Botswana Economy still an Enclave

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Introduction

By and large, the accolades bestowed on Botswana are well deserved. This is a sparsely populated country, which, at independence in 1966, inherited a large expanse of underdeveloped semi-arid land whose main economic resources appeared to be only cheap labour for export to the South African mines, and livestock for export primarily to the European Economic Community (EEC). Botswana's economic colonial legacy at independence was that of a labour reserve/primary export economy with all the attendant trappings of underdevelopment and dependency that such a legacy has entailed within the ambit of South Africa's sub-centre and periphery, which includes the Bantustans, Lesotho, Swaziland and Namibia. At independence, Botswana was one of the poorest countries in Africa, and its economic prospects looked bleak.

The accolades arise precisely because this would-be impoverished country has, as a consequence of the sweet stroke of natural luck in the discovery of diamonds, and of adroit and judicious economic and political management, elevated itself to the status of one of the fastest growing countries in the world, one with the highest per capita incomes in Africa (outside of Gabon and South Africa), and one of the most democratic and politically stable countries in Africa.

Between 1966 and 1980, Botswana's gross domestic product (GDP) had grown at an annual rate of about 14.5 per cent, while industrial production grew at about 18 per cent per year, manufacturing at about 23 per cent per year, agriculture at 8.3 per cent per year and services at about 14.5 per cent per year. Over a period of about 20 years since independence per capita GDP had quintupled. Botswana has consistently sustained its economic growth through the two oil shocks that have triggered international recessions and underpinned secular stagnation in many countries in sub-Saharan Africa. In the 1990s GDP and sectoral growth rates have been lower, but nevertheless quite high by world standards with GDP and per capita GDP growing at annual rates of about 9.8 per cent and 6 per cent respectively. Currently, Botswana's per capita GDP stands at about US dollars 2,530, being one of the highest in Africa, after that of Gabon at US dollars 3,780 and that of South Africa at US dollars 2,560. By contrast, the weighted average per capita GDP for sub-Saharan Africa in 1991 was US

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dollars 350, and the weighted average annual growth rates in GDP and per capita GDP between 1980 and 1991 were 2.1 per cent and 1.2 per cent respectively.

There is certainly no doubt that Botswana's economic performance, especially as measured by aggregate economic indicators, has been spectacular! Indeed, advocates of the market system and current structural adjustment measures have seized on Botswana's economic performance as a vindication of their policies. Botswana, right from the outset, eschewed statist approaches to development policy and management, especially of the 'socialist' sort, and, instead, unabashedly embarked on a market-based, outward-oriented development strategy with minimal distortions in trade, financial, monetary, incomes and price regimes. Nevertheless, while many outside observers seem to celebrate and commend Botswana's economic performance rather uncritically, many observers in the sub-region find Botswana's economic achievements rather unsettling, if not illusory. Indeed, the reasons for this scepticism have been adequately recognised by the Botswana government, especially since the Fourth National Development Plan (NDP4).

The problem simply is that Botswana's economy has, over the past three decades, grown phenomenally without marked improvements in equity and the diversification of the economy. According to the *Human Development Report* (1993) and the *World Development Report* (1993), 40 per cent of the urban and 55 per cent of the rural population are in absolute poverty, while the lowest 40 per cent of the households account for only 9 per cent of total income, the top 20 per cent account for about 66 per cent of total income and the top 40 per cent account for about 50 per cent of total income. Botswana's lopsided production structure is suggested by the fact that mining, in which diamonds are predominant, accounts for about 50 per cent of GDP and about 90 per cent of exports. Thus in the Fourth National Development Plan, the government, while stating its objectives as the promotion of rapid economic growth, social justice, economic independence and sustained development with minerals and livestock as leading sectors, noted that since the growth of these sectors was likely to slow down, and since minerals were a depleting resource, there was a need to promote diversification. In addition, this new policy thrust was reinforced by the fact that mineral production was capital intensive, and livestock, land extensive, and both with marginal impacts on employment creation.

