Botswana and the Resource Curse

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JEB103 Comparative Economics
LS 2022/23

1 Introduction

Looking at countries endowed with sizeable natural resource wealth, such as Russia, Nigeria and many African countries rich in minerals, their economic development has often been disappointing, with boom-and-bust cycles, great inequality and persistent stagnation. However, a few countries performed well and benefited from their abundant resources. This paper focuses on one such outlier: Botswana. This small landlocked nation in southern Africa was one of the world's poorest countries at independence, with only 12 kilometres of paved road, 22 university graduates and 100 secondary school graduates. After discovering immense diamond deposits in the late 60s', Botswana became the fastest-growing economy in the world, averaging 7,7% GDP growth between 1968 and 1998. Today it is an upper-middle-income country and a stable democracy in a region rife with conflict and poverty. In light of the failures of many resource-rich countries, this seems extraordinary. This paper explores the pitfalls of resource riches and brings in findings from the institutional school of economics to explain Botswana's economic performance. Section 2 explores the resource curse, its causes and ways to avoid it; section 3 brings in the notion of institutions; section 4 contains a brief history of Botswana; in section 5, factors which allowed Botswana to develop good institutions are identified; section 6 highlights some challenges Botswana faces; section 7 concludes.

2 The Resource Curse

There is a long literature exploring the paradoxical fact that resource-poor countries tend to outperform resource-rich countries. Natural resource riches can be a curse on a country, stopping it from developing beyond a certain level. This adverse effect was empirically described in Sachs and Warner 2001. To understand how Botswana managed to avoid the worst effects of this curse, we first explore the mechanisms of the resource curse and how some countries have avoided it.

As described in Collier 2008, the resource curse has several possible mechanisms. One is Dutch disease - a monetary phenomenon where exports of raw resources appreciate a country's currency, making other, possibly more development-inducing exports less competitive. Another possible explanation is the volatility of natural resource incomes. Prices of commodities fluctuate on the global market creating boom-and-bust cycles. These are particularly dangerous for countries which do not manage their finances prudently. Resource booms cause gluts in public spending which is very difficult to curtail in a bust (and it is not the wasteful, but the politically vulnerable programmes cut). These cycles also make it difficult for voters to judge government performance which depends more on commodity prices than good policy. Ross 1999 also suggests resource rents may empower sectors opposed to economic development, lead to weakened property rights, or swell SOEs (which tend to be less efficient than private firms).

In resource-rich democracies, the electoral process itself can be a source of issues. present in many resource-rich developing countries). Collier and Hoeffler 2005 have shown that democracy negatively impacts growth in resource-rich countries. They found both under-investment and lower ROI. They suggest the following mechanism:

resource rents make patronage politics (buying voters/opinion leaders' votes with concessions, not good policy) more appealing. Since resource-rich countries rely less on taxation, scrutiny of public spending is reduced. Checks and balances tend to be gradually eroded. The authors showed that resource-rich democracies must have solid restraints on the use of power to benefit from their natural wealth (with freedom of the press having an outsize impact). Countries which possessed these constraints before resource windfalls (such as Norway or, as I will argue, Botswana) were able to cope with their adverse effects better.

Some resource-rich developing countries mostly avoided the curse. Stevens 2005 explores commonalities between four such countries: Indonesia, Malaysia, Chile and Botswana. Policy-wise, all these countries managed their resource revenues prudently (interestingly, all countries emphasised frugality in their national psyche). They insulated the volatile revenues from the rest of the economy, employed stabilisation funds and budgeting strategies to ease boom-and-bust cycles, avoided white elephant public projects and kept their currencies from over-appreciating (sometimes by deliberate devaluation). The resource revenues also 'trickled down' to the private sector and did not only go to politicians and bureaucrats. All countries had long-ruling strong governments with capable bureaucracies that emphasised developing open, export-oriented market economies with a robust private sector. These countries could be called *developmental states* (as opposed to predatory states) - strong, capable, yet restrained states which placed development as their national goal.

3 Institutions and the Resource Curse

The success of these countries raises another question: why did these countries enact good policies while others have not? The institutional school of economics provides a possible answer. Their explanation goes as follows: prosperous countries pursued sound policies because they had good institutions which made those policies politically viable. Unsuccessful countries possess bad institutions which encourage policies contrary to development. This view finds empirical ground in Mehlum, Moene, and Torvik 2006, which found that the quality of institutions (favouring producers and not unproductive rent seekers) determines whether a country will benefit or be harmed by its resource wealth.

