growth because it managed to adopt good policies. The diamonds no doubt helped in the rapid growth. Yet, it is striking that, contrary to other African countries with abundant natural resources such as Angola, Congo, Sierra Leone or Nigeria, there were no civil wars or intense infighting to control the revenues from diamonds in Botswana.



Botswana since independence has been due to sound economic policy. While diamonds have played the driving role, the government maximized the benefits from the gems in its negotiations with De Beers and exploited the resource in a socially efficient way by investing the rents. It also ensured that the set of institutional restrictions on different tribes and interest groups made it unattractive for these actors to fight for the control of the resources rents.

Botswana's institutions reflect a combination of factors. These include tribal institutions that encouraged broad based participation and constraints on political leaders during the pre-colonial period; only limited effect of British colonization on these pre-colonial institutions because of the peripheral nature of Botswana to the British Empire; the fact that upon independence, the most important rural interests, chiefs and cattle owners, were politically powerful; the income from diamonds, which generated enough rents for the main political actors that it increased the opportunity cost of further rent seeking; and finally, a number of important and farsighted decisions by the post-independence political leaders.

The most plausible cause of the choice of relatively good economic policies therefore appears to be that the underlying institutions in Botswana, both political and economic, are "good". What do we mean by good institutions? "Good" institutions as corresponding to a social organization which ensures that a broad cross-section of the society have *effective property rights*. *institutions of private*

property contrast with extractive institutions, where the majority of the population faces a high risk of expropriation by the government, the ruling elite or other agents.

Today, the government proudly provides almost free education; adult literacy has increased from 34 percent in 1981 to 81 percent in 2006 (EIU 2007). Female students represent the majority of students at primary, secondary and university levels. Botswana's infrastructure level has tremendously improved since independence: The country now has a well-developed road network linking all major population centers; the telecommunications system is fully digital and efficient; Botswana is constantly given high marks for the quality and integrity of its public institutions. The country noticeably has the highest score for African countries in Transparency International's Corruption Index (Transparency International 2005).

While the economic achievements of Botswana have been impressive, there remain serious problems, particularly with respect to the incidence of AIDS, the persistence of inequality, and high urban unemployment. It remains to be seen if Botswana's institutions will be strong enough to address these issues and sustain growth.