The Resource Curse: The Cases of Botswana and Zambia

Audria Crain

University of Denver

Follow this and additional works at: https://digitalcommons.du.edu/etd

Part of the Economics Commons, and the Political Science Commons

Recommended Citation
https://digitalcommons.du.edu/etd/144

This Thesis is brought to you for free and open access by the Graduate Studies at Digital Commons @ DU. It has been accepted for inclusion in Electronic Theses and Dissertations by an authorized administrator of Digital Commons @ DU. For more information, please contact jennifer.cox@du.edu, dig-commons@du.edu.
ABSTRACT

A puzzling correlation has been observed over the last thirty years between slow or negative economic growth and countries with large export dependence on natural resources. This correlation has been dubbed “the resource curse.” It has been argued that resource wealth has an inherently negative effect on the economic growth of developing countries. Zambia is such a country in which resource-dependence has been coupled with poor economic performance; Botswana, however, is an important exception to this phenomenon. The question is: Why or how has Botswana surmounted the effects of the resource curse while Zambia has not? A comparative case analysis using Mill’s method of agreement has been used in this study to assess this question. A variety of causal mechanisms have been proposed to explain this correlation. Among them are: (1) declining terms of trade, (2) commodity price volatility, (3) the enclaved nature of the mining industry, (4) Dutch disease, (5) the implementation of poor resource rents management policies, (6) the presence of weak state institutions, (7) the presence of rent-seeking and corruption, (8) the development of authoritarian regimes, and (9) the presence of social conflict. Of these nine hypotheses, those advancing commodity price volatility, the nature of rents-management policies, the strength or weakness of state institutions, the degree of rent-seeking and corruption, and the extent of social conflict as causal variables are found to be most important in accounting for the difference in outcomes between these two cases.
# Table of Contents

1: Introduction ...................................................................................................................1

2: Resource Curse Hypotheses and their Relevance for Zambia and Botswana ..........9
   2.1 Economic Hypotheses .....................................................................................9
   2.2 Political Hypotheses ....................................................................................17
   2.3 Conclusions ...................................................................................................29

3: The Case of Zambia ....................................................................................................31
   3.1 Economic Explanations ................................................................................32
   3.2 Politics Explanations .....................................................................................35
   3.3 Conclusions ...................................................................................................56

4: The Case of Botswana ................................................................................................58
   4.1 Economic Explanations ................................................................................59
   4.2 Political Explanations ...................................................................................64
   4.3 Conclusions ...................................................................................................80

5: General Conclusions .................................................................................................83

Bibliography ...................................................................................................................96
Mining has always played an important economic role in the developing economies of Africa, as it has in many other developing countries. In the 2007-2008 United Nations Human Development Report, the countries of Sub-Saharan Africa received, on average, 66% of their Gross Domestic Product (GDP) from the trade or export of primary products, such as mineral ores. This high dependence on the export of primary products, particularly resources such as oil and minerals, is concerning. A puzzling correlation has been observed between slow or negative economic growth and countries with large export dependency on natural resources. This correlation is known as “the resource curse.”

It has been argued that resource wealth has an inherently negative effect on the economic growth of developing countries, and in some instances it has even been argued that resource-rich countries would be better off ignoring their subterranean capital. However, there are a few exceptions to this correlation and these exceptions lead to the question: do these exceptions reveal possible paths out of the resource curse? If so, then the more revealing question becomes: Why or how do some resource-rich, resource-dependant countries overcome the effects of the resource curse, while most do not? Pertinent to this question, and to Sub-Saharan Africa in particular, are the cases of Zambia and Botswana. Botswana appears to be one of the few exceptions to the resource curse correlation, while Zambia appears to be one of the many
victims. Hence the final research question: Why or how has Botswana surmounted the effects of the resource curse while Zambia has not?

A comparative study between these two countries is especially useful in analyzing this question. This type of study will expand on research already conducted and hypotheses already developed on the resource curse phenomenon. As Lay and Mahmoud (2004) note, the types of studies that have typically been conducted on the resource curse have been large-N statistical studies conducting regression analysis to establish correlations between selected independent variables and economic growth, or single-case studies to provide in-depth explanations of the causal mechanism within one country. Lay and Mahmoud (2004, 32) identify the limits to their own regression analysis and state that “future research should focus on detailed comparative country studies.” The multivariate difficulties in statistical studies, such as multicollinearity, with which Lay and Mahmoud are concerned, can be overcome by a comparative case study such as that conducted here between Zambia and Botswana.

The cases of Zambia and Botswana have been selected to approximate Mill’s method of agreement. Within case process-tracing is also used. These methods are employed to test the current hypotheses found in the resource curse literature and identify the critical variables that account for the differences between the two cases. These cases have been chosen as proposed “most similar” cases. Ideally, most similar cases require that “all aspects are held constant except for the one whose explanatory power we would like to assess empirically” (Heritier 2008, 67). These two countries are similar in many respects. They are similar with regard to region and geography. Both are located in Southern Africa, and share a vague border at the Zambezi River to Zambia’s southwest and to Botswana’s northeast. Both countries are landlocked and relatively
close in geographic size. Zambia is 752,614 square kilometers and Botswana is 600,370 square kilometers.

As a result of their geographical proximity, Zambia and Botswana have experienced similar regional geopolitical pressures, such as their proximity to the formerly, militaristic white-settler dominated states of Southern Rhodesia and South Africa. Another similarity derives from their colonial histories. Both countries were administered by the British. Zambia, or Northern Rhodesia, was a territory of the South Africa Company until the British government took control of the colony in 1924. Botswana was a protectorate of the British government. Both gained independence within two years of one another, Zambia in 1964 and Botswana in 1966. Also, since independence both countries have instituted constitutional democracies and hybrid forms of the British parliamentary and American presidential systems. Elections have been held in both countries since independence. One difference emerges in regard to population; Zambia’s population is significantly larger than the population of Botswana—by about ten times. The population of Zambia was estimated at 12.6 million in 2008 while Botswana’s population was estimated at 1.9 million in the same year.

The most important similarity, however, is that both countries are mineral dependent developing economies in which one product, copper in Zambia and diamonds in Botswana, accounted for 70% or more of total exports on average from 1990 to 1999. The important difference on the dependent variable is that while Botswana has experienced a 2.53% average annual growth in GDP over 1990 to 1999, Zambia has experienced a negative 2.3% average annual decline in GDP (Liebenthal, Mitchelstich, and Tarazona 2005). The similarity in dependence and contrast in GDP growth can be seen in table 1.1. As a result of these geographical, historical, political and mineral dependency similarities, these two cases are
presented as most similar cases and offer a potentially fruitful comparison for those concerned with the questions posed by the resource-curse literature.

**Table 1.1: Percentage of GDP Growth by Year and the Percentage of Mineral Exports of Total Exports**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zambia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP (%yr)</td>
<td>3.9</td>
<td>-0.6</td>
<td>0.8</td>
<td>2.1</td>
<td>-0.8</td>
<td>1.5</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Mining share of total exports (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Botswana</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP (%yr)</td>
<td>19.9</td>
<td>11.5</td>
<td>11.0</td>
<td>11.9</td>
<td>4.5</td>
<td>7.6</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Mining share of total exports (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Source: Auty 2008 Annex Table 3

The differences found between these two countries provide tests for the hypotheses offered by previous research on the resource-curse. There are many prominent hypotheses arguing about what best explains the correlation between resource dependence and poor economic growth. These can be divided into two categories. The first category places emphasis on economic factors as predominant causes of poor growth, while the second places emphasis on political factors. Within the economic category there are at least four hypotheses: (1) declining terms of trade, (2) commodity price volatility, (3) low external linkages of the mineral industry, and (4) the Dutch disease. The political category includes the following five hypotheses: (1) mismanagement of resource rents, (2) weak political institutions, (3) rent-seeking and corruption, (4) regime type, and (5) social conflict. These nine hypotheses, along with brief discussions of their relevance for each country, are presented in section 2. There then follows an in-depth
analysis of Zambia’s resource-dependent experience in section 3, which is replicated for Botswana in section 4. The hypotheses will be examined and compared against each case.

As will be shown in section 3, Zambia has experienced to varying degrees the mechanisms identified by all of the economic hypotheses of the resource curse with the exception of the first hypothesis regarding declining terms of trade and the last regarding the Dutch disease. The volatility of the international copper market was the most influential of the mechanisms identified by economic resource curse hypotheses. The Zambian government implemented policies assuming that copper prices and the government revenue derived from those prices would remain stable. As a result, when copper prices fell suddenly the government was left unprepared, and revenue dropped while debt increased. As for the third hypothesis regarding the weak linkages between the mining industry and the surrounding economy, Zambia has seen the development of an enclave economy with few spin-offs from the copper industry to other sectors. Surprisingly, however, evidence that Zambia has suffered from the Dutch disease is inconclusive.

The economic resource curse hypotheses explain only part of Zambia’s failure to escape the resource curse; the political hypotheses provide the greater part of the explanation. The first political hypothesis references the policies created to manage and use resource rents as the causal link between resource dependency and poor economic growth. In Zambia the government’s policies of import substitution, nationalization, “Zambianization,” and minerals taxation all impeded the government’s effective use of mineral rents. Similarly, the privatization policy implemented after the commencement of economic reforms in the 1990s was also a case of mismanagement of the mining industry, undermining its potential to be a revenue generator for the state. While these policies of the Zambian government were detrimental to the country’s
economic growth, its weak institutions, such as the bureaucracy, are also part of the explanation. Rent-seeking and corruption, the third political hypothesis, are related to Zambia’s poor institutional quality. Zambia has suffered from rent-seeking groups such as regional-tribal groups, and unions. Corruption has also been commonplace. The formation of an authoritarian regime predicted by the political hypotheses occurred in Zambia to a degree; the country’s leaders did institute a one-party state and used authoritarian-like tactics on occasion to repress opposition. But authoritarianism in Zambia followed a different logic than that proposed by hypothesis eight and it was not the cause of Zambia’s economic decline. Lastly, Zambia has experienced mild instances of social conflict such as riots, but they did not significantly affect its economy. More significantly, Zambia has had no civil wars or militaristic takeovers. Hence, Zambia has experienced to varying degrees most of the political consequences of the resource curse hypothesized in the resource curse literature.

Botswana, as will be shown in section 4, has not suffered from declining terms of trade as predicted by the first economic hypothesis, or from price instability as predicted by the second economic hypothesis. Fortunately for Botswana, the international diamond market is different from most other commodities in that diamond prices remain relatively stable. But regardless of its stable diamond rents, the country has experienced to a small extent the difficulty of overcoming the enclaved nature of its diamond industry, as is posited by the third economic hypothesis. The low employment generated by the mineral sector in Botswana is one indication of that problem. Botswana has also experienced the negative effects of the Dutch disease - the final economic hypothesis - in the atrophy of its agricultural sector. But despite the presence of an enclaved mineral sector and Dutch disease in the agricultural sector, Botswana has not experienced slow or negative economic growth as suggested by these hypotheses.
Regardless of its enclaved minerals sector and some experience of the Dutch disease, Botswana has had greater success than Zambia in managing its resource rents through good policies, strong institutions, almost non-existent rent-seeking, low levels of corruption, and an almost complete absence of social conflict. Botswana’s political institutions are technically democratic, but the country has evolved an increasingly authoritarian power structure with the growing strength of the presidential office. Regarding its rent management policies, Botswana established foreign currency reserve funds, managed its currency appreciation, employed expatriate experts, and established various parastatals to absorb resource rents and invest them in other sectors of its economy. Botswana also developed strong bureaucratic organizations to underpin these policies. While there have been a few recent cases of government corruption, Botswana has not suffered from endemic corruption and patronage; similarly the country has not been pressured by or succumbed to rent-seeking, contrary to what the third political hypothesis would predict. The presidency has become increasingly powerful due to the uncontested power of the main party, the Botswana Democratic Party, which might appear to fulfill the expectations of the fourth political hypothesis regarding authoritarianism. But the resistance to rent-seeking by the BDP, coupled with the strength of state institutions, has actually helped the economy as opposed to hurting it. Social conflict in Botswana is simply non-existent, with only one notable riot having occurred in the history of the nation.

The comparison of Zambia and Botswana reveal that both countries experienced to differing degrees the difficulties created by the enclaved nature of their vibrant mineral sectors, and the increasingly authoritarian nature of their political institutions. The variables that differed between these cases were price stability, the Dutch disease, economic policy, institutional strength, rent-seeking, and social conflict, as well as the dynamics created by their interaction.
Zambia fell victim to the resource curse because the price of its primary mineral export, copper, was much more volatile than that of Botswana’s diamonds, and its poor rent management policies, institutional weakness, instances of rent-seeking and corruption, and the nation’s conflict-generating social foundations left it unable to overcome the economic consequences of resource-dependence. Botswana, on the other hand, despite detrimental Dutch disease effects in its agricultural sector, could stave off the problems associated with the resource curse because of the stability of the international diamond market, its effective economic policies, strong institutions, limited rent-seeking and corruption, and strong social foundations. These differences demarcate two distinct types of resource-dependent states. Those like Zambia, which have a fragmented social system with a variety of social and interest groups which are politically active and engaged in rent-seeking, also have volatile policy and institutional environments. In the Zambian case, political instability is coupled with copper price instability, which interacts negatively with the country’s difficult socio-political circumstances. Mauritania is a similar example. A second type of resource-dependent states, like Botswana, have relatively homogenous social bases with very few social or interest groups which are politically active or rent-seeking, and therefore also have stable policy and institutional environments. The United Arab Emirates and Kuwait are also in this category. The case of Botswana is also assisted by its resource type which has very stable price streams.
2: Resource Curse Hypotheses and their Relevance for Zambia and Botswana

Prior to in-depth analyses of Zambia and Botswana and the resource curse in sections 3 and 4, in this section each of the nine major hypotheses found in the resource curse literature, is specified. Also in this section a brief discussion will assess the validity of the explanation offered by each hypothesis for the Zambian and Botswanan cases. The purpose is to set out the different factors that may account for Zambia’s relative economic failure compared to Botswana’s relative economic success. The interaction of these factors will be examined in the more detailed explorations of each of the two country’s development trajectories presented in sections 3 and 4.