Botswana's economic experience is not only of interest and concern because of the issues of equity and diversification in so far as they relate to Botswana, but is of more general theoretical interest, in that while, on the one hand, advocates of the market system see in it a vindication of their policies, critics on the other hand, see in it a number of lessons related to the limits of the *laissez-faire* market-based economic policies. In this essay, we attempt to elaborate on the latter view which boils down to a claim that Botswana has been attaining economic growth without economic development and equity. The foregoing claim may even be stated much more strongly by asserting that Botswana's inability to resolve the issues of inequity and lack of diversification is a consequence of the fact that the market itself reproduces and reinforces inequity and lopsided development, and as such, a *laissez-faire* approach to the economy may not be able to resolve these issues. In effect, the case of Botswana exemplifies the kind of experience Zambia had during the first decade of independence without the welfarist interventions or socialist rhetoric. Indeed, for Botswana, its current basis for accumulation is monocultural and of an enclave nature and its legitimation basis is illusory, camouflaged by the existence of migrant labour opportunities, diamond surpluses, Southern Africa Customs Union (SACU) revenues and high prices of both beef and diamond exports.

The persistence of gross inequities and a lack of diversification merely underscores the continuation of underdevelopment in Botswana in spite of its economic growth 'miracle'. Indeed, the contention that Botswana's underdevelopment and economic growth are directly interrelated in a mutually reinforcing manner can be demonstrated by resort to the very sort of theories and arguments about macroeconomic biases and distortions used by neo-colonial economists in berating sub-Saharan countries for their past development policies and past economic 'failures'. In this respect, it may be advanced here that Botswana's underdevelopment as manifested in the country's socio-economic inequity and lack of diversification is a negative consequence of the market's reinforcement of the following economic legacies: (i) the unequal access to productive assets in the rural sector; (ii) the dependence on the export of migrant labour to South Africa; (iii) the independence on the enclave primary resources that fetch unusually high prices on the international market; and (iv) the dependence on the SACU in which southern Africa is the dominant partner. It is contended that the foregoing legacies have resulted in economic distortions and biases that reinforce inequitable economic growth without development within the context of a free market.

The primary productive assets in the rural sector of Botswana are land, livestock and labour. It is on these assets that the main income entitlements depend in rural areas. The Sixth National Development Plan (NDP6) has observed that 'there is considerable evidence about the unequal distribution of the assets and opportunities upon which incomes depend' (NDP6 1985:19). Now at independence, Botswana inherited a land tenure system which was such, that 6 per cent was freehold, 14 per cent State land (formerly crown land), and 80 per cent communal land. Later changes resulted in the increase of freehold land to about 10 per cent and the privatisation of more than 14 per cent of communal land. However, even if communal land was theoretically open and accessible to all, as the ILO/SATEP report on Botswana noted 'the skewed distribution of cattle ownership and the scarcity and uneven incidence of land suitable for arable farming both combined to make the productive use of land highly inequitable' (ILO/SATEP 1987:7).

It should be noted to begin with, that while the annual rate of urbanization in Botswana at 10 per cent is quite high, the majority of the population, comprising 70 per cent still lives in rural areas. Now, while in the early 1990s traditional farms accounted for more than 90 per cent of the farms, 85 per cent of the cattle herd and about 60 per cent of the crop production, there is a high degree of skewness within the sector. First, as the NDP6 noted, between 45 per cent to 54 per cent of the rural households do not own any cattle, and 70 per cent of these households are female-headed and among the poorest and most socially and economically vulnerable groups in the drought prone arid rural environment of Botswana. Further, 76 per cent of the cattle farms have less than 40 herds per farm, while about 6 per cent have more than 100 herds per farm, accounting for 38 per cent of all cattle holdings and 15 per cent of all households accounted for 75 per cent of the national herd (ILO/SATEP 1987:74). With regard to arable farming, the largest proportion of the communal farmers, constituting about 28 per cent to 30 per cent plant less than 2 to 3 hectares, accounting for about 3 per cent of total crop production, while those planting more than 10 hectares, constituting about 6 per cent of total farms, account for more than 70 per cent of crops production. The relationship between cattle ownership and crop production is indicated, for instance, by the fact that in 1983, 11 per cent of the households with more than 60 cattle per household produced 51 per cent of total crop production and the bottom 75 per cent, with less than 30 cattle per household, produced 35 per cent of total crop output.