Good institutions align political interests with development. As Acemoglu, Johnson, and Robinson 2002 put it, in many countries, "good economics is often bad politics"(p.4) - politicians are not incentivised to pursue good policy. If they do, they are likely to be overthrown. The authors define institutions conducive to development as *institutions of private property*. These provide secure private property rights to a broad section of society. Good institutions need a capable state that protects against private expropriation, restraints on the use of power that protects against state expropriation and political stability. They also note three requirements for this type of institutions to arise: (1) establishing good institutions must be in the interest of ruling elites, (2) influential segments of society must not feel threatened by these institutions to the degree they try to overturn them (e.g. via coup or violent crackdown) and (3) presence of constraints which prevent elites from seeking rents by seizing power.

Good institutions have mostly failed to develop in Botswana's region, Sub-Saharan Africa. Robinson and Parsons 2006 note that forces which possibly drive institution formation were not present in the region: low population density made interstate warfare (a force for state formation, as argued by, e.g. Fukuyama 2011) uncommon and elites were usually not forced into modernising. Factor endowments (including natural resources) gave rents to elites, again reducing incentives for increasing tax revenue by modernising. As Acemoglu, Johnson, and Robinson 2001 note, colonialism replaced pre-colonial institutions with ones designed to extract revenue from colonies. This mainly happened in places where settler-colonialism was not viable - such as most of Sub-Saharan Africa.

4 An Economic History of Botswana

The above account raises the question of how Botswana established good institutions despite these regional factors. To explain this, we present a short economic and political history of Botswana. Economic matters mainly draw on Hillbom 2014,political matters from Acemoglu, Johnson, and Robinson 2002 and Robinson and Parsons 2006.

The first account of Tswana states comes from the *difaqane*, a period of upheaval and migration caused by the expansion of the Zulu. These threads arguably drove state building with Robinson and Parsons 2006 noting multi-tiered polities emerging. These states were able and willing to integrate non-Tswana groups - in fact, Acemoglu, Johnson, and Robinson 2002 state that while 85% of Batswana speak Setswana, only 50% are ethnically Tswana. Although sparsely populated, the Tswana lived in centralised settlements, making state formation possible. Hereditary chiefs ruled these polities. However, their power was not purely autocratic: of note is the *kgotla*, a tradition of communal meetings where matters of state were discussed, and tribe members could voice their concerns. The Tswana lived mostly as cattle herders, with most households owning or leasing some stock.

In the mid-nineteenth century, Tswana faced threats from Boer and German expansion. They sought an alliance with the British for protection. Eventually, the British annexed the area, establishing the Bechuanaland protectorate in 1885. It is important to note that the area was only of strategic importance to the British - they were not interested in expanding colonial rule, and the protectorate was mostly left ungoverned with intentions of eventually integrating it into South Africa. Although there were some attempts at more intense colonisation (with Cecil Rhodes attempting to gain rights for the area and efforts to consolidate British rule in the

1930s'), Tswana chiefs were often able to unite in opposition, limiting the success of these enterprises.

After 1930, the British took more of an interest in the protectorate. Since they identified cattle ranching as the area's comparative advantage, they focused their efforts on building cattle infrastructure, including cattle fences and an abattoir which allowed the country to export beef for the first time. Tribal elites also made their own investments and amassed large herds. Seretse Khama, a Western-educated chief of the Bamangwato (an important Tswana tribe), emerged as the leading figure of the independence movement. His Botswana Democratic Party brought together a broad coalition of educated urban voters and tribal elites. Since he and other independence leaders were involved in governing the protectorate in the '50s and '60s, independence mostly preserved economic continuity, with investments into cattle infrastructure continuing. During and after independence, Khama and the BDP sought to curtail tribal power. In 1967, the Miners and Minerals Act, a law transferring rights to natural resources from tribes to the central government, was enacted. Of note is that soon-to-be-discovered diamond deposits (possibly known to Khama) mainly lay on Bamangwato land - in this, Khama was going against his interests). Khama also sought good race relations and resisted calls to localise the bureaucracy because of a lack of educated local workers. Because of these policies, Botswana created a capable bureaucracy and a strong state. Thus, when large diamond deposits were discovered in the late 60s', Botswana was able to negotiate favourable agreements with the De Beers cartel and South Africa (at the time, in a customs union with Botswana). The diamond revenue was spent prudently, with upwards of 40% of GDP going towards investments and the country experiencing the fastest rate of GDP growth in the world, rising from one of the world's poorest countries upon independence to upper middle income.

5 How Botswana got its institutions

After this short history, let us consider what factors allowed Botswana to develop good institutions. Here, a few stand out: the effect of outside threats and colonialism, economic interests of the ruling coalition, political stability and a culture of power constraint, and good political leadership. These factors echo the three conditions for good institutions laid out by Acemoglu, Johnson, and Robinson 2002 discussed in section 3. This sections draws mainly on Acemoglu, Johnson, and Robinson 2002, Robinson and Parsons 2006, and Hillbom 2014.