2.1 Economic Hypotheses

Hypothesis 1: Declining Terms of Trade

*Primary product exports experience falling prices relative to the prices of manufactured goods causing the slow economic growth of primary product exporters.*

Economic explanations for the resource curse are prominent in the literature. Such explanations began with the arguments of the development economist Raul Prebisch in the 1950s. Prebisch argued against the classical economic view that a country can achieve economic growth through the development of any export industry. He argued that there is a downward trend in the terms of trade for primary commodities in relation to manufactured goods. This argument is the basis
behind dependency theory, and resulted in the adoption of import substitution policies by developing countries after World War II in order to protect themselves from the feared effects of primary product-led development. The problem with this explanation of the resource curse phenomenon is that the overall price trends of copper and diamonds (and primary resources in general) are not negative; however, prices, especially of copper, tend to fluctuate.

Hypothesis 2: Commodity Price Volatility

Primary commodity prices are volatile, producing unstable government revenue.

The second economic explanation for the resource curse hinges on the effects of price volatility that is quite common in mineral markets. Price volatility is thought to affect the ability of governments to use their mineral rents successfully. As Daniel (1992) argues, because mineral prices often oscillate, it is difficult for governments to predict prices and therefore plan for changes in government revenues gained from mineral extraction. He states that, “Governments in mineral-exporting countries find themselves in the position of seeking to maximize windfall receipts from mineral exports and then confronting the economic consequences of the alternate presence and absence of these same windfalls.” The effects of primary price volatility are evident in both Botswana and Zambia. Both countries are highly dependent on their respective mineral exports for government revenue; consequently changes in prices have affected total government revenue and debt.

The effects of price volatility have been much more pronounced in Zambia. “Zambia sells its copper at prices based on the London Metal Exchange (LME) prices…The LME price of copper is subject to extreme, short-run fluctuations” (Obidegwu and Nziramasanga 1981, 11).
The copper market has experienced vast fluctuations in price since the 1970s. From the mid-1970s to the mid-1980s the average price was less than half the average attained in the preceding ten years (Radetzki 1985). Copper prices then rose in the mid-1980s only to fall again until the mid-1990s. This price instability has been felt acutely by the government of Zambia through decreased revenue. It has been shown that changes in the price of copper have accounted for “over 75 percent of the deviation of revenues from trend growth path” (Obidegwu and Nziramasanga 1981, 183). As a result of copper price fluctuation, it became increasingly difficult for the Zambian government to fund its entrenched spending habits in times of low copper prices, resulting in an increasingly negative balance of payments. Revenue in 1970 was 251 million kwacha, which fell to 56 million kwacha in 1972, and by 1977 government debt had risen to 950 million kwacha (O’Faircheallaigh 1984). The continuous decline in the copper price required Zambia to begin a back and forth relationship with the International Financial Institutions over its inability to meet its debt requirements after 1973.

In direct contrast to the instability of copper prices on the world market, diamond prices have been relatively stable, dropping briefly only in the early 1980s and most recently since the onset of the global recession in 2008. The reason for this stability lies in large part with the ability of De Beers to control diamond output and ultimately diamond prices. As Auty (2008, 5) puts it, “Botswana was a beneficiary of De Beers’ monopolistic management of price stability in the diamond market, a unique advantage among mineral exporting countries.” The price stability of diamonds under the De Beers cartel has allowed the government of Botswana to maintain a healthy balance of payments. The government’s revenue has increased every year since independence. In 1972 government revenue was pula 19.3 million, of which 5% was due to mineral revenue, increasing to P 802.9 million in 1985, of which 47% was due to mineral
revenue and in 1995 revenue had reached P 4,492.5 million, of which 51% was due to mineral revenues (Gaolathe 1997). This advantage improved the fiscal policy capacity of the government (Auty 2008) and also allowed it to formulate more certain economic plans for the future.

**Hypothesis 3: Weak External Linkages of the Mining Industry**

*The mining industry does not stimulate other sectors of the economy, preventing spin-off growth in other sectors.*

The third economic explanation looks at the nature of the extractive industry itself. This explanation argues that the mining industry itself is not conducive to the creation of broader economic growth. Power argues that “mining investments cannot by themselves stimulate sustained economic development” (2002, 33). Davis and Tilton summarize the reasons why mining is believed to be unable to generate sustained economic development by pointing to three characteristics of the mining industry: the highly specialized nature of inputs required by the mining industry, the high level of capital required for investment in the industry, and the relatively low level of jobs created directly by mining. As a result of these characteristics “the host country gets little from mining besides the monetary benefits flowing from the corporate taxation and royalties” (Davis and Tilton 2005, 236). This characteristic of mineral wealth is accurately captured by the term “enclave,” which refers to the low level of forward and/or backward linkages required by a minerals industry. “Since it is not the result of a production process, the generation of natural resource wealth can occur quite independently of other economic processes that take place in a country” (Humphreys, Sachs and Stiglitz 2007, 4). In this way, the independent nature of the minerals sector does not promote broader economic growth in
the same way as the development of a strong manufacturing sector is presumed to do. In both Zambia and Botswana, attempts to use the mineral sector as a springboard for the growth of non-mining sectors have been difficult to achieve, as demonstrated by their high levels of mineral-dependency.

The enclave nature of the Zambian mining industry has led to the emergence of a dual (mining industry-subsistence agriculture) economy in Zambia. The mining industry in Zambia was established some 40 years before the country gained its independence in 1964, while mineral prospecting was conducted well before, in the late 1800s, under the direction of Cecil Rhodes and the British South Africa Company. This led to the creation of a highly-industrialized mineral sector that was surrounded by rural subsistence agriculture. The narrow industrial base supported by the mining industry included manufacturers tailored to supplying the mineral sector. This supports the observation by Burdette that “although the enclave itself demonstrated industrial integration, the economy as a whole did not fit together in a way to encourage spillover effects or economic self-reliance” (1988, 82). The Zambian economy developed industries that supplied inputs for the mining companies such as “chemicals, basic metal products, machinery, explosives, copper wire and cable, and sulphuric acid” (O’Faircheallaigh 1984, 135). Also as a result of the highly-developed mining sector, Zambia developed some means of transportation and energy provisions for that sector. However, what was obvious was the continued dependence of most Zambians on subsistence agriculture, and on imports from Southern Rhodesia and South Africa, such as clothing, shoes, agricultural equipment, some food items and matches.

Although Botswana has experienced a similar phenomenon, it has had much more influence than Zambia over the development of its minerals sector. Surprisingly, mineral prospecting in the territory began only eleven years before independence in 1955 (Debswana
De Beers Consolidated Mines, a company associated with Anglo American Corporation of South Africa, was granted a concession from the British government to prospect for diamonds. It was in April 1967, one year after independence, that the Orapa diamond pipe was discovered about 240km west of Francistown in western Botswana (Debswana 2009). Two years later, in 1969, Debswana was incorporated. Despite its influence in the development of its mining industry, the government of Botswana has had difficulty extending the industrialization process to a strong domestic manufacturing sector. Like Zambia, Botswana remains dependent on imports from South Africa to supply its domestic markets. Even more indicative of the enclave nature of the Botswana diamond industry is the low-level of employment it creates. The relatively low level of employment generated by its major export sector has proved difficult for the government to overcome.

**Hypothesis 4: Dutch Disease**

*Booming mineral sectors cause an appreciation in the real exchange rate resulting in a decline in the manufacturing sector.*

The fourth hypothesis in the economic category is the Dutch disease. Hausmann and Rigobon (2002) summarize the Dutch disease as an effect on the domestic economy in which resource booms generate higher revenues, currency appreciation and a higher demand for tradeable and non-tradeable goods. Non-tradeable goods, by definition, must be produced domestically, while tradeable goods can simply be imported; thus, domestic resources are allocated to meet the demand for non-tradeable goods at the expense of the domestic manufacturing of tradeable goods. The result is a weakening of the manufacturing sector needed for development. This effect was
first noticed in the Netherlands, hence the name of the ‘disease’, after the discovery of natural
gas caused a recession there (Leite and Weidmann 1999). Sachs and Warner have conducted
much of the research on this hypothesis. They state that “The core of the Dutch disease story is
that resource abundance in general or resource booms in particular shift resources away from
sectors of the economy that have positive externalities for growth” (Sachs and Warner 1999, 48).
Similarly, Pegg (2009, 15) describes the effects of the Dutch disease as “a sectoral reallocation
of economic resources. Capital and labor are drawn away from agriculture and manufacturing
and they flow into the extractive sector.” However, there is much debate over the effects of the
Dutch disease in developing countries such as Botswana and Zambia. Ross notes that “More
recent research suggests, however, that it is less common in developing states than originally
thought, and that governments can usually offset its impact, should they feel it necessary” (1999,
305).

The question of whether Zambia has been affected by the Dutch disease does not have a
clear answer. It is clear that the mining industry has remained the dominant source of exports and
government revenue throughout the country’s history since independence, compared to the
contributions of other sectors such as manufacturing. If the Dutch disease had afflicted Zambia,
then its effects would have been apparent in the period immediately after independence since
copper prices remained high until the early 1970s. However, the development of the
manufacturing sectors has not followed the strictly negative path predicted by Dutch disease
theory. On the contrary, the manufacturing sector actually grew during the immediate post-
independence period, and has experienced periods of growth and stagnation since.

The Botswanan case is more complicated. It is clear that since the development of the
mining industry began in the mid-1960s, a sectoral shift has taken place from the agricultural
sector to mining. As Leith (1997, 24) notes, “Agriculture and mining effectively swapped places. Agriculture shrank from 32% of GDP in 1974/75 to just over 4% in 1994/95; while mining expanded from 8% to a peak of 53% in 1988/89.” Manufacturing has experienced a similar fate with its percentage of GDP oscillating between 3% and 5%. Lending patterns also seem to indicate the possibility of minor Dutch disease effects in Botswana. In 1980, “Mining companies obtained easily the largest share of credit, namely 38 per cent…followed by agriculture, mostly cattle ranching, with 21 per cent. In contrast, advances to manufacturing remained miniscule, at 5 per cent of the total” (Good 2008, 74). Botswana’s difficulties in diversification can also been explained by other noted constraints on industrialization. Some commonly cited blocks facing the industrial sector include “the smallness of the domestic market, poor quality of products, lack of personnel with relevant managerial and technical skills, high wages in relation to productivity, lack of access to long-term finance…and the high cost of utilities” (Mpabanga 1997, 372). Other difficulties to be overcome by manufacturers hoping to export are Botswana’s land-locked position, and its dependence on South Africa for needed imports of inputs, transportation for exports or markets for exports. In this sense, South Africa has proven to be an impediment to Botswana’s industrialization attempts.
2.2 Political Hypotheses

*Hypothesis 5: Mismanagement of Resource Rents*

*Certain policies utilizing resource rents cause low economic growth.*

This hypothesis is better thought of as a category in itself, which is constituted by several other more specific hypotheses. It is broadly concerned with the policies governments implement to manage and use resource rents. Auty is a major contributor to the literature on government policy and the appropriation of mineral rents. Auty and Mikesell (1998) argue that the rents generated by mineral extraction make the most important contribution to a mineral-dependent country’s economy. As Auty (2006, 136) argues, the nature of mineral dependence is that mineral rents become the dominate stream of revenue for a mineral-exporter, and results in the domestic economy becoming “acutely sensitive to the manner in which the government deploys the tax revenue.” Similarly, Daniel (1992, 89) argues that “the fiscal linkage (the contribution to government revenue and thus to public expenditure programs) from a mineral-export sector is likely to be the most important positive linkage.”

Some of the specific hypotheses that make up this broader hypothesis are addressed by Bomsel. Bomsel (1992) identifies three common patterns in the way that mineral-dependent governments utilize their mineral rents. These patterns are:

- the use of mining rents to avoid or postpone needed, but unpopular, structural adjustments in agriculture or other important economic sectors;
- the use of mining rents for economically unproductive welfare purposes; and
• the use of rents in ways that increase the dependence and vulnerability of the domestic economy to external forces.

Similarly, the extent of a country’s state-owned enterprises may be important determinants of the ability of a state to overcome the resource curse. Ross (1999, 320) argues this point in regard to nationalized mining companies: state-owned mining companies “may have also ‘softened’ the budget constraints of resource-exporting governments, producing fiscal laxity and a tendency to overborrow.” Papyrakis and Gerlagh (2004) discuss the possible connection between resource dependency and lack of openness to trade and import substitution policies. Stevens (2003) notes two other manifestations of mismanagement. He notes first, like Papyrakis and Gerlagh, that these governments implemented policies of import substitution, which became unsustainable; and second that government investments of resource rents generally fail to stimulate other sectors of the economy because they tend to invest in “non-tradables, especially the military and in projects that offered very low rates of return.” Another explanation of misuse of mineral revenues is offered by Gylfason (2002, 2), who states that “natural resource intensity may under certain conditions blunt incentives to save and invest and thereby reduce economic growth” (emphasis added). In all of these respects there is a significant difference between the policies executed by the Zambian and Botswanan governments.

Many of the above observations regarding poor mineral revenue utilization and management pertain to the Zambian case. In Zambia, the government began import-substitution policies, agricultural subsidies, the nationalization of industries such as the mining industry, and the expulsion of non-Zambians from the economy just after independence. These policies resulted in the misappropriation of Zambia’s copper rents. Regarding import-substitution, President Kenneth Kaunda following the development strategy recommended by a United
Nations Economic Commission for Africa (UNECA) and the United Nations Food and Agriculture Organization (UNFAO) report and “developed a basic strategy of development based on the rapid establishment of import-substitutive manufacturing industries and the transformation of African agriculture by the application of modern techniques” (Elliot 1975, 10). These policies led to an increase of state-involvement in manufacturing under the state-owned industrial conglomerate, the Industrial Development Corporation (INDECO), created in 1968. In addition to INDECO, tariffs and import quotas were established to control the importation of manufactured goods. With regard to agriculture, the state established the National Agricultural Marketing Board in 1969, which subsidized seed and fertilizers for farmers and created a monopoly in the purchase and marketing of Zambian produce.

In the first decade of the republic, the manufacturing sector experienced a relatively rapid level of growth; however, the agricultural sector grew only slowly. There were three problems with the implementation of these policies. The first was the effect on the development of the manufacturing sector, which “was shifting its vulnerability from the stage of finished imports to dependency on imported inputs and technology” (Burdette 1988, 92). Second, the agricultural subsidies had no effect on increasing agricultural production, but merely served to provide cheap maize to the urban populations, which would prove problematic for later attempts at reform. Finally, the main problems emerged when the price of copper began to fall in the mid-1970s. Foreign exchange provided by the copper industry supported import substitution, a policy that ultimately became unviable as the price of copper fluctuated relative to government expenditure.