In Botswana, as in many pastoral societies, cattle are an economic asset for various reasons such as the following (ILO/SATEP 1987:75): they generate additional income through off-takes; they realise capital gains and are a form of saving and collateral; they serve as a liquid asset with precautionary and transactionary functions; and they have immense social value. Thus, as the ILO/SATEP report notes: One can live off cattle, or alternatively, can use the income from cattle to make land more productive through arable farming. Cattle are important as draught power, and income from them can be used to buy equipment and tools, to construct boreholes, to hire labour, to purchase fertilizer, or to develop human capital skills (ILO/SATEP 1987:75).

In general, the resource-poor households in Botswana are the majority, prompting the NDP6 to observe as follows: these farmers are at a disadvantage in terms of increasing their productivity due to inadequate access to necessary inputs such as draught power, implements and labour.

These households are often female-headed and have to rely on other members of the family to supplement their income. Very few rural farming units are exclusively involved in agriculture; three quarters of rural units have a wage employed member and two third of all rural units obtain almost 40 per cent of total income from employment. Much of this employment is however in agriculture.

In effect this inequitable access to rural assets has fuelled male migration to South Africa, rural wage labour, especially for women and children, at very low wages, and migration to urban areas. In the wake of the foregoing, traditional agriculture has stagnated or even deteriorated when population growth is taken into account, and this in the face of phenomenal overall growth rates in GDP. Thus, by 1979-1980 the index of agricultural output was 94 per cent of the 1975-1976 value and by 1983-1984, it had fallen to 57 per cent of the 1975-1976 value, and 60 per cent of the 1983-1984 value.

The consequence of the foregoing is that the majority of the Tswanas are excluded from benefiting from the major indigenous resource. The benefits of this resource, land, accrue to a minority in rural areas an outcome accentuated by the tendency for the returns on cattle to increase. Thus, between 1986 and 1990, the price per herd realised by the BLDC had increased by 66 per cent and that by the Botswana Meat Corporation by about 100 per cent, thereby increasing the returns of cattle holders. And meanwhile not only were there limited employment opportunities in the formal sector, but the average wages, in agriculture, for instance, were far less than the average incomes from migrant labour. Thus, while the small rural elite have been benefiting from agriculture, the majority of the population is being forced out of agriculture, hence the secular deterioration of this sector.

In effect, then what we have in Botswana with respect to the rural sector is a highly distorted and skewed initial distribution of resource endowments. Within this environment, market signals are such that the land on which the majority are located is under-utilised, given the poor capabilities of the households on them; within this environment, market signals are such that labour is expelled to South Africa, on to better-endowed commercial farms, and to urban areas in search of low-paying wage employment opportunities. It is thus not a surprise, then that the entitlements of rural households, particularly female-headed households, who are forced to remain on the land, have not improved and if not, deteriorated, and that the agricultural sector has stagnated. Indeed, amidst the perverse phenomenal growth of the urban formal sector, food-for-work programmes and appeals, and expenditures for draught relief for the beleaguered rural population have, continued unabated. The question of course is whether the market left on its own can reverse the adverse trend in rural areas. As will be shown, further below, stagnation of the rural economy which underpins the plight of the majority, is reinforced by another set of factors.

