



Review article

From diamonds to coal? Critical reflections on Botswana's economic future

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ABSTRACT

Botswana is at a critical historical juncture. It has enjoyed a stable democracy since gaining its independence in 1966 and strong economic growth in the last few decades. However, the diamond revenues on which the country depends are likely to decline in the near future. Economic diversification is therefore a pressing policy concern. This paper considers Botswana's options in this respect. A significant difficulty that policymakers face is that Botswana's comparative advantage for the foreseeable future is embedded in mineral and base metal endowment. As diamond production slows, coal production may increase alongside the possibility of iron ore being added to the resource extraction portfolio. The extraction of minerals entails negative externalities that often undermine alternative sources of revenue generation. Botswana should seek to avoid these negative trade-offs insofar as it is possible. The paper argues that coal is unlikely to become an economic anchor for Botswana's future, given the shortage of available export markets, its relatively low quality, and the substantial transport costs associated with exporting it. Satisfying the demand for economic export diversification presents considerable challenges for policymakers. Existing diamond rents should be more proficiently invested in human and physical capital to secure a more sustainable economic future.

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1. Introduction

Botswana requires a strategy for economic diversification away from dependence on diamond revenues which are likely to decline in the near future. Ultimately, the country's development trajectory should relinquish dependence on exhaustible resources.

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Table 1Botswana in comparative perspective, 2001–2011.¹

Source: Author's compilation using World Bank data: World Development Indicators.

Country	GDP per capita growth (annual%)	Household final consumption expenditure per capita growth (annual%)	Government effectiveness	Regulatory quality	Rule of Law	Control of Corruption	Mortality rate, under-5 (per 1000)
Botswana	3.03	6.23	0.57	0.58	0.61	0.93	52.66
Ghana	3.71	n/a	-0.053	-0.10	-0.05	-0.08	88.85
South Africa	1.97	2.43	0.55	0.56	0.087	0.31	70.07
Mozambique	4.59	2.62	-0.48	-0.44	-0.62	-0.49	139.59
Namibia	2.44	3.14	0.12	0.17	0.17	0.24	63.55
Zambia	2.62	4.39	-0.79	-0.51	-0.50	-0.67	124.28

But as diamonds deplete, extensive coal deposits are being explored. Coal exports, however, do not provide a sufficient channel through which to diversify sustainably. Botswana is also endowed with extensive potential iron ore anomalies near Shakawe (about 50 km west of the panhandle of the Okavango Delta). These have yet to be mined, but sampling inference indicates potential economic viability, though this is subject to further geological sampling and modelling. Botswana could consider integrating the complementary features of each of its mineral deposits to forge a regional energy hub and a steel industry, though the necessary conditions for such a strategy are arguably absent. Preferably, this would be achieved in a manner that does not compromise the ecological integrity of the country's great tourist attractions and increasingly valuable wilderness spaces.

The paper proceeds as follows. First, the country's historical institutional trajectory is considered, given its relative functionality and success in the African context. Second, the argument that the economy remains unbalanced is delineated. Political stability should also no longer be taken for granted. This section highlights the potential of tourism to become a future economic anchor. Third, internal and external considerations regarding the country's coal potential are considered. The final section concludes with a set of recommendations as to how Botswana might proceed in the light of available evidence and unknowns.

2. Botswana's political economy

Botswana has been acclaimed as an anomalous African success story. It outperformed every other country in the world in terms of per-capita income growth from 1965 to 1998 (Acemoglu et al., 2001). Table 1 provides a comparative overview of Botswana's economic and social performance since 2001.

Typical accounts of why some nations develop more successfully than others, such as geography, struggle to explain Botswana's relative success. Those who favour geographical explanations must note that Botswana has both a high disease burden and is landlocked (making international trade difficult due to high transport costs). Botswana's initial economic conditions were clearly unfavourable for development: as Acemoglu et al. explain, 'When the British left [in 1966], there were 12 km of paved road, 22 Batswana who had graduated from university and 100 from secondary school' (p. 2). Botswana developed differently due to a number of combined (predominantly structural) factors, in which individual agency also played a significant role.

First, the impact of colonial history is increasingly understood to account for persistent underdevelopment in African countries (Nunn, 2008). In Botswana, this historical colonial impact was minimised, exemplified by three Batswana chiefs approaching Queen Victoria to prevent the advance through Bechuanaland of

Cecil John Rhodes and his British South Africa Company (Robinson and Parsons, 2006). The queen acted in their favour. The London Missionary Society sponsored their journey, deflating the view that Christian missionary activity was necessarily bound up in imperial pursuit. Botswana also happened to be relatively peripheral to British colonial interests.

Second, pre-colonial institutions such as the kgotla were remarkably inclusive. As Robinson and Parsons (2006) further point out, 'The integrative nature of traditional Tswana political institutions reduced the likelihood that alternative groups would aggressively contest the power of the new unitary state' (p. 135). This remained intact largely because colonialism did not distort existing institutions, and the majority of the population remained ethnically homogeneous. Upon independence, this translated into the establishment of formal rules that upheld private property rights and placed constraints on executive power. This did not occur by structural accident, nor was it a teleological guarantee. Leaders such as Seretse Khama and Quett Masire – the country's first two presidents – played a crucial role.

Third, at independence, it was in the interests of the political elite to enforce property rights, as they themselves were cattle owners. These 'Tswana elites', explain Robinson and Parsons (2006), 'because of their control of the cattle economy, had a vested interest in institutions which would help them make money' (p. 121). However, by the mid-1970s, the income from diamonds exceeded the income from ranching, 'so one needs to account for why this did not induce the political elite to change its strategy and expropriate the revenues from diamonds' (Acemoglu et al., 2001, p. 104). Not all authors on Botswana's political economy agree, however, that expropriation has not occurred. Good (2005), for instance, has written that this cattle-owning elite, 'which rules in intimate association with diamond mining' (p. 35), is in fact responsible for Botswana's lack of economic diversification, 'ethnic inequalities, [and] the historic subordination of the San' (p. 35). Nonetheless, the kind of large-scale post-independence looting of state coffers that is prevalent in other resource-wealthy countries appears to have largely been avoided in Botswana.

Fourth, a growing consensus in the 'resource curse' literature demonstrates that institutional quality prior to discovering mineral or oil wealth is a determining factor in whether a country's natural resource endowment will produce development benefit or not (Mehlum et al., 2006a,b; Van der Ploeg, 2011). This is where individual agency and leadership integrity appear to have been so important to Botswana, in addition to the factors mentioned above:

For example, it appears plausible that had Seretse Khama not transferred the property rights over sub-soil diamonds away from his own tribe, the Bangwato, to the government, there could have been much greater conflict among tribes over the control of the wealth from diamonds. Or had he not reduced the political powers of tribal chiefs shortly after independence, tribal cleavages may have been more important. [...] In Botswana, Seretse Khama and subsequent leaders consistently chose to take the democratic path (Acemoglu et al., 2001, 106).

¹ 'Worldwide Governance Indicators', <http://databank.worldbank.org/data/home.aspx> (accessed 13.06.15.).

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