By contrast with Zambia, it is precisely in the area of rents management that Botswana is heralded as a successful resource-dependent economy. The government greatly suppressed the urge to spend; it created funds for saving and stockpiling resource rents and managed to amass
large foreign exchange reserves. In 1996 the government held enough foreign exchange to cover 38 months of imports (Jefferis 1997). The BDP decided to retain expatriate bureaucrats and technocrats in order to use their expertise to implement Botswana’s development policy and to negotiate with foreign agents such as the South African government, the European Economic Community, and multi-national mining corporations such as De Beers. The government used bureaucratic expertise to establish its successful state-led development strategy, which focused on creating incentives for the private sector, with a stable exchange rate, relatively low taxes, and liberal foreign exchange flows. Following independence, investments were made in physical infrastructure as well as human capital with improvements to the educational and health systems. Finally, the government created organizations designed to develop and diversify the economy into manufacturing, although the attempt to do so through government parastatals has not met with as much success as the other policies mentioned. Overall, as illustrated in greater depth in section 4, Botswana’s success can be explained in part by its ability to avoid the mismanagement of resource rents that the resource curse theory presents as a major problem for resource-dependent nations.

*Hypothesis 6: Weak institutions*

*Resource rents cause the development of parasitic state institutions which result in low economic growth.*

This hypothesis regarding the effects of weak institutions is a broad and complicated one, including sub-hypotheses regarding rent-seeking, corruption and the tendency towards authoritarianism. Political economy is at the core of these explanations and the central question
is: what are the relations between natural resource wealth and political institutions? Terry Karl has made significant contributions in this area, particularly with regard to her analysis of petro-states. She argues that there is a deeper force at work in resource-dependent states than just the mismanagement of rents. This deeper force is the tendency for the creation of rentier-states and their associated parasitic institutions. These institutions are described by Karl (1999, 34) as “overly-centralized political power, strong networks of complicity between public and private sector actors, highly uneven mineral-based development subsidized by oil rents and the replacement of domestic tax revenues and other sources of earned income by petrodollars.”

Rentier-states are alternatively defined by Isham, et al. (2002, 7) as states whose budgets are “based on revenues from the export of fuels and minerals” that “allow governments to mollify dissent…avoid accountability pressures…and repress opposition movements, independent business groups, and civil society organizations.”

Many have used indicators such as the extent of government employment as a means to buy-off interest groups, property rights and contract enforcement, strength of the bureaucracy, strength of the judiciary, and development of the tax regime to assess the institutions of rentier-states. Rodrik (2000, 4) discusses the connection between institutions and the judiciary, stating that “We must, in other words, have a system of laws and courts to make even ‘perfect’ markets function,” in order to protect property rights and to enforce contracts. Robinson, Torvik and Verdier (2006) discuss employment in the public sector as a form of patronage. With regard to the importance of property rights protection and their connection with good institutions and economic growth, Boschini (2005, 4) states, “Mining…requires large investments and therefore good property rights protection is essential for such investments to be undertaken.” Isham et al. (2002, 13) discuss the connection between a well-developed tax regime and good institutions:
“The lack of a necessity to actively extract taxation led to…no ability to mobilize taxes, and thus neither capacity nor legitimacy.”

Many of the above institutional characteristics can be found in Zambia. At independence in 1964, Kenneth Kaunda of the United National Independence Party (UNIP) was elected the country’s first president. The constitution established at independence created a semi-presidential system in which a strong executive in the form of the president coexisted with a Westminster-style parliament. Problems with this distribution of power emerged when discontent began to surface in the five years after independence. President Kaunda gradually began to accrue power to the presidency in order to maintain the stability of the government. As a result of continuous threats to the power of the UNIP and the broader security of the government, President Kaunda created a one-party state in 1972. This change marked the beginning of the Second Republic, and the increasingly centralized nature of Zambian state. The centralization of power in the executive fed the development of other weak institutions in Zambia, such as the endemic weakness of its bureaucracy due to corruption and its use as a means of buying political support. In this way, the political institutions of the Zambian state resemble those of neo-patrimonial states.

In addition to Botswana’s well-managed resource rents, its relatively strong institutional quality is often cited as a unique feature that sets Botswana apart from many other resource-dependent developing countries. As Iimi argues, the reason for Botswana’s escape from the resource curse is mostly because of “good institutions and governance.” His indicators are: “voice and accountability, government effectiveness, the quality of regulation and anticorruption policies” (2006, 15). Botswana has maintained a functioning electoral democracy since independence. Like Zambia, the system is based on a combination of a Westminster parliamentary system and a presidential system, in which the executive branch is afforded an
excess of power to which successive presidents have managed to add. The strength of the executive has in large part been due to the continuance in power of the Botswana Democratic Party (BDP) since independence. Despite the preponderance of executive power in Botswana, the bureaucracy has developed the ability to formulate and implement effective economic policy. These policies in many cases, especially minerals policy, reflect a public-private partnership between ministers and multinational mining companies.

_Hypothesis 7: Rent-Seeking and Corruption_

7.1 Resource rents cause rent-seeking which results in low economic growth.

Rent-seeking is a prominent explanation for poor economic performance found in the resource curse literature. Rent-seeking is defined by Murphy, Shleifer and Vishny (1993, 409) as “any redistributive activity that takes up resources.” More specifically, rent-seeking is the redirection of resources into expenditures that create “no social value and, arguably more importantly, distort markets and hence the way the economy operates” (Stevens 2003, 14). Rent-seeking is often associated with the power of political interest groups, as opposed to individual cases of private or bureaucratic corruption. “In an economy with multiple powerful groups that each has open access to production, higher productivity may in fact push the rate of return on investment and thus, growth, down,” for when “productivity increases, each group attempts to acquire a greater share of production by demanding more transfers” (Torvik 2002, 456). Another explanation concerning the effects of rent-seeking argues that it creates an environment that removes entrepreneurial incentives and innovative behavior. As Hausmann and Rigobon (2002,
6) state, “There is so much wealth floating around the government that entrepreneurial persons find it much more profitable to engage in unproductive rent-seeking activities to appropriate that wealth rather than in creating more wealth.”

7.2 Resource rents cause corruption which results in low economic growth.

With regard to corruption, it has been argued that governments often mismanage mineral rents due to corruption. As Ross (2001) argues, political elites use the opportunity to embezzle rents in order to accumulate personal wealth, or as he calls it—“rent seizing.” If politicians are not embezzling rents themselves, they could be accepting bribes to allow access to the system by outside actors. As Papyrakis and Gerlagh (2004, 188) state, natural resource “rents induce economic agents to bribe the administration in order to gain access.”

Zambia has fallen prey to both rent-seeking and corruption. Prominent interest groups, such as the urban mine workers, emerging entrepreneurs, and the civil servant governing class have all been able to exert influence over the governing structures of the state to secure shares of state windfall revenues from the mining industry. Shares of the rent for the mine workers and other unionized urban workers came in the form of continuous negotiations of wage increases. For the civil servants, the power of office-holding came with the power to distribute contracts, loans, licenses etc and thus, the opportunity for personal gain (Makoba 1998). “Sections of the petite bourgeoisie and aspirant bourgeoisie connected to the state and the party directed their energies to the grab for personal wealth” (Burdette 1988, 115). The presence of corruption in Zambia is noted by the citizens themselves. In a study conducted by James Ferguson (1999) in
Kite, Zambia from 1985-1986 and in 1989, he found that Zambians were increasingly blaming “the selfish Zambian” and corruption for the economic decline of the country.

In contrast to the Zambian experience, Botswana has not suffered from rent-seeking. As a result of its social structure at independence, organized civil society in Botswana is virtually non-existent. The only powerful group at independence was the tribal elite, which had remained intact under colonial administration. It was this group of cattle barons which inherited the state upon independence, and it is this group that has remained in power relatively uncontested. Botswana, has, however experienced some cases of corruption and misuse of public office for personal benefit. These cases became known to the public in the mid-1990s. The most well-known were the misuse of public authority at the Botswana Housing Corporation, and the misuse of public loan funds by high-ranking Botswana Democratic Party (BDP) officials at the National Development Bank. Combined, the corruption discovered at these two parastatals cost the country between pula 50 and P150 million. While this amount is low compared to government revenue, these instances cast a shadow over Botswana’s success in resource appropriation as well as the strength of Botswana’s institutions.

*Hypothesis 8: Regime Type*

*Resource rents results in authoritarian regimes which cause low economic growth.*

This hypothesis is closely related to the latter hypothesis regarding institutions, and if not for its distinct presence in the literature it could be included within that category. However, many note the correlation between resource-dependent states and authoritarian regimes. Damania and Bulte (2003, 31) argue that “In the absence of political competition, governments are more receptive to
special interest lobbying,” and as a result they “stray away from the welfare maximising path and provide excessive support to the resource sector.”

This explanation does not hold for either Zambia or Botswana. Both have been considered democracies since independence, and have experienced relatively similar development paths in this respect. Both have held regular elections since independence and were one-party democracies (de facto in Botswana and de jure in Zambia) for much of their histories. It was in Zambia that the multi-party system collapsed, as mentioned above, in 1972. However, the reason for the collapse of multi-party democracy was not because of a lack of political opposition to the UNIP, but because of the increasingly divisive nature of politics in the nation along regional and class cleavage lines. Building up to the declaration of the one-party state, the main opposition party at the time was led by Simon Kapwepwe of the United Progressive Party. In this light, it is difficult to argue that Zambia’s rent-mismanagement was the consequence of an unaccountable authoritarian regime.

In Botswana, however, the BDP founded by the country’s first president Seretse Khama has retained power from independence, without the institution of a constitutional one-party state and despite the increasing challenges it receives from strengthening second and third-party rivals. Although the BDP did not use its power to reshape the rules of political competition in order to control it, the BDP did use its power over state-led media organizations to control and repress political opposition and criticism. Similarly, the Presidency used its powers to the fullest in maintaining control of the government. The Presidency is by far the most powerful office in Botswana. The President is not directly elected by the people, and since 1997 has been allowed to appoint his Vice President as his successor. The President can appoint specially selected members of the National Assembly, even if these members have been rejected in elections, and
control the policy agenda and make decisions, such as use of the military, without Parliamentary debate. The Botswana is technically an electoral democracy; however, it shares the characteristics of many authoritarian states. Regardless of these authoritarian tendencies Botswana has not experienced poor economic growth as predicted by this hypothesis, and in contrast there is evidence that the strong BDP and executive has led to better economic decision making.

Hypothesis 9: Social Conflict

Resource rents cause social conflict which results in low economic growth.

Social conflict “is harmful both because it diverts resources form economically productive activities and because it discourages such activities by the uncertainty it generates” (Rodrik 2001, 12). In many states dependent on natural resource wealth, civil wars and social conflict have been a source of frequent disruption, as indicated by the experiences of the Democratic Republic of the Congo, Sierra Leone, and Angola. Collier and Hoeffler (2005, 628) argue that primary commodity dependence results in areas of localized sources of rents and proneness to economic shock, which generate social conflict: “rents and shocks create multiple routes by which primary commodity dependence may be linked to the risk of conflict.” Neither Botswana nor Zambia are significant examples of social conflict or civil war. Neither country has experienced civil war, but both have withstood the encroachment of military conflicts in neighboring states, most notably that of Southern Rhodesia beginning with its Universal Declaration of Independence in 1965.
While managing not to slide into war with white-settler dominated Southern Rhodesia or South Africa, Zambia has experience periods of social conflict that are of greater significance than in Botswana. As mentioned above in reference to the effects of authoritarianism on resource rent-management, political leadership under Kaunda resorted to the detainment and torture of political opposition leaders. This history of oppression of political opposition began before the UPP detentions in 1971 with the banning of the United Party that was formed by the Lozi of the Western Province. “UP managed to mobilize support on the Copperbelt in the 1968 election campaign that led to violent clashes between UNIP and UP supporters” (Rakner 2003, 51-52). Similar violent clashes occurred again in 1971 between UPP supporters and UNIP on the Copperbelt. The oppressed opposition of the UPP after the one-party state declaration in 1972 began to organize secretly, resulting in the arrest of “a small group of Zambian professionals and Congolese dissidents” in 1980 who were charged with treason for the alleged planning of a bloodless coup d’état (Gewald, Hinfelaar, and Macola 2008, 7).

Botswana also bordered Southern Rhodesia and faced similar but more muted tensions with the white-settler dominated regime; however, in addition to Rhodesia, Botswana bordered another such regime, South Africa. Despite bordering these militaristic regimes and enduring raids by the militias of these countries, the BDP managed to avoid conflict with both. It was similarly successful on its domestic front. There have been no attempted military overthrows of the Botswana government or even strong opposition to the rule of the BDP. More recently in the mid-1990s, there have been riots and marches that have taken place due to the anger of youth over the lack of state protection and unemployment. One explanation for the comparative social calm and cohesion in Botswana is the social structure established by the Tswana tribes who have dominated the area since before colonization. Botswana is a country with a strong tribal system
dominated by eight related Tswana tribes. This domination has reduced tribal and regional tensions that exist in many other sub-Saharan African countries and can be destructive to government and particularly to economic policy.

2.3 Conclusions

This section has assessed the principal hypotheses advanced to explain the resource curse phenomenon. The pertinence of each of these hypotheses for the cases of Zambia and Botswana has been outlined and initial comparisons have been made between the cases. These comparisons lead to the following conclusions. Neither Zambia nor Botswana has experienced declining terms of trade due to their respective mineral exports. Zambia has experienced a decline in economic growth as a consequence of copper price instability, whereas Botswana has benefited from stable diamond prices. Both countries have mining industries that are not highly integrated into the surrounding domestic economy. There is no evidence to support the Dutch disease hypothesis in Zambia, whereas it is likely that Dutch disease effects have occurred in Botswana. Zambia has implemented poor economic policies, especially policies for managing resource rents, whereas Botswana has been more successful in both respects. Zambia has weak political institutions compared to Botswana’s strong political institutions, and Zambia has rent-seeking and corruption problems while Botswana has only recently had problems with corruption. Both countries have had similar one-party dominance and the development of strong executives. Finally, social conflict has been more prominent in Zambia than in Botswana where social cohesion is high. The differences noted between the cases for hypotheses two, five, six, seven, and nine seem to account for the difference in economic success of these countries. These initial conclusions
regarding the presence, presence without predicted result, or absence of each hypothesis for the two cases, are represented in the following table. The purpose of sections 3 and 4 is to examine the interaction effects of these different factors and to provide a more robust set of explanations for the different economic outcomes found in these two resource-dependent states.

| Table 2.1: Resource Curse Hypotheses and Their Degree of Presence in Botswana and Zambia |
|----------------------------------------|-----------------|-----------------|
|                                        | Botswana        | Zambia          |
| H1: Declining Terms of Trade           | 0               | 0               |
| H2: Price Volatility                   | 0.5             | 1               |
| H3: Weak Linkages                      | 0.5             | 1               |
| H4: Dutch Disease                      | 0.5             | 0               |
| H5: Rent Mismanagement                 | 0               | 1               |
| H6: Weak Institutions                  | 0               | 1               |
| H7: Rent-seeking and Corruption        | 0.5             | 1               |
| H8: Authoritarianism                   | 0.5             | 0.5             |
| H9: Social Conflict                    | 0               | 0.5             |

0-no presence; 0.5-presence without predicted result; 1-presence of predicted resource curse effects
3: The Case of Zambia

The copper mining industry was from the beginning the foundation of the Zambian economy. The industry was established during colonial rule by the British South Africa Company in the 1920s. With this level of dependence on its mineral resources and its troubled economic development, Zambia is an exemplary case for analyzing the hypotheses of the resource curse. This section is divided into two parts. The first discusses the evidence for each of the economic hypotheses and their degree of presence within the case. The second discusses the evidence for each political hypothesis.

The economic history of Zambia reveals the presence of two of the four economic hypotheses: (1) that the mining industry does not lead to the growth of other economic sectors, and (2) that the volatility of primary product prices makes it difficult for governments to manage resource rents. The Dutch disease hypothesis is not vigorously support or denied by the case of Zambia; but the argument put forward by Prebisch concerning declining terms of trade is clearly not supported. In contrast to these economic hypotheses, all of the political causal mechanisms proposed by the resource curse hypotheses are present in the Zambian case to various degrees.

Initially, the government used resource rents to carry out successful infrastructural projects that help explain the relative economic growth of the first decade after independence. Following this initial success, Zambia has suffered from poorly-managed resource rents due to a number of policy failures: dysfunctional import-substitution policies, destructive mineral
taxation policies, nationalization, Zambianization and mismanagement of the mining industry and of its subsequent privatization. Institutionally, the country has low institutional capacity due to a lack of bureaucratic expertise and neo-patrimonial relationships between bureaucrats and the public that have resulted in a misallocation of state resources. Rent seeking and corruption have also adversely affected Zambian institutional quality and undermined economic efficiency. There have been instances of authoritarianism in Zambia. Social conflict has occurred in Zambia to a limited extent and has been mostly between the government and labor unions.

3.1 Economic explanations

The argument that mineral producers will experience long-term negative terms of trade is not supported by the Zambian data. It is clear that mineral prices tend to fluctuate rather than experience an overall declining trend and the international price of copper is no exception. Zambia sells its copper at the price set by the London Metal Exchange, which experiences fluctuations depending on a variety of factors, such as speculative activity and supply and demand. The defining event in Zambia’s economic history was the collapse in copper export earnings and the government’s response to this collapse (Rakner 2003). In 1972, two years after nationalization agreements with Anglo American and RST had been signed, a prolonged slump in the LME price of copper marked the beginning of trouble for the Zambian economy. The fluctuation in copper price can be seen in the following table.
The drop in copper prices, along with other issues faced by the newly nationalized industry, such as an overall fall in production, led to a decline in GDP (see table 3.2) and an increase in foreign borrowing. As noted by Auty (1991, 175), “foreign borrowing provided the principal adjustment mechanism to external shock.” One aspect of this borrowing was Zambia’s increasingly troubled relationship with the World Bank and International Monetary Fund (IMF). The relationship with the IMF began in 1973. As can be seen in table 3.3, by 1977, the government had completely exhausted its foreign reserves. The World Bank entered the picture one year later in 1978 when Zambia had become poor enough to qualify for International Development Association funds. The Bank pledged US $50 million per annum for the next five years. The economic decline of the 1970s was rationalized by the government as being due to external factors such as the war with Rhodesia and the fall in copper prices and as a result it thought the recession would only be temporary.
The third economic hypothesis presented in section 2, which states that mineral resource economies are constrained by the enclave nature of the mining industry, is also supported by the experience of Zambia. The concern of the British South African Company, which had colonized the territory, with the territory’s resource wealth led to the establishment of a dynamic mining industry that drew more Europeans to the territory but was quite unconnected to the lives of the majority of Africans living in Zambia who were to inherit it. Expatriate mine workers and
managers immigrated to shape the mining industry. In 1920 there were 3,000 Europeans in Northern Rhodesia, which grew to 36,000 by 1950 (Sklar 1975). As a result of the growth of the copper mining industry under colonialism, the “dual nature” of the Zambian economy was established. “Zambia contained a technologically modern mining enclave with certain appendages, mainly along the line-of-rail, in the midst of a rural and traditional subsistence economy,” that has resulted in “social and economic ‘dualism’” (Sklar 1975, 25).

It is clear that the price of copper has been integral to the success or failure of the Zambian economy; however, the hypothesis that a booming minerals sector results in a decline of the manufacturing sector as a result of the Dutch disease mechanism is not clearly supported. As was mentioned above, the Zambian manufacturing sector has not experienced a dramatic decline during resource booms. In the decade after independence, manufacturing “showed a compound annual growth rate of 7.4 percent between 1965 and 1976. In 1965, the sector contributed just under 7 percent of GDP, and in 1976 its contribution was 11 percent” (Obidegwu and Nziramasanga 1981, 64). A similar test for the presence of the Dutch disease in Zambia has been conducted by examining the change in the value added by the manufacturing sector as a proportion of GDP. This indicator has steadily risen from just above 5 percent in 1965 to its highest of around 35 percent in 1992 (du Plessis and du Plessis 2006).

3.2 Political Explanations

The first political hypothesis of the resource curse literature concerns policies that affect the management of resource rents. The first policies implemented by the Zambian government that used resource rents were established in its First National Development Plan (FNDP) (1966-
1971). The FNDP was a four-year plan that “mixed capitalist incentives and expectations with state direction to diversify the industrial economy, giving priority to construction of physical and social infrastructure” (Burdette 1988, 85). It was this policy of building infrastructure, along with the stable price of copper that was behind the first post-colonial decade of economic growth in Zambia. Projects of physical infrastructure development included building roadways, railways, energy infrastructure, and factories, whereas social infrastructure projects began with the implementation of agricultural reform, education and health.

All of these projects met with a modicum of success, with the ultimate exception of agriculture. The physical infrastructure projects became of great importance when white-settler dominated Southern Rhodesia declared independence from Great Britain in 1965. The Universal Declaration of Independence resulted in sanctions from the Security Council of the United Nations (i.e. oil embargos). This prompted both economic and political difficulties for Zambia. Economically, much of its exports and imports, especially oil, were kept from leaving Rhodesia (Sklar 1975). Politically, this marked the intensification of Zambia’s ‘Frontline’ position against the domination of white-settler regimes in South Africa and Southern Rhodesia and required the Zambian government to find alternate sources of energy, manufactured goods, and export routes. Regarding transportation infrastructure projects, the Zambian government built the Great North Road to Tanzania (822 km), the Great East Road to Malawi (430 km), and Lusaka International Airport (Burdette 1988). It had similar success in energy infrastructure; hydroelectric power stations were constructed, such as the Victoria Falls generating station, along with an oil pipeline, and a petrol refinery.

Manufacturing also experienced some growth in the early post-independence period due to policy success. The sector’s contribution to GDP had grown from 6.1 percent in 1964 to 11
percent in 1971. One part of the FNDP was to use import-substitution to support a diversification of the economy away from copper and into manufacturing: “To accelerate the pace of industrialization, the Zambian government initiated industrial projects in cooperation with foreign capital,” by providing “tax breaks, tariff protection, and guaranteed repatriation of profits” as incentives for private business (Makoba 1998, 122). But the initial expansion of the manufacturing sector, supported by import-substitution policy, did not continue or make a major contribution to the nation’s economy.

There were three main problems with the government’s import-substitution strategy. The first was that a high level of investment by foreign capital into the development projects of the Zambian government did not materialize as had been anticipated. As a result, the government provided 95 percent of total development financing during FNDP compared with 5 percent from the private sector. A consequence of this lack of foreign financing was that the government began shifting the revenue it derived from copper industry rents into these projects. The second problem was the reliance of the manufacturing sector on foreign manufactured inputs. The Zambian manufacturing sector shifted “its vulnerability from the stage of finished imports to dependency on imported inputs and technology” (Burdette 1988, 92). Large scale, capital intensive enterprises, such as Livingstone Motor Assemblers, Nitrogen Chemicals of Zambia, Kafue Textiles and Nakambala Sugar Estates and Refinery, are examples of this dependence on imports of parts and materials (Makoba 1998, 122). Dependence on foreign manufactured inputs made manufacturing dependent, in turn, on the government’s ability to purchase these inputs, which consumed vital resource rents. The third problem was that these industries manufactured products for an elite domestic population rather than for the larger population or for export. The Zambian manufacturing sector was not structured in such a way as to grow into an export-led
sector and the export of manufactured goods has been insignificant (Obidegwu and Nziramasanga 1981, 64). These three missteps with import-substitution policy illustrate the difficulties the Zambian government experienced in managing its resource rents.

In addition to its failed import-substitution policy, the government badly mismanaged its minerals taxation policy. In 1968, President Kaunda gave a series of speeches in which he announced that significant changes were to be made to the organization of Zambia’s economy, which have since become known as the Mulungushi reforms. The first reform announced included a change in the system of taxes imposed on multi-national mining companies. Reforms to Zambia’s mineral’s policy were of particular interest to MNCs considering the somewhat tense relationship between the government and the mining companies since independence. There was deep distrust of MNCs within the Kaunda government. The mining multinationals were concerned with the future prosperity of their investments and hoped for a change in the pre-independence tax system, which did nothing to diminish the suspicions of the Kaunda government, which suspected that the MNCs were seeking to evade taxes. Kaunda made his sentiments regarding the MNCs known in his speech at Mulungushi when he stated, “The companies claim that the royalty system has been against new development… I do not agree” (quoted in O’Faircheallaigh 1984, 104).

Despite his suspicions of the MNCs, Kaunda had the tax system, which was complex and antiquated, changed. This unnecessarily complex system of taxation was leftover from colonialism in which royalty payments were paid by the companies to the British South Africa Company, which owned the mining rights (Harvey 1975). These payments had simply been transferred to the government after independence. The changes to the system eliminated both the royalty payments and export taxes about which the mining companies had complained. Those
complaints centered on the argument that as taxes on production these taxes neglected to include costs in the equation, thus rendering unprofitable many lesser productive mines, or lower grade orebodies because of the cost of extraction. The royalty and export tax were eliminated, but the profits, or income tax, was retained and accompanied by a new minerals tax. At the end of the day, and after two years of debate, the mining companies were to pay a flat 73.05 percent tax on profits, which was just 1.37% less than the total tax they paid before the reforms (O’Faircheallaigh 1984). This mini-war between the multi-nationals and the government, as well as the uncertainty created over taxation, was no help to the government in securing its stream of resource rents.

Two other important government policy reforms outlined in the Mulungushi Reforms—nationalization and ‘Zambianization’—were to be financially very costly. Nationalization was deemed necessary to “assert public control over all major aspects of the Zambian economy” (Mhone 1982, 37). This goal was to be achieved by Kaunda’s request for twenty-seven private companies, which were engaged in a variety of economic activities, such as building material and construction, road transportation, retail and wholesale, and breweries, to ‘invite’ the government to purchase 51 percent equity stakes (Makoba 1998). The negotiation of these sales was handled by the newly-established Industrial Development Corporation (INDECO). These nationalizations formed a sizeable parastatal industrial complex with net assets worth Kwacha 167.9 million by March 31, 1972 (Burdette 1988). The policy of nationalization continued into the 1990s. According to Bennell (1997), there were 170 state-owned enterprises operated by the Zambian government by 1991.

The second goal of the Mulungushi reforms was Zambianization. The objective of this policy was to increase the number of Zambians actively involved in the economy.
Zambianization was especially important to the Kaunda government given the country’s heavy dependence on expatriate entrepreneurs and managers. Several policies were implemented in order to achieve Zambianization. These policies included: the issuance of business licenses to Zambians only with a few geographical exceptions, the reservation of government contracts less than 100,000 kwacha for Zambians, and compelling foreigners who owned businesses in Zambia in designated areas to sell or become citizens (Makoba 1998).

A crucially important example of these two policies that illustrates their damaging effects was the nationalization and Zambianization of the mining industry. As with other companies, the President suggested that the mining companies “invite” the government to buy 51% equity shares (O’Faircheallaigh 1984). As a result, two new joint ventures between the Zambian government and the mining companies were formed—Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Copper Mines (RCM). This move was viewed by Anglo and RST as a surprise takeover by the government. As part of the agreements reached during the 1969 negotiations, Anglo American and RST would, however, continue to provide management services to the copper industry through management contracts. The government paid for their shares via bonds issued to Anglo American and RST, which were immediately redeemable if the contract was nullified.

The nationalization of the mining industry had significant consequences for Zambia’s major revenue earner and ultimately led to the ruination of the industry for decades, as will be discussed below. Part of the problem with the mining industry’s nationalization was the government’s inability to negotiate with Anglo American and RST. The government negotiators lacked clearly delineated priorities. This “failure to establish priorities meant that they were pursuing a wide variety of aims, not all of them mutually consistent and relating, for example, to
revenue generation investment policies and production rates, corporate decision-making, and the extent and character of compensation” (O’Faircheallaigh 1984, 119). Its poorly defined objectives left the government unsatisfied with its subsequent joint-ventures, which led to another poor decision by the Kaunda government in 1973.

As a result of the government’s dissatisfaction with the degree of influence gained over the MNCs with nationalization in 1969, it decided in 1973 to cancel the management contracts with Anglo American and RST and increase state control over the mines. Kaunda believed the only way to economic independence was through control of the copper industry. As he stated in his speech to the UNIP National Council in August 1969, “I wanted the mining economic reforms to set the Nation well and truly towards its economic independence,” and “I do not think that this can be achieved without the Nation acquiring full control of the existing mines” (quoted in O’Faircheallaigh 1984, 107). In addition to economic independence, the other policy goal of the nullification of the management contracts was to ensure that the policy of Zambianization was extended to the minerals sector. In a speech in August 1973, President Kaunda expressed his discontent with the 1969 agreement because it had no provision for Zambianization of the mines (Makoba 1998).

This decision had four negative consequences. The first was the monetary consequence of breaching the contracts. Upon nullifying the management contracts, the government was responsible for immediately redeeming its bonds to Anglo American and RST in the amount of $226.3 million and an additional $85 million in penalty fees negotiated with the MNCs (Burdette 1988). Meeting this obligation depleted the country’s foreign currency reserves. The second was that the industry saw an exodus of expatriate workers, which meant an exodus of industry expertise. In the period from 1973 to 1978, expatriate employment in management and higher
levels fell 30%. It is likely that this exodus affected the efficiency and the soon to be endemic lower production levels of the mines. The third negative consequence, and possibly the most significant, was that with the increased role of government in the mines, “investment in the industry [was] now linked to the economic condition of Zambia as well as to world copper market conditions” (Obidegwu and Nziramasanga 1981, 18 emphasis added). The fourth negative consequence, which is tied to the Zambianization policy, is that with the nationalization of the industry the government began to use the minerals sector as a major employer.

After 1973, Zambian involvement in the copper industry continued to climb with continued harm being done to the nation’s fiscal situation. In 1979, the government gained a 61% equity share by turning government loans granted to the companies into equity when “the private foreign equity holders…declined to contribute additional capital to keep their equity share unchanged” (Radetzki 1985, 113). The last major change the government made to the industry came in 1982 when the government consolidated the two companies, NCCM and RCM, into Zambian Consolidated Copper Mines (ZCCM). The aim of this consolidation was to streamline the industry and to reduce duplication (Burdette 1988). After this consolidation the copper industry would not be dealt with again until privatization talks began.

The policy of privatization also negatively affected Zambia’s financial situation. The privatization policy was implemented by President Chiluba in the 1990s after the fall of the Second Republic and its One-Party State. President Chiluba embarked on a long process of liberal reform policies that were proposed by the IMF, including the privatization of the mining sector. It took four years between the government’s first announcement of its intention to pursue privatization with the Privatization Act of 1992 and its announcement of intent to sell the copper mines in 1996. The process unfolded inconsistently, much like Zambia’s previous encounters
with MNCs regarding mineral taxation and nationalization. The process began with international bids that attracted the submissions of 26 companies by the end of bidding in February 1997 (Rakner 2003). Despite the close of the bidding process, the Chiluba administration decided to remove ZCCM from the bidding, only to retract its retraction in March 1998 and enter into negotiations with Kafue Consortium. Again, however, the government got cold feet and pulled out of negotiations only to resume them again shortly thereafter; however, after failing to reach agreement, Kafue rescinded its offer. The half-hearted commitment to privatizing ZCCM ultimately “extended ZCCM’s loss-making record by another two years. ZCCM loses by 1999 were estimated at some US $ 200-300 million, the equivalent of 6-9 percent GDP” (Rakner 2003, 78). Finally, in 1999, the government followed-through on a significantly less advantageous offer from Anglo American, and the transfer was made final in March of 2000, eight years after the initiation of the government’s privatization policy.

The Kaunda government’s policies of import-substitution, minerals taxation, nationalization, Zambianization, and Chiluba’s mismanagement of the ultimate privatization of the copper industry, are prime examples of the fifth resource curse hypothesis—mismanagement of resource rents. The import-substitution policies did result in marginal growth of the manufacturing sector; however, this growth did not strengthen the sector as had been hoped. The end product of the nationalization policy, which was the creation of a sizeable parastatal complex that included Zambia Consolidated Copper Mines, was a ‘staple trap’, in which revenue was transferred from the primary sector to subsidize the expansion of inefficient manufacturing and bureaucracy, which “increases reliance on the primary sector and depresses the economy-wide efficiency of capital investment” (Auty 2006, 138-139). Essentially, the state-ownership of ZCCM worsened the dependency of the state on the copper industry, reduced the industry’s
ability to attract new sources of investment and hampered its ability to reform. Regarding
Zambianization, “One reasonable interpretation, is that management has discouraged the
introduction of labor-saving innovations and the government will not accept closures of
installations” that would reduce “large-scale labor redundancies” (Radetzki 1985, 114). A result
of this policy was that the government increasingly sought to use ZCCM as a major employer to
the political satisfaction of one of the governing party’s major supporters—the mining unions.
Lastly, the privatization policy left a loss-making parastatal (ZCCM) in place to continue as a
drain on economic resources.

The second political hypothesis advanced by the resource curse is that resource-
dependent states develop poor or parasitic institutions. The overall quality of the Zambian
bureaucracy is an important indicator of the weakness of its political institutions. As just
mentioned, once the government nationalized the majority of the economy it began using its
parastatals as means of creating employment, indicating the neo-patrimonial nature of the
Zambian public sector. The Zambian public sector has also had problems with efficient policy
implementation, as illustrated by failings of the agencies created to implement agricultural
reforms. Reform of the agricultural sector was a main objective of the First National
Development Plan immediately following independence, which planned to create farming
cooperatives and increase the availability of credit for African farmers. The Department of
Cooperatives was responsible for establishing the farming cooperatives, while the Credit
Organization of Zambia (COZ) was responsible for issuing credit to support the cooperatives.
However, serious bureaucratic inefficiency resulted in the poor implementation of these
programs. The inefficiency of the Department of Cooperatives and COZ was due in part to the
lack of expertise of the bureaucrats and the political nature of credit distribution. Luapula,
Northern and Eastern Provinces traditionally supported the UNIP and as a result were awarded the vast majority of the rural credits (Makoba 1998). These problems compounded the other difficulties the Zambian government faced in significantly restructuring the dual nature of the economy and reducing its dependence on copper revenues.

The third political hypothesis is that resource dependency leads to rent-seeking and corruption. Regarding rent-seeking, the Kaunda government had political reasons for increasing its control over the mining industry. It needed the revenues of the industry to provide public services as well as to satisfy the interests of various groups, such as the unions, the civil service, the business community and ethno-regional groups. It was mainly urban groups, such as the unions, civil servants and businesses who benefited from “the culture of subsidies, ranging from food to housing, which the large mineral incomes had helped to sustain” (Bigsten and Mugerwa 2000, 5). The state ownership of the copper industry left no insulation between the state and rent-seeking interests, such as the mine workers unions. The struggle between the government and the mine workers unions over the distribution of resource rents and economic policy reforms after independence revealed the dependence of political power on the support of powerful interest groups, which led to the formation of a clientelistic, or patronage state system.

The mining unions in Zambia were formed during the colonial administration of the country and as a strong force in the independence movement, and they were also the strongest interest group in the newly independent nation. Not long after independence the relationship between the mine workers’ unions and the UNIP government became increasingly combative. The major strike-causing dispute was over wage bargaining. Despite its initial nationalization of the mines in 1969, relations between the state and the mine unions did not improve. Instead, the state had now taken the position of the mining companies, and “as far as labor was concerned,
the owners were now the state and were to be treated accordingly” (Burdette 1988, 93). As a result of these disagreements with labor, the government attempted to co-opt the power of the unions by such measures as, “compulsory affiliation of all unions with a supervisory central labor organization, restrictions on the right to strike…and the introduction of ‘works councils’ designed to improve industrial discipline” (Sklar 1975, 206). These strategies were introduced by the Industrial Relations Act in 1971 which transformed the Zambia Congress of Trade Unions (ZCTU), initially established in 1965 as a voluntary association, into the central union congress. The consequences of this act were the opposite of its intentions. In essence the ZCTU became a coordinating organization and “from the mid-1970s onwards, ZCTU became the main opposition force in Zambia” (Rakner 2000, 7).

When revenues from the copper industry evaporated and could no longer support the government’s public expenditures on food, housing and wage subsidies, the main issue of contention between labor and the UNIP became economic policy reform. Before the fall in the price of copper, the UNIP government could afford high wages and consumer goods subsidies; however, after the copper price fell, from the mid-1970s Zambia, began to suffer from fiscal deficits, and began borrowing abroad to meet its budget expenses. In the 1980s, Zambia went to the IMF to seek assistance, and the government and the IMF introduced policy reform measures in 1983. Zambian officials also went to the World Bank, which established its first structural adjustment program (SAP) for the country. These measures were aimed at restoring fiscal balance. These IFI measures had little time to take effect because Zambia subsequently walked out of stand-by negotiations with the IFIs due to political pressure from groups such as the unions. This was to become a signature of the government’s relationship with the IFIs—the release and the subsequent cessation of funds. The Kaunda government again attempted to
institute economic reforms in 1985. These adjustments included the “decontrol of the central bank interests rates, the creation of a foreign exchange auction,” and previous, unimplemented reforms which included “the reduction of government subsidies by eliminating price controls…reduced budgetary deficits, reduced spending, improved economic management, a restructuring of the parastatal enterprise, reform of the tax system, and a reduction of civil service” (Rakner 2003, 57). These reforms incited food riots and general unrest, primarily along the Copperbelt. Predictably, President Kaunda backed down.

The main difficulties faced by these attempted structural adjustments were political. Those interests with the most to lose from economic reform happened to be the base of the UNIP and Kaunda’s power, since “the costs of almost all the reforms would be borne by urban consumers including the large party and state bureaucracy created by UNIP, the strong and centralized trade union movement, and the parastatal enterprises” (Rakner 2003, 59). The reforms found to be offensive were the government’s commitment to devaluing the kwacha, lowering imports, reducing price controls on many staples, and imposing foreign exchange restrictions on Zambian’s personal bank accounts while, at the same time, liberalizing them on foreign company accounts (Burdette 1988). A particularly unpopular part of the package was the low 10 percent ceiling placed on wage increases, which led to a series of strikes. The low ceiling on wage increases threatened and eventually dismantled the decades-long project of the UNIP to co-opt the labor unions. The labor unions became a bastion against Kaunda’s UNIP and his attempts to implement economic reforms in line with the IFI’s demands; as a result there were constant violent outbursts and strikes on the Copperbelt. In 1987, the government of Zambia tried to wean itself from IFI support and announced the New Economic Recovery Program. This was an attempt by the government to finance its own debt by paying 6.5% of its GDP towards its
arrears. However, the IFIs and their bilateral donors were concerned that this level was below 10% and cut-off all funding (Rakner 2003). After two years of NERP the government was forced to go back to the IFIs. The pressure and popular discontent over the economic situation under UNIP and President Kaunda was too much for the government to overcome, and it ultimately brought an end to the reign of the UNIP and the end of the one-party, Zambian Second Republic in 1991.

Difficulties with the trade unions continued even after the election of President Chiluba, who was the former president of the Zambian Council of Trade Unions (ZCTU). Ironically however, it was under his two successive administrations from 1991-2001 that IMF reforms were more aggressively pursued (Craig 2001). With regard to fiscal and monetary reforms, in 1991 the administration eliminated mealie-meal subsidies, a cash budget was instituted in 1993, in which government spending was overseen by the Bank of Zambia in order to ensure that funds were actually available, and also in 1993 a currency auction was established to help control inflation. With regard to trade, the exchange rate was switched to a market-based rate in 1992 and import and export quotas were eliminated while the tariff system was simplified and reduced. With the exception of the cash budget, these fiscal, monetary and trade liberalizations were quickly implemented and committed to by the Chiluba government. “Zambia could by mid-1994 claim to have one of the most liberal foreign exchange regimes in Africa,” and “an impressive record in terms of inflation and fiscal policy” (Rakner 2003, 70).

Policies calling for sectoral reforms, concerning state involvement in agriculture, manufacturing and mining, as well as reform of the public sector itself, proved to be more difficult. Public Sector Reform (PSR) was attempted in 1992 when the government dismissed some 15,000 daily contract workers; these workers did not have the stringent job security
contracts held by other public sector employees (Rakner 2003). It was the latter job security contracts that thwarted the government’s attempt to achieve PSR by 1996. Decreasing government involvement in agriculture proved equally difficult. Almost since the First National Development Plan the government had been using copper rents to subsidize the agricultural industry by way of supplying seed and fertilizer as well as establishing prices and marketing produce. Attempts under the MMD-Chiluba government were made to end these programs, but severe drought during the 1992-1993 season and lack of private sector investment forced the government to remain involved in the sector. Following a highly-contested 1996 presidential election, the Chiluba administration was not as keen on continuing aggressively with economic restructuring.

In Zambia rent-seeking was harmful to the financial situation of the country in that interest groups, most notably trade unions, used their political power to demand costly benefits in subsidies and wage increases. Rent-seeking was also harmful in that these groups also pressured and prevented the government from implementing economic reform policies that might have otherwise improved the condition of the economy.

Another problem which hampered the Zambian economy was corruption, which is the second part of hypothesis 7. The patrimonial nature of the Zambian state that developed after independence, in which groups, such as the mine workers, were awarded access to the state in exchange for party loyalty, created a fertile environment for corruption. On the one hand, the UNIP could use political appointments as payment for support, and on the other the clientelistic state became a means of achieving personal wealth because of the general lack of economic opportunities in sectors other than mining. The opportunities for personal enrichment through political and bureaucratic positions increased as the government was becoming increasingly
dirigiste at the beginning of the Second Republic. The increasing necessity for businesses to obtain licenses and permits, such as import and export licenses, foreign exchange permits, veterinary and agricultural permits, and trade licenses, increased the opportunity for bribes and favors. One such instance occurred after the government’s implementation of Zambianization, when it was mandated that citizenship be a prerequisite for ownership of certain enterprises, and two permanent secretaries were convicted of extorting bribes and favors in return for granting citizenship (Szeftel 2000).

Despite claims to the contrary, corruption did not cease with the fall of the Kaunda regime in the early 1990s and the reinstatement of multi-party democracy in the Third Republic. Having vowed to hold former President Kaunda to account for the corruption that took place during his tenure from 1964-1991, President Chiluba left office ten years later in 2001 facing similar allegations. In 2006 the “High Court in London found, in a civil suit brought by the government of his hand-picked successor, Levy Mwanawasa, that he had stolen $46m from the state while in power” (The Economist 2009). In the summer of 2010, criminal proceedings against the former president in Zambia found him not guilty.

The World Bank’s Governance indicators reflect the extent of corruption in Zambia. In 1996 Zambia placed in the 12th percentile with a governance score of -1.07 (with the lowest possible being -2.5). It is evident that while Zambia is not the worst case of corruption in Africa, it has experienced many of the same difficulties as other sub-Saharan African countries with regard to the use of state power and resources to reward political support and accumulate personal wealth.

In addition to a weak bureaucracy, rent-seeking, and corruption another characteristic of resource-cursed states, according to theory, is the centralization of political power. The fourth
political hypothesis concerns the correlation between authoritarian political institutions and resource-dependent states. Resource-rents, it is argued, enable governments to prevent political dissension with economically distortionary policies, such as subsidies. The Zambian case is more nuanced than this. At independence the country was a multi-party democracy with two major parties the UNIP and the African National Congress (ANC). During the First Republic the UNIP under the direction of President Kaunda attempted to consolidate its power and maintain its broad base of support; however, disputes over rent distribution left many factions unsatisfied with the UNIP. These disputes were violent in some instances, creating an atmosphere of crisis for the UNIP government. This crisis resulted in President Kaunda’s move to garner more power by changing the constitution. It was during the Second Republic that Zambia had its brush with authoritarianism.

The constitution of the Second Republic was signed by the President on December 13, 1972, and approved by the National Assembly’s and UNIPs General Conference on August 25, 1973. It was instituted from the top down by President Kaunda in order to strengthen the government against the political instability discussed previously. Despite being at its weakest, the UNIP was able to amend the Constitution of the First Republic because of the elimination of the provision requiring referenda before a constitutional amendment in 1969. In 1969:

“This provision [for referenda] was unfortunately targeted for repeal early in the life of the Constitution. It was eliminated by a 1969 amendment and referendum billed as the ‘referendum to end all referenda’. This repeal was aimed specifically at facilitating amendments to the rights to property, but its implications were far broader” (Ndulo and Kent 1996, 264).

The broader implications of this amendment were its use to institute the Constitution of the Second Republic, whose most significant provision was to establish a one-party democracy.
Article 4 states: “There shall be one and only one political party in Zambia, namely the United National Independence Party” and that no person can “form or attempt to form any political party or organization other than the Party, or to belong to, assemble or associate with, or express opinion or do any other thing in sympathy with, such political party or organization.” The slogan, “The Party and Its Government” indicates the new supremacy of the Party over government (Burdette 1988). The creation of a one-party system strengthened the powers of the executive against both parliament and the judiciary.

The banning of other political parties opened the door for the state to eliminate organized political opposition. If certain politicians were found to be overly hostile to the party and its government, then these officials would be arrested; the judiciary rarely overturned these imprisonments. When “cases found their way to the courts on writs of habeas corpus…especially in political cases” the courts “routinely upheld the state’s power to detain individuals without trial” (Ndulo and Kent 1996, 267). Similarly, Vondoep (2006, 394) states that in cases tried in Zambia, “The presence of a major opposition figure decreases the likelihood of an anti-government decision…This clearly suggests that judges have been hesitant to either upset the president or be seen as siding with the opposition.” Regarding the role of parliament and its members under the Second Republic, they were relegated to that of a chamber which gave tacit consent to the policies formulated by the executive. As Burnell (2003, 57) states, “the MPs’ function is to interpret the official policies and implement government programmes in the constituencies.” MPs had no independent policy-making role. Essentially, all budget, and policymaking powers were absorbed by the President and his cabinet who were only responsible to parliament “collectively”; hence, only under very vague circumstances.
Following the fall from grace of Kaunda and the UNIP, in 1990 multi-party elections were held and President Kaunda was removed from the presidency for the first time since independence. Frederick Chiluba of the Multi-Party Democracy Party (MPD) was elected to the presidency. Upon his election, the Third Republic was instituted, and unsurprisingly, one of the significant changes in the new constitution was the amendment requiring the popular election of the president. However, despite this democratic rise to power, Chiluba did not change much in the way of limiting executive power and many of the same problems persisted, including the lack of parliamentary involvement in policymaking and budget allocation. Chiluba even gained additional power over the budget by way of “the Presidential Discretionary Fund.” Since the late 1990s, this fund has allocated to the president a part of the budget that he may spend according to his own priorities (Rakner and Svasand 2004).

This history of the One-Party State and the power of the President in Zambia nuances the predictions of the eighth resource curse hypothesis regarding authoritarianism. The hypothesis essentially argues that due to resource wealth, resource dependent states can afford to pursue harmful economic policies such as food subsidies and extensive public services that keep the populace contented and thereby reduce popular political pressure on government. However, authoritarian institutions in Zambia resulted from the opposite impetus, i.e., an attempt to control the intense political competition that emerged from the combination of preexisting social divisions between ethno-regional groups and the presence of strong labor unions.

The final political hypothesis in the resource curse literature concerns social conflict and civil war. Unlike Angola and the Democratic Republic of the Congo, Zambia has not experienced civil war; however, it has experienced social conflict that has its roots in the differing class and tribal-regional groups that existed and formed in the country. This conflict has
mostly taken place within the political sphere with the government’s response being either detention or assimilation through patronage.

The Zambian nationalist movement began under the leadership of Harry M. Nkumbula, a former schoolmaster, who upon his return from studying at the London School of Economics joined the Northern Rhodesian African Congress, a political party formed to oppose colonization in 1948. He became the party’s president in 1951, and the party was renamed the African National Congress (ANC). The party then began to attract younger more militant followers (Burdette 1988). In the late 1950s Nkumbula became “the public face of African Nationalism in Northern Rhodesia” (Gewald, Hinfelaar, and Macola 2008, 19). It was in 1958 that Nkumbula’s position was challenged. Younger leaders of the party sensed that Nkumbula was resigned to the colonial governor’s “gradualist approach to African political advancement” (Gewald, Hinfelaar, and Macola 2008, 20). Kenneth Kaunda and Simon Kapwepwe broke away from the ANC to form the Zambia Africa National Congress (ZANC). This movement was quickly outlawed by the colonial government and its leaders were imprisoned or exiled to remote areas of the country (Gewald, Hinfelaar, and Macola 2008). Upon his release from jail after nine months, Kaunda formed the United National Independence Party (UNIP). This began the struggle between ANC and UNIP for political power, and laid the foundation for how the UNIP would later cope with political disagreements with rivals.

Kaunda’s UNIP won the first general election with universal adult suffrage in 1964 and immediately demanded full independence from Great Britain as well as the Federation, which was granted to Zambia. The UNIP’s political rivalries came from three sources: Nkumbula’s ANC, the United Party (UP), and intra-party divisions that culminated in the formation of the United Progressive Party (UPP) under Simon Kapwepwe. The ANC remained strong in Southern
and Eastern Province and amongst the main linguistic groups of these provinces the Ila, Tonga and Lenje (Burdette 1988). The second early political threat to the power of the UNIP was the emergence of the UP under the leadership of expelled UNIP member Alumina Muncie. The UP was strong in the Western Province. The UP was banned in August 1968 pushing its leaders to join the ANC and increasing the number of seats held by the ANC in Parliament to 23 to the UNIP’s 81 (Burdette 1988).

The most significant threat to the UNIP came from intra-party divisions. The divisions within the party were based on regional/linguistic lines; Kaunda attempted to solve these disturbances by awarding cabinet and bureaucratic positions to representatives of all groups. However, these divisions actually intensified over the years of 1967 to 1969, even resulting in Kaunda’s brief resignation in 1968. The establishment the United Progressive Party (UPP) by Simon Kapwepwe in August 1971 was the result of five years of heated political competition to secure control of UNIP (Gewald, Helfaar and Malcoa 2008). Kapwepwe was the former Vice-President of the UNIP. It was Kapwepwe’s UPP that would serve as the last nail in the coffin of Zambia’s multi-party democracy. In September 1971, all UPP leaders with the exception of Kapwepwe were arrested and imprisoned for alleged engagement in military training in the Democratic Republic of the Congo (Gewald, Kinfelaar and Macola 2008). As mentioned above, in 1972 Kaunda maneuvered to change the Zambian constitution with the implementation of the Second Republic and the establishment of a one-party state. Even at the height of the Zambian one-party state in the 1980s, social conflict did not disappear. In October 1980, eight members of the governing elite, including Valentine Musakanya, a former governor of the Bank of Zambian, Edward Shamwana, then a High Court commissioner, Goodwin Voram Mumba, former manager
of the Industrial Finance Company, and Godfrey Miyanda, an army brigadier general, were arrested for treason for planning a bloodless coup d’état (Burdette 1988).

While the above mentioned conflicts have been of a regional, political nature, the UNIP was often confronted with violence from the labor unions. The UNIP’s relationship with the labor unions was discussed above in the context of rent-seeking; however, the Zambia Congress of Trade Unions was also a source of social unrest in Zambia especially after the collapse of the copper industry and the decline in living standards. As with political opposition, the government resorted to a strategy of detainment or patronage to solve its problems with the unions. Union leaders were arrested, but the High Court had them released and afterward several union leaders were offered seats on the boards of directors of parastatal companies (Burdette 1988).

The regional and class divisions in Zambia required the creation of a system of patronage and suppression in order for the dominant party, UNIP, to stay in power. Social conflict in Zambia has not been of the type advanced by the ninth resource curse hypothesis, i.e., that resource rents induce social conflict, such as civil war that in turn produces economic chaos. Rather than social conflict, there has been social unrest in Zambia due to the discord that emerged between the dominant party and outside social groups, such as the unions.

3.3 Conclusions

The factors that were important in Zambia’s economic decline are explained in part by the various resource curse hypotheses. The critical economic variables present in the Zambian case are the oscillation of the international price of copper, and the lack of linkages between the copper industry and the rest of the economy. But neither the declining terms of trade nor the
Dutch disease explanations are relevant to the Zambian case. It is the oscillation of the international price of copper that is the most important economic explanation for Zambia’s decline in economic growth. This decline in the copper price destroyed Zambia’s ability to finance its development goals and eventually put the country into a downwards debt spiral. This price decline and the effects it had on Zambia’s fiscal situation could have been mitigated by effective government policies. However, the precarious position of the dominant party’s control over the political system, coupled with a poor understanding of the volatility of the international copper market, prevented the Zambian government from implementing needed policies. Instead, due to political pressures, the government instituted policies that distributed resource rents to groups demonstrating party loyalty. These policies included import-substitution, nationalization, and Zambianization.

This socio-political situation also affected the quality of Zambia’s institutions, causing the bureaucracy to suffer from the clientelistic promotion of bureaucrats and a clientelistic allocation of state benefits. As a result, rent-seeking and corruption also became important characteristics of this case. The instability of the political system, compounded by the intense competition for resource rents, also produced episodes of authoritarianism. In sum, it is the interaction of the numerous factors advanced by the resource-curse theory that accounts for Zambia’s problems as a resource-dependent state. It has suffered from commodity price instability which, in conjunction with a fragmented, neo-patrimonial society, has produced poor institutions, and dysfunctional government policies that have contributed to a negative feed-back loop between single resource dependency, institutional weakness and poor economic performance.
4: The Case of Botswana

In the eighteenth century, the ancestors of the Tswana tribes migrated from South Africa into what would become the country of Botswana. These Tswana tribes managed to maintain control of the territory into the mid-1800s despite the external forces of European colonialism and invasion attempts by surrounding tribes. The region became a British Protectorate by negotiation in the late 1800s. The Bechuanaland Protectorate officially received independence from Great Britain in 1966, and the nation’s independence leaders were the Tswana tribal-elite. The largest sector of the Botswana economy at independence was agriculture in the form of cattle ranching. Mining prospecting commenced only shortly before independence, and the mining industry developed as a collaborative effort between the new state leaders and the multi-national mining companies, such as De Beers and Anglo-American. In 1967, the first kimberlite diamond pipe was discovered near Francistown, which is near the border of Zimbabwe, the former Southern Rhodesia. This discovery of diamonds would significantly transform the country’s economy in less than a decade into one of the fastest growing economies in the world. Thus, the case of Botswana is an exception to resource curse expectations.

The only economic hypothesis pertinent to the success of Botswana is price stability. The third hypothesis regarding the mineral sector enclave has some explanatory power as indicated by the low level of employment generated by the diamond industry. The fourth hypothesis regarding the Dutch disease is also relevant, given the decline of the country’s agricultural sector. The political hypotheses are more helpful in explaining Botswana’s success. Botswana
has implemented many policies that have been successful in managing its diamond rents, such as its initial investment in both physical and social infrastructure, its foreign currency savings funds, its currency management policies, employment of expatriate workers, and its policy of negotiating with other governments and the private sector. Regarding its institutions, Botswana has also developed a meritocratic bureaucracy that has driven the government’s economic policy-making and implementation process. Its strong institutions are also evident in the lack of rent-seeking and small amount of government corruption. While its efficacious economic policies and good institutional quality have allowed the economy to avoid the resource curse, Botswana has experienced authoritarian-like rule despite its maintenance of multi-party democracy. This authoritarianism stems from the overwhelming dominance of the ruling Botswana Democratic Party (BDP) and the increasing power of the President. The final political hypothesis predicting social conflict gains little traction in Botswana; there has been a strong sense of social cohesion in the country with a higher degree of ethnic homogeneity than that found in most sub-Saharan African countries.

4.1 Economic explanations

Botswana has been described as a miracle. As Samatar (1999, 1) states, “In sharp contrast to the failures and disappointments that cloud the rest of Africa, Botswana’s thirty years of independence have been a time of hope, optimism, and progress.” While much of this African miracle has been accounted for by good governance, another critical variable in the development of Botswana’s economy has been the relatively stable price of its primary export—diamonds. Botswana benefits from its unique relationship with the global diamond cartel, De Beers. As a
consequence of the De Beers monopoly of the diamond trade, diamond prices are not a result of market trading as is the case for other minerals such as copper or even precious metals such as gold. Botswana is the largest diamond producer in the world by carats and value and accounts for 66% of De Beers’ output (IMF 2007, 22). As a result of its dominance in diamond production, the international diamond price is determined by the average export value per carat for Botswana’s diamonds (Iimi 2006). It has been in Botswana’s interest that De Beers keep prices high and that the company maintained “the myths of high-value, scarcity and permanency intrinsic to diamond selling” (Good 2008, 24). One could say that Botswana has a monopoly within a monopoly, which has kept its revenue from diamonds high and stable relative to the fluctuation of other hard-mineral prices. This steady stream of diamond revenues has been the driving force behind Botswana’s rapid GDP growth, which averaged 9.3% annually for the decade 1975-1976 to 1994-1995 (Hope 1998). Table 4.1 shows Botswana’s GDP growth since independence. Botswana experienced a steady four-fold expansion in diamond rent from the early-1970s to the early-1990s (Auty 2008). Such an increase in GDP and diamond rent resulted in an increase in government revenue, as is demonstrated by table 4.2.
Table 4.1: Gross Domestic Product 1966-2009 BWP

<table>
<thead>
<tr>
<th>Years</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>0.000</td>
</tr>
<tr>
<td>1969</td>
<td>1000.000</td>
</tr>
<tr>
<td>1972</td>
<td>2000.000</td>
</tr>
<tr>
<td>1975</td>
<td>3000.000</td>
</tr>
<tr>
<td>1978</td>
<td>4000.000</td>
</tr>
<tr>
<td>1981</td>
<td>5000.000</td>
</tr>
<tr>
<td>1984</td>
<td>6000.000</td>
</tr>
<tr>
<td>1987</td>
<td>7000.000</td>
</tr>
<tr>
<td>1990</td>
<td>8000.000</td>
</tr>
<tr>
<td>1993</td>
<td>9000.000</td>
</tr>
<tr>
<td>1996</td>
<td>10000.000</td>
</tr>
<tr>
<td>1999</td>
<td>12000.000</td>
</tr>
</tbody>
</table>

Its high revenue has enabled Botswana to maintain a unique relationship with the international donor community in that unlike most of sub-Saharan Africa and the rest of the developing world, Botswana has not needed much IMF or World Bank funding. But while revenues have been relatively stable because of the stability of diamond demand, “…shifts of plus or minus 15% of
revenues are fairly typical in Botswana” (Pegg 2009, 15). In times of revenue uncertainty the
government of Botswana has attempted to manage its resources by stockpiling diamonds or
reducing production, as it did in the early 1980s to manage a slump in diamond demand. It is the
possibility of reduced demand that most concerns the government. As Peat (1997, 410) states,
“there is less certainty regarding the sustenance of the diamond market whose buoyancy depends
on affluence arising from good economic performance of major consuming countries such as the
United States, Japan and EU members.” This effect was noticed in 2009 when, as a result of the
financial crisis, Botswana experienced an unprecedented negative growth in GDP of 10.2%.

Despite the rapid expansion of the diamond industry that began just after the
commissioning of the Orapa mine in 1971, the industry did not create much spin-off growth in
the other sectors of the domestic economy, which supports to an extent the third economic
explanation found in the resource curse literature, which states that the nature of extractive
industries is not conducive to generating broader economic growth. One indication of this is the
low level of employment generated by the minerals sector in Botswana. In 1972 the industry
employed around 3500 workers, which represented 9% of formal employment; by 1995
employment in the mining industry stabilized at around 13,000 employees, which accounted for
only 5% of formal sector employment (Peat 1997). The low level of employment in the major
export sector encouraged the government to create public-sector jobs to avoid larger
unemployment numbers. Job creation in the formal sector would have been flat in the mid-1990s
if the government had not boosted employment by 25% (Auty 2001).

The government’s difficulties with unemployment were compounded by the decline of
the agricultural sector and the slow growth of manufacturing. The growth difficulties found in
these sectors raise the question of possible Dutch disease effects. Regarding manufacturing,
however, this sector has not declined as is predicted by the Dutch disease logic of crowding out. Manufacturing has more or less consistently accounted for 5% of GDP. The sector experienced an average growth rate of about 7.6% between 1982/83 and 1988/89, declining to about 3.3% per annum between 1989/90 and 1994/95 (Mpabanga 1997). The slow growth of the manufacturing sector is better explained by the many other constraints it faces, including the fact that it is not integrated into the domestic economy, as revealed by the insignificant amounts of local raw materials or processed inputs in the sector (Samatar 1999). Other constraints include the small domestic market, transportation costs, South African trade restrictions on Botswana exports, the high costs of utilities, the high costs of labor, the lack of entrepreneurs, the lack of local inputs, and excessive bureaucratic requirements.

The agricultural sector has, however, experienced a marked decline since independence in 1966. The sector was growing by 8.3% per annum in the 1970s before the onset of significant diamond production, but it declined by 1.2% each year in the 1990s (Pegg 2009). The contraction of the agricultural sector has been attributed both to natural obstacles to the growth of agriculture in Botswana and the Dutch disease. The natural obstacles include the fact that the Kalahari desert covers most of Botswana. The country is consequently classified as semi-arid and is prone to drought. As is common in such climates, cattle-herding is the major agricultural activity. The percentage of arable land in Botswana, or the area suited to rain-fed crops, is less than 5 percent (Auty 2001). As for Dutch disease effects, the mechanism blamed is the strengthening of the Botswanan pula against the South African rand after diamond booms, causing Botswana’s agricultural products to lose their competitiveness. The government has tried to overcome these difficulties with the manufacturing and agricultural sectors via a series of
policy solutions, which leads us into first political hypothesis of the resource curse—the management of resource rents.

4.2 Political Explanations

As many contributors to the resource curse literature argue, the most important explanation for the resource curse derives from the first political hypothesis concerning the policies that are implemented to manage resource rents. Hence, the main question is: “How are mineral rents used?” Botswana’s policies have earned it the title of a resource-dependent success story. The country is often portrayed as following relatively liberal economic policies and development strategies. Among Botswana’s more successful policies are: its initial development of physical infrastructure, investment in human capital, savings of foreign currency, currency management, minerals taxation policy, its policy of negotiation with external agents and the formation of private-public partnerships, and its use of expatriate experts. Since independence, the government of Botswana has also established state-owned enterprises in attempt to strengthen the manufacturing and agricultural sectors and as a siphon for excess diamond rents in order not to exceed the economies absorptive capacity; however these organizations have met with mixed results.

Two of Botswana’s initial goals for the use of diamond rents were to develop its physical infrastructure and human capital. In 1966 Botswana was one of the poorest countries in the world with almost no roads, railways, utilities, or schools The BDP government adopted and implemented a series of development plans focusing on investment in infrastructure, health and education (Acemoglu, Johnson and Robinson 2001). Following from relatively high levels of
government expenditure, the education system in Botswana has been noted for its success in achieving high levels of primary school enrollment, high levels of female enrollment, and high levels of adult literacy. Expansion of the education system has been a goal of the state since independence. From 1966, education expansion was rapid, from fewer than 80,000 students in 1966 to nearly 400,000 in 1990 (Meyer, Nagel, and Snyder 1993). Primary school enrollment levels in 2006 were at 89.2% for children aged 6 to 12 and 62.2% for children aged 13-17.

The third policy that illustrates Botswana’s successful rents management has been the government's policy of saving, both domestically and in foreign currency reserves. Botswana has kept substantial reserves of foreign currency, which stood at US$4.9 billion in 1996 (Hope 1998). The government has typically allocated two-fifths of its revenue to offshore investments and accumulated financial reserves of 125% of GDP (IMF 1999). In 1972 the government created the Public Debt Service Fund (PDSF) and the Reserve Stabilization Fund (RSF). As its name implies, the purpose of the RSF was to accumulate reserves that could be used in downturns. The PDSF has a different role, which has been to safeguard the funds it receives and earns in order to meet possible future government debt obligations (Faber 1997).

The initial goals of the PDSF were gradually transformed as diamond revenues continued to grow and became both a device for siphoning government surpluses away from the budget and a source for funding the capital required by state-owned enterprises (SOEs) (Faber 1997). By the mid-1990s, the PDSF was the largest lender in Botswana. The vast majority, 85% of its portfolio, went to Botswana’s parastatals, and most of that went to the Botswana Housing Corporation (BHC). The remaining percentages were as follows: 7% of its loans went to local government, another 7% went to private sector borrowers, and 15% went to educational, training or research programs (Faber 1997). The problem with the PDSF is that it has become a source of subsidized...
interest rates that has allowed otherwise unprofitable SOEs to produce returns, and for inefficient management of some SOEs to continue, as will be discussed later in reference to the BHC. Overall, the PDSF has been less successful than Botswana’s other policies.

Regarding currency management, as a member of the South African Customs Union (SACU), the government did not even introduce its own currency, the pula, until 1976, after it began receiving steady income from the diamond industry. At the time, the government saw membership of the rand currency area as an advantage: it did not have to worry about foreign exchange constraints since the rand was an internationally respected currency (Samatar 1999). The pula has been loosely pegged to the rand. Keeping the nominal exchange rate from real appreciation was one of the major policy objectives of the government, which was achieved in part by maintaining large foreign reserves (Sarraf and Jiwanji, 2001). In managing the appreciation of the pula, the government has hoped to enable economic diversification by keeping its other tradable sectors competitive. The pula has occasionally been overvalued against the rand or the dollar, and in some instances, the government has had to sacrifice the competitiveness of some sectors in order to allow the pula to appreciate to counter inflation. But the exchange rate has for the most part been stable.

The minerals policy implemented by Botswana’s bureaucracy has been extremely important for securing mining development for the country and for producing subsequent resource rents. One aspect of this policy that has been particularly successfully managed has been the minerals tax and royalties, which for diamond mining are a 10% royalty and 25% income tax. For other types of minerals the royalty fees are lower: 5% for precious metals and 3% for other minerals. Related policies include a liberal foreign exchange control regime which
has allowed a relatively free repatriation of dividends and profits, and virtually unrestricted imports of goods and services (Gaoloathe 1997).

A further important policy implemented by the government to secure its revenue sources, especially resource rents, is its policy of negotiating with foreign governments and MNCs. There are many examples in which the government has successfully negotiated such agreements. In 1969 President Khama renegotiated the South African Customs Union agreement to capture more revenue for Botswana. Also shortly after independence, under the auspices of the Lomé convention, the Botswana Meat Commission negotiated access to the EEC market, gaining higher prices for beef exports than would have otherwise been provided by the international market (Acemoglu, Johnson and Robinson 2001). Of particular importance has been the government’s ability to negotiate its relationship with De Beers. In 1975, the government successfully negotiated an increase in its equity share in its joint venture with De Beers—Debswana—from 15% to 50% (Good 1992). The government not only has a 50% equity share in Debswana, but also has a 15% equity share in De Beers itself (other equity holders being Anglo American and the Oppenheimer family). In 2006, the government and De Beers agreed to establish the Botswana Diamond Trading Company, another 50-50 joint venture. The negotiations that ended in 2006 lasted about seventeen months and the resulting agreement gave De Beers a twenty-five year control of Botswana’s entire diamond production in return for its partial or complete relocation of the Botswana Diamond Trading Centre (DTC) from London to Gaborone (Good 2008).

The ability of the BDP government to negotiate and create more beneficial agreements with external companies and governments is partially due to the government’s use of expatriate experts. The policy of employing expatriates in the bureaucracy and in SOEs is yet another
successful aspect of resource rent management. Botswana, like most other newly-independent African states, did not have a strong class of educated bureaucrats and technocrats. Directly after independence the civil service was composed mostly by expatriates, who represent 73% of the civil service. Despite this domination of the bureaucracy by expatriates, President Khama’s government made it policy not to localize, or indigenize it in any way. President Khama has said that “…we would never sacrifice efficiency on the altar of localization.” Expressing similar sentiments, Peter Mmusi, former finance minister and Vice President, noted that “a purposeful government which acquires the expertise to deal with foreign companies on its own terms need not have a fear of domination by foreign companies” (Samatar 1999, 81-82). The efficient operation of Debswana and the consistent expansion of its mining operations are due in part to this expatriate-friendly policy. Debswana remained under the operational control of Anglo American Services Ltd for 23 years, before it established its own management structures (Good and Taylor 2008).

The BDP government also created several organizations and funds to use diamond rents for economic development. The first such organization, created in 1970, was the Ministry of Finance and Development Planning (MFDP). The purpose of the MFDP was to plan, budget and oversee all development projects. Samatar (1999) calls the MFDP the “brains trust” of Botswana’s economic policy, comparable to Japan’s MITI. In the same year the government created the Botswana Development Corporation (BDC) which operates under the umbrella of the MFDP and is responsible for identifying viable economic opportunities in Botswana and seeking out potential investors (Samatar 1999). If no investor emerges, then the BDC can use funds to create the industry itself; enterprises in which the government has 50% or greater equity are considered subsidiaries of the BDC.
The Botswana Enterprises Development Unit (BEDU) was created in 1973. Placed under the Ministry of Commerce and Industry, the aim of BEDU is to train potential entrepreneurs in how to acquire finance so as to help develop small and medium enterprise and diversify the economy. Similarly, the aim of the Financial Assistance Policy (FAP), introduced in 1982, was to assist small, medium and large-scale domestic firms, in addition to boosting employment. FAP came as a response to the report on *Employment and Labour Use in Botswana* that argued that public agencies were needed to support industrial development and employment (Peat 1997). By 1993 the policy had funded over 4,000 projects and successfully supported the domestic manufacture of metal (school furniture), school uniforms and protective clothing (Samatar 1999; Mpabanga 1997). In 2001, BEDU and FAP were consolidated into the Citizen Entrepreneurial Development Agency (CEDA). The final pertinent organization that was created to use diamond rents for development was the National Development Bank (NDB), which was created in 1975. The NDB, acting under the direction of the MFDP, has supported small agriculture and industry by granting loans to projects considered too risky or too costly to attract private loans (Makgetla 1982). Recently, however, the NBD has experienced problems of corruption, which will be discussed further below in regards to hypothesis seven.

Regarding hypothesis six concerning institutional quality, Botswana is renowned for the strength of its bureaucracy and the rule of law. Botswana has a strong executive, which is primarily a reflection of the powers of the president, which will be discussed later in reference to the eighth hypothesis regarding authoritarianism. However, it is important to note now that the strength of the executive has also given the ruling elite a certain autonomy that has arguably kept economic policy stable. Similarly, the security of the political elite in the country has allowed for the development of a meritocratic, non-clientelistic bureaucracy.
Botswana’s administration has the characteristics of a rational Weberian bureaucracy with a meritocratic recruitment of civil servants and predictable, long-term career rewards (Evans and Rauch 1999). Its openness to the best recruits without regard for politics has allowed Botswana’s leaders to implement the country’s development strategy by using expatriate expertise. The Public Service Commission has remained independent of politics in another sense as well in that the recruitment of personnel has not been neo-patrimonial. As Von Soest (2009, 14) points out, “Botswana’s four presidents have not used the cabinet as an instrument for the systematic provision of personal favors.” Carroll and Carroll (1997, 474) also argue that there exists “a strong commitment to bureaucratic values of service” and public service is not viewed as an avenue for personal enrichment.

As a result, the Botswana Public Service has garnered strength in the policy-making process. Indeed, “there has been a tendency for the bureaucracy to dominate the decision-making process to the point that it has been referred to as bureaucratic ‘paternalism’” (Carroll and Carroll 1997, 475). This characteristic is also noted by Leftwich (1996, 286): “the developmental determination of the elite and the relative autonomy of the state have helped to shape very powerful, highly competent and insulated bureaucracies with the authority to direct and manage the broad shape of economic and social development.” Another important arm of the bureaucracy implements minerals policy under the Department of Geology (that assists companies in conducting minerals prospecting), the Department of Mines (that assists companies in conducting mining operations), and the Ministry of Minerals Resources and Water Headquarters which, with the Minerals Policy Committee, drafts policy and handles negotiations with mining companies.
The strength of the judiciary is another indicator of institutional strength. In Botswana, the judiciary is much stronger than that of neighboring countries. Fombad states that “what sets Botswana apart from most other African governments is the considerable freedom with which the courts regularly review and invalidate irregular and illegal executive and legislative acts” (2005, 343). Tsie (1996) gives an example of such an occasion when he discusses the High Court upholding petitions asserting election irregularities by an opposition party against the governing party in the mid-1980s. Another example of the court ruling against the government occurred in September 2001 when it judged that President Ian Khama’s ban on parastatal advertising in two newspapers, the *Midweek Sun* and the *Botswana Guardian*, due to their criticisms of the President, was unconstitutional. However, the judiciary is not formally autonomous. High court judges are dependent on the executive for the terms and salaries they receive (Good 2008, 36). There have also been allegations of corruption within the judicial system.

Generally Botswana is praised for having good governance and low levels of corruption. The BDP government has rarely been accused of corruption. Botswana is placed in the 68th percentile for rule of law in the World Bank’s governance index and the in the 80th percentile for control of corruption. Corruption and rent-seeking have gradually become more serious threats to the continued growth of the economy of Botswana, as hypothesis seven suggests. Scandals in the 1990s have blemished Botswana’s good record. Both the NDB and the Public Debt Service Fund, through the troubles at the Botswana Housing Corporation (BHC), have experienced problems of corruption and the misuse of public office for private purposes. There have been other corruption scandals over land appropriations involving high level officials and cabinet ministers, as well as issues with the former General of the Botswana Defense Force, and current President, Ian Khama’s personal use of military aircraft.
Allegations of corruption at the Botswana Housing Corporation were made in the mid-1990s. Two of the major instances that were noted in the Kgabo and Christie reports to the President about these allegations were the 53 million contract pula with a South African builder to construct a new headquarters for the BHC, of which P12 million was paid before the contract was cancelled, and the plan by the Assistant Minister of Local Government to build 407 high-income homes for personal friends (Good 1994). These scandals involved bribery and fraud and the misappropriation of at least US$25 million by senior officials and foreign contractors (Hope 1995). The resulting financial troubles prevented the BHC from financing further housing construction and from meeting its debt obligations to the PDSF.

Another corruption scandal emerged in the mid-1990s in the National Development Bank (NDB). As was mentioned above, the NDB was to provide financing for firms deemed too risky by private sector financial institutions. But by the end of 1993 the NDB was nearly bankrupt, and its accumulated losses totaled P41 million and outstanding loans amounted to P91 million, of which over one-third were in arrears (Good 2008). It became known that high-level government officials had received loans but had not been paying them back. The combined debt owed by these ministers and BDP MPs to the NDB was estimated to be near P30 million (Good 2008). Occurrences of corruption within two of the largest parastatals in Botswana are troubling for the country’s record of good governance.

The misuse of government revenue created popular outrage, which resulted in rare pressure being exerted on the BDP government to respond to citizen unrest. This resulted in the formation of the Anti-Corruption Campaign Group, made up of church, student groups, trade unions and the BNF (Botswana National Front) The anti-corruption movement demanded the creation of an office of ombudsman, a bill requiring members of parliament and government
officials to declare their interests, and a code of conduct for all parliamentarians. The government responded by creating the Directorate of Corruption and Economic Crime (DCEC) in 1994 and the Ombudsman in 1995 (Von Soest 2009). The degree of power possessed by these new organizations is, however, questionable. An example regarding the power of the Ombudsman arose in reference to the Vice President Ian Khama’s piloting of BDF aircraft. In 2001, the Ombudsman submitted a report on the matter to President Mogae after a member of parliament complained. The report was ignored by the President and it was not until 2004, when the matter did not disappear, that the Assistant Minister of Presidential Affairs addressed the issue before Parliament, stating that the President had authorized the Vice-President to fly BDF aircraft as commander-in-chief (Good 2008).

As the outbreak of these scandals reveals, corruption could be a growing threat to the future economic growth and development of Botswana. Nevertheless, to date corruption has not been particularly widespread, and it has not damaged economic growth, nor has there been much rent-seeking by social or interest groups. The main reason for the low degree of rent-seeking in Botswana is the strength and stability of the elite ruling-class. The administrative nature of British rule in Botswana before independence kept tribal social structures in place and left the economy extremely underdeveloped and dependent on British aid. The limited colonial rule and the conservation of pre-colonial tribal society accorded legitimacy to President Khama and enabled him to form a broad-based coalition. Acemoglu, Johnson and Robinson (2001, 23) argue that “the relative security of elites in Botswana contrasts with the situation in many post-independence African countries where development policies appear to undermine the power base of traditional political institutions.” Thus colonialism left Botswana in a quite different position from that of its neighbors, including Zambia. The elite of Botswana benefited from its tribal
legitimacy and the peasantry continued to respect the new state that had been erected by its old tribal families helping promote political stability. The relative weakness of the country’s civil society is indicative of the subservience of social groups to the governing elite. In Botswana there is no strong trade union movement or many competitive tribal-ethnic groups. Only recently have discontented groups, such as students and church groups, begun to voice opposition to the BDP, but these groups have not gained much political power, nor are they lobbying on behalf of economic interests.

While this legitimacy has allowed the elite to build strong institutions and an effective economic policy, it has also created constituent complacency and the continuous accrual of power to the president. The accrual of presidential power is consistent with the eighth resource curse hypothesis regarding authoritarianism. As this hypothesis suggests, presidentialism could become increasingly problematic for Botswana despite the fact that there have been no notable dysfunctional economic policies implemented up to this point, or a consequential slow or negative growth.

There is the potential, however, for greater political abuse and departure from democracy in the future. The constitution of Botswana has the potential to produce an executive as strong those that have emerged in other African states. Fombad (2005, 303) openly questions whether “the apparent separation of powers provided for in Botswana’s constitution is anything more than the hegemony of the executive over the other two branches of government.” Botswana’s electoral democracy has indeed been challenged by very low participation rates, a moribund civil society, and increasing illiberalism (Good and Taylor 2008). After independence, the BDP crafted a constitution which called for a British-style Westminster parliamentary system. But the constitution left considerable power to the executive vis-à-vis parliament and to the ruling party
vis-à-vis the party in opposition. The strength of the executive branch and its vulnerability to cooptation by the president has much in common with many other sub-Saharan African regimes.

The lack of constraints on the executive is best illustrated in relation to parliament. The president is himself a member of the National Assembly. Despite his seat in the Assembly, the president is no longer popularly elected due to the ratification of a constitutional amendment in 1972. In 1997 another constitutional amendment allowing for the direct succession of the vice-president to the presidency further increased the distance between the electorate and the president by removing parliament from the presidential selection process. This amendment has been controversial, and a 1995 survey found “that 63 per cent of those interviewed supported constitutional amendments to create a popularly elected president” (Good 2008, 32). After the 1997 amendment President Masire “voluntarily handed over the presidency to Festus Mogae, who was only recently, on 1 April 2008, succeeded by Ian Khama, son of the country’s first president” (Von Soest 2009, 10 emphasis in original). The president also has the power to appoint all other high offices of the executive. The cabinet members maintain their position in parliament; thus, the president is assured of support for legislation. In addition to appointing cabinet ministers, the President can appoint four specially elected members to the National Assembly. This power has been used in the past to maintain high-level officials in office despite election losses. For example, in 1969 and 1974 Vice President Masire was defeated by Bathoen Gaseetsiwe, a former chief, and member of the Botswana National Front (BNF), but was appointed to the Assembly anyway by President Seretse Khama (Good 2008).

With such control over the composition of parliament, the president and the executive control much of the policymaking process. Fombad (2005, 322) states that “because of the executive’s ability to ensure that desired legislation is passed, it is fair to conclude that, for all
intents and purposes, the executive controls parliament.” This control has been demonstrated on a number of occasions, as when in 1998 BDF soldiers were sent without debate in parliament to partner with forces from South Africa to invade Lesotho to quell popular discontent over recent elections. Similarly, a year earlier in 1997, the Assembly had held no debate on the important, proposed constitutional amendment that allowed for the automatic succession of the vice president to the presidency (Good, 2008).

Another factor which has added to the powers of the President is the strength of the ruling Botswana Democratic Party. The BDP has won large majorities in Parliament in every election since 1965. Table 4.4 lists the percentage of the vote gained and number of Parliamentary seats won by party for each general election since 1965. As a result the government has always been formed by the BDP and has shaped all policies implemented in the country since that date. Despite its overwhelming success in maintaining power, the BDP has experienced close calls in the national general elections. The closest the BDP has come to losing power was in the 1994 elections, which took place after many of the corruption scandals mentioned above. The relationship between the BDP and the ever-shifting opposition parties demonstrates that the BDP has not used its position to outlaw political competition. However, this competition has definitely been managed and controlled by the BDP.
Table 4.3: Number of Parliamentary Seats and Percentage of Popular Vote Won by Party 1965-2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BDP</td>
<td>28</td>
<td>24</td>
<td>27</td>
<td>29</td>
<td>29</td>
<td>31</td>
<td>27</td>
<td>33</td>
<td>44</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>80.4%</td>
<td>68.4%</td>
<td>76.6%</td>
<td>75.4%</td>
<td>67.9%</td>
<td>64.7%</td>
<td>54.4%</td>
<td>57.2%</td>
<td>51.7%</td>
<td>53.3%</td>
</tr>
<tr>
<td>BNF</td>
<td>------</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>13</td>
<td>6</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13.5%</td>
<td>11.5%</td>
<td>13.5%</td>
<td>20.5%</td>
<td>26.9%</td>
<td>37.1%</td>
<td>26.0%</td>
<td>26.1%</td>
<td>21.9%</td>
</tr>
<tr>
<td>BPP</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>14.2%</td>
<td>12.1%</td>
<td>6.6%</td>
<td>7.5%</td>
<td>6.6%</td>
<td>4.5%</td>
<td>4.2%</td>
<td>0%</td>
<td>1.9%</td>
<td>0%</td>
</tr>
<tr>
<td>BIP/IFP</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>4.6%</td>
<td>6.0%</td>
<td>4.8%</td>
<td>4.3%</td>
<td>3.0%</td>
<td>2.4%</td>
<td>2.8%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>BCP</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.9%</td>
<td>16.6%</td>
</tr>
<tr>
<td>BAM</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Indep</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>31</td>
<td>32</td>
<td>32</td>
<td>34</td>
<td>34</td>
<td>40</td>
<td>40</td>
<td>57</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: Electoral Institute for the Sustainability of Democracy in Africa, Botswana Election Archive

The strength of the President and his party has resulted in political and economic policy stability. The Botswana governing class created “a ‘typical’ developmental state situation, where the bureaucracy and the ruling party meshed” (Good and Taylor 2008, 756). This developmental state situation is similar in some respects to the cohesive-capitalist development regime type (Kohli 2004), or what has been described as the East Asian model of development, in that there is agreement about policy goals between the state and capital, a strong technocratic bureaucracy that is allied with private enterprise, and authoritarian, centralized executive power. Institutions that are protective of private property and support capitalist accumulation have been developed by this developmental state. It was in the interest of the political elite of Botswana to establish a more-or-less capitalist regime. Consequently, the authoritarian nature of Botswana’s democracy has not caused low economic growth, but has in many ways supported economic growth.
The last political hypothesis posits that social conflict is an important cause of the poor economic growth found in many resource-dependent states. As observed above, social cohesion and trust in Botswana are comparatively high. As Samatar (1999, 6) states, “The cohesion of the dominant class and its single-minded pursuit of economic growth is one of the features that distinguish this class from their counterparts on the continent.” This is in part due to the unusual colonial experience that left pre-colonial social structures largely untouched. “The relatively integrative nature of the Tswana institutions and the lack of colonialism seem to account for the current relative homogeneity of Botswana” (Acemoglu, Johnson and Robinson 2001, 10). The dominance of the Tswana, an ethno-linguistic group, has led to a relatively homogeneous society in which 85% of the population speaks Setswana, which is the language of the Tswana tribes. The Tswana dominate the eight tribes that control the country. The Bamangwato, the tribe of Seretse Khama, is one of the eight tribes ruled by the Tswana, which occupies the largest territory of the eight tribes (Leith 2006).

In the 1965 elections, Khama led the Botswana Democratic Party (BDP) against the Botswana Peoples Party (BPP). Unlike many other African parties at independence, the BDP and Khama were not pushing for independence, as “Khama’s views were not those of African nationalism expressed elsewhere” (Good and Taylor 2008, 753). The BPP was the more radical, pro-independence party. An important reason for the success of the BDP was the support it received from the tribal chiefs. As Tsie (1996, 602) states, “The majority of chiefs were worried and frightened by the radical stand of the BPP on many political issues, especially the future of the institution of chieftainship