Our account shows how outside influences (first the Zulu, then colonial powers) were threatening enough to drive Tswana state formation and act as a unifying force while not being powerful enough to destroy these states. This contrasts with the account of why most of Sub-Saharan Africa failed to develop states discussed in section 3. As Robinson and Parsons 2006 stress, a string of chiefs pursued *defensive modernisation*: strengthening state power to prevent being absorbed by other powers. Tswana chiefs also showed great willingness to act in union, not succumbing to divide and conquer tactics used during much of European colonial conquest. In similar countries (Lesotho, Zambia, and Uganda), colonialism destroyed traditional institutions with indirect rule strengthening chief power and making their rule contingent on colonial support instead of pre-colonial institutions. Interestingly, as Robinson and Parsons 2006 point out, Tswana states that experienced more intense colonial rule (including the replacement of uncomfortable chiefs by the British) are among the worse-faring parts of Botswana today.

The survival of pre-colonial institutions and sources of legitimacy helped Botswana maintain stability. Stability was also helped by the BDP comprising a broad coalition and Khama drawing further legitimacy as a tribal chief. Moreover, the interests of white cattle ranchers and tribal elites (also heavily involved in cattle ranching) aligned, and Khama (married to a white woman) did not pursue an anti-white agenda, so racial relations remained good - unlike in neighbouring countries. In countries with harsher colonial involvement, the complicity of tribal elites in colonial rule aroused a backlash against traditional structures - this also did not happen in Botswana. A culture of power constraints was also present in Tswana states with the kgosi councils. Acemoglu, Johnson, and Robinson 2002 argue that this culture survived the colonial period and made all actors willing to create a powerful state without fearing power misuse and expropriation. Altogether, Botswana enjoyed a significant degree of stability and had meaningful constraints on the use of power.

The economic interests of the ruling coalition aligned with establishing good institutions. The BDP consisted mainly of cattle ranchers who had an interest in protecting property rights[1] and building up an export sector. This export orientation also prevented the currency from over-appreciating, alleviating Dutch disease. There were also no other important groups with contrary interests - Robinson and Parsons 2006 draw the example of Zambia, where cattle ranchers were also a significant group. However, they were not affiliated with the ruling party, making export-oriented policies politically dangerous, and the ruling party instead gave (economically ineffective) concessions to its power base. After diamond revenue started coming in, Acemoglu, Johnson, and Robinson 2002 assert that since no powerful group was 'left out' of receiving the benefits, no one had enough incentive to risk their share by trying to seize a more considerable portion of the resource rents. Therefore, the ruling coalition in Botswana was well-disposed to create good institutions.

Another critical factor in the success of Botswana was its political leadership. Seretse Khama and his successor, Quett Masire, pushed through sound policy and negotiated shrewd agreements with De Beers and South Africa, sometimes even go-

[1]helped by the (perhaps mistaken) view that privately owned cattle was a source of capital for all, even the poorest, households which helped create a market, export-oriented economic ideology in the state

ing against their interests (as with the Minerals and Miners Act mentioned above). The BDP has ruled continuously since independence but has not suppressed opposition parties or independent press. In 2022 the country placed 32nd in the 2022 Economist Democracy Index. When other parties threatened BDP's position, it chose to adapt its policy instead of seizing power. While this is, to a degree, a result of the factors mentioned above, there is still some human agency in making such choices.

6 Some issues Botswana still faces

However, while Botswana escaped the worst of the resource curse, it still has issues. As Hillbom 2014 points out, Botswana's economy still relies on natural resources. While it has developed a small manufacturing sector (which Acemoglu, Johnson, and Robinson 2002 consider a significant achievement given the country's reliance on natural resources), productivity from the diamond sector has not spread to the rest of the economy (echoing one of the possible mechanisms of the resource curse). The author cautions that while the country has greatly developed socially and politically, economic development (i.e. structures conducive to a modern, diversified economy) is lacking. The country faces great inequality (especially between the urban and rural sectors), with a GINI index of 53 in 2015 (World Bank Data). The country is also one of the worst hit by the AIDS epidemic and has not kept up its pace of growth in the past decade, with GDP per Capita stagnating at an upper middle-income level (World Bank Data). The question remains whether Botswana can build on its remarkable legacy and develop further.

7 Conclusion

In conclusion, Botswana is an unusual case of a country which benefited from natural resource wealth. There are many reasons why natural resources usually hinder sound economic policy - the resource curse - and Botswana seems to have avoided the worst of them. This paper explored how the institutional school of economics can explain Botswana's performance. Because of a combination of factors, including (1) light colonisation, (2) post-independence stability and a culture of constraints on the use of power, (3) a ruling coalition whose interests aligned with sound economic policy, and (4) good political leadership, Botswana developed a set of institutions which allowed it to invest its natural resource wealth wisely. Although Botswana's past economic performance is remarkable, it still faces many issues today and has been unable to wean itself off diamond revenue. It can still, however, serve as an example of good governance in a very troubled region.

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