Dependence on Migrant Labour

By the late 1930s, Botswana had been transformed and absorbed into South Africa's periphery as a labour reserve economy in the same way that Lesotho, Swaziland, Mozambique and Malawi had similarly been absorbed. In rural Botswana, as in rural Lesotho and Swaziland, by World War II, labour migration had replaced agriculture as the primary basis for income and sustenance. The main basis for Botswana's transformation and incorporation as a labour reserve periphery as consisting of the following: (1) the overriding British policy of neglect and nondevelopment of local resources; (2) the related policy of pursuing a locally balanced budget primarily through the taxation of Africans; (3) the co-optation of tribal leadership; (4) cooperation and even collaboration (by the local leadership) with labour recruiting organisations in getting men to go to work; (5) the favouring of the white settler population... in the allocation of government expenditure... the marketing of cattle, ... (and) the alienation of a significant proportion of the cultivable land...

Thus, essentially, as a consequence of colonial relations of domination and subjugation, labour migration was entrenched in Botswana such that every rural household has at least one male working in the South African mines. By 1986 about 21,000 males, constituting about 6 per cent of the total labour force, and 12 per cent of the male labour force, and 12 per cent of formal employment were in the South African mines. This number has since been declining such that by 1990, there were about 17,517 migrant workers in South Africa. The consequences of the rural dependence on migrant labour have at least been twofold. First, they provide a much needed safety valve for the rural unemployed and underemployed, and deferred earnings and remittances have traditionally boosted the amount of loanable funds in Botswana, much of which has been used to finance service sector growth in urban areas or commercial rural areas for lack of other 'viable' alternatives, by market criteria. Thus, for instance, between 1972 and 1982, while migrant employment declined by 19 per cent, remitted and deferred, earning increased by more than 300 per cent.

From the point of view of the economy as a whole, and that of the individual household, migrant remittances and deferred earnings have tended to reinforce rural underdevelopment and dependency. With respect to the economy, they have reinforced the growth of the tertiary sector to which the savings and loanable funds have primarily been channelled, outside of consumption, which also merely reinforces dependence on imported goods from South Africa. Thus migrant funds have not contributed to economic diversification through industrialisation (of the outward or inward oriented varieties) or agrarian transformation to the benefit of the majority. At the household level, migrant earning, as shown earlier, being far superior to incomes from any alternative activities in the rural sector, have undermined the need to focus household efforts on sustainable agriculture. It might be retorted, however, that if the migrants' earnings have proved to be a viable source of rural household sustenance, what is the quibble all about? The reply is simply that migrant labour is not likely to be tolerated for too long in a post-apartheid South Africa beleaguered by its own unemployment problems. Indeed, the phasing out of migrant labour has already began, and in the eventuality of its being completely phased out in the near future, this safety valve to rural underemployment and unemployment will disappear, and Botswana will be faced with an enormous problem of productively absorbing repatriated labour and increasing additions to the labour force. Besides, the continuous absence of a significant proportion of able-bodied men from Botswana's rural sector has had untold social and economic consequences not adequately compensated for by the returns to migration.

Dependence on Primary Exports

In Botswana, the discovery of diamonds, and to a lesser degree of copper and nickel, which have transformed the Botswana economy from one that should have been an international beggar into one that is awash with domestic and external liquidity, has been both a blessing and a curse. It has been a blessing in the obvious way it has enriched the country and its government, and a curse in the adverse consequences it has inadvertently inflicted on the country by undermining equity and diversification. Botswana's dependence on primary production in form of minerals, and to a lesser extent, livestock production, replicates the classic form of colonially inherited division of labour in many African countries. In 1990, diamonds accounted for 80 per cent of exports, and minerals altogether for 88 per cent of exports. While in 1980-1981, mineral royalties accounted for 33 per cent of government revenues, by 1990, this had increased to 58 per cent of government revenues. Between 1980 and 1990, in a space of ten years, mineral revenues had increased by more than 1000 per cent, thanks to the increasing prices of diamonds during this period.

Essentially then, the phenomenal growth of the Botswana economy has been primary factor driven. This, however, has occurred in a manner that has had minimal backward and forward linkages within the economy. Indeed, mineral revenues have appeared as God-sent windfalls to the government, just as returns on meat exports have appeared to the better-endowed Tswanas. Thus not only has the mining sector developed as an enclave tied to South Africa and other countries abroad in souring its machines, equipment and highly skilled labour, but its development has also militated against the diversification of the economy in a number of ways.

First, is the fact that the economy may have been afflicted by the 'Dutch Disease' syndrome as its exchange rate has been appreciating as a consequence of its consistent surpluses on the current account. Botswana's monetary currency, the Pula was initially linked to the South African Rand but was later delinked from it as Botswana's trade position *vis-à-vis* the rest of the world became stronger. Now, over the years the Pula has been appreciating in relation to the Rand, the currency of its major source of imports, and has depreciated in relation to the currencies of the developed countries, the destination of Botswana's mineral and meat exports. Thus, the former has tended to cheapen imports, thereby expanding their consumption in Botswana and simultaneously discouraging import substitution; and the latter has reinforced export demand and production of minerals thereby reinforcing an enclave sector. Thus, between 1980 and 1990 the value of imports had increased by more than 400 per cent, and the value of exports by more than 700 per cent.

Second, the increase in both exports and imports has resulted in increased liquidity. The former (increase in exports) has been reflected in both increased government revenues and increased foreign exchange holding abroad from mineral exports and increased returns, and thus savings, for the domestic cattle-owning elite in Botswana. The latter (increase in imports), has been reflected in increased compensatory reimbursements from SACU which are directly related to imports from South Africa. Thus between 1981-1982 and 1989-1990 government revenues increased by 750 per cent, turning a budget deficit of — 9 per cent of total expenditures in 1981-1982, into an enviable surplus of about 42 per cent of expenditures by 1989-1990. In the same period net foreign assets increased by more than 2000 per cent and excess domestic commercial bank liquidity, which stood at 50 per cent in 1985 had risen to 550 per cent of required reserves by 1990. During this period, however, direct government expenditures on agriculture which were about 40 per cent of total expenditures (recurrent and development) in 1980-1981, had declined to less than 20 per cent of total expenditures in 1989-1990; and loans to agriculture which had been about 13 per cent of total loans in 1981, had declined to 4 per cent of total loans by December 1990, and this is the sector that has 70 per cent of the Tswana households.

Dependence on SACU

In addition to the forms of dependence discussed above, Botswana's membership in the Southern Africa Customs Union (SACU), which is dominated by and structured to the predominant benefit of South Africa in terms of dynamic import-substitution-led growth, has resulted in at least two forms of dependency. The first form relates to Botswana's dependence on the importation of South African goods and services which by the same token forestalls Botswana's own industrialisation. And the second form relates to Botswana's dependence on compensatory redistributions of customs union revenues from South Africa which are, by a complex formula, tied to the level of imports from South Africa and the degree of protection SACU affords South Africa *vis-à-vis* the rest of the World, particularly the north. The revenue redistribution is intended to compensate Botswana and other member countries (Lesotho, Swaziland and Namibia) for essentially static losses from membership in SACU.

Within the context of South Africa as a sub-centre, and the other member States of SACU as its periphery, SACU has greatly facilitated the relative diversification and coherent development of the South African economy while reinforcing the long term disarticulation of the countries in its periphery. For Botswana, customs unions revenues, although a small proportion of total government revenues, are nevertheless the second largest source of revenue after mineral tax receipts. Customs revenues together with migrant remittances and deferred earning were indeed the major source of government revenues prior to the ascendancy of minerals as the mainstay of the Botswana economy. The dependency on South African imports is much greater with more than 80 per cent of total imports originating from South Africa. The greatest proportion of imports comprises the very products that would facilitate easy import substitution. As indicated earlier, this dependency on SACU is reinforced by the appreciation of the Pula *vis-à-vis* the Rand.

Botswana's membership in SACU has other consequences that reinforce the lopsided nature of its economy. The proximity of South Africa, and the assumed 'cordiality' of economic relations underpinned by SACU, has meant that Botswana has had to rely on South Africa for the technological and scientific know-how to develop its mineral and livestock industries. Thus South Africa not only provides the communication routes, but also the industrial machinery, equipment, manpower and distribution and marketing back-up for the mineral industry thereby virtually precluding the emergence of technological clusters in form of lateral, backward and forward linkages as a consequence of mineral development. Indeed the dominance of South Africa's De Beers in the diamond industry is legendary and quite obvious in Botswana.

Conclusion

Botswana's stellar performance is indeed indisputable, but nevertheless, the various forms of dependency discussed above are of great concern. As indicated above, the returns to labour migration, livestock production, mineral production and membership in SACU are in the form of economic rents which appear as windfalls to the society and the government. On a purely market basis, the foregoing activities are the most lucrative, and in their wake, the rural sector, in which the majority of the households resides remains underdeveloped, and the economy remains undiversified. As indicated earlier, the government has been fully aware of the implications of the present legacy of economic development, and has expressed great concern as to the likely consequences of a drastic fall in the price of diamonds on the economy as a whole. Indeed, the downward trend in diamonds this past year has been worrying and only cushioned by the Central Selling Organisation's (CSO is the diamond selling world monopoly) buying of surplus diamonds.

It is clear, however, that the lopsided development in Botswana is caused by, and reinforced by the various forms of dependency discussed, and, in this respect, the lack of development of agriculture and industry in a manner that would lend coherence to the economy is a consequence of these very forms of dependency. Thus the mainstays of Botswana's economy, while highly technically efficient, have reinforced allocative and distributive inefficiency. The former (allocative inefficiency) is clearly suggested by the fact that about 60 per cent of the labour force in Botswana are part of the underemployed in traditional agriculture, the informal sector and of the openly unemployed. The latter (distributive inefficiency) is clearly suggested by the fact that the lowest 20 per cent of the population only account for 1.4 per cent of the total income and the highest 20 per cent for 66.4 per cent of total income, thus leaving 33.6 per cent of total income to be shared among 60 per cent of the population.

Trickle-down effects of the fast growing free market in Botswana have certainly failed to sip through to the bottom, which makes ludicrous the suggestion that Botswana should continue its present pattern of development but invest its huge financial surpluses abroad in the manner of Kuwait or Saudi Arabia, and merely rely on its interest rate for earnings consumption when the diamonds finally disappear. While such a financial strategy may be good advice to an individual who has a financial windfall, the foregoing discussion should make it clear that in the present pattern of market-determined resource allocation in Botswana, such earnings would again merely be another addition to the economic windfalls of the Botswana government and its elite, and would find their way into fuelling the burgeoning service sector, unless non-market policy interventions are deployed to ensure that the benefits reach the majority at the bottom. As matters currently stand, activities such as agriculture and industrial diversification that would create increased employment and income opportunities for the majority are considered 'uneconomic' by market criteria, and rather, the various activities in the sphere of circulation fuelled by high liquidity, are the most lucrative outside of the traditional mainstays, and such activities are now the monopoly of the enterprising elites in Botswana.

Allocative and distributive efficiency in Botswana can only be attained through a strategy based on conscious government intervention in the economy aimed at counteracting the various market-reinforced distortions and biases militating against equitable and diversified growth. Unfortunately, the strategy that Botswana has been pursuing, while receiving international accolades and acclaim, is the very same strategy militating against growth with equity and development in the face of abundance. It may be expected therefore, that if and when the price of diamonds drastically falls, the fundamental weaknesses of the Botswana economy will be exposed in that it lacks a viable accumulation regime that is autonomous and indigenous and in that it would be unable to sustain a programme of legitimation in the absence of current surpluses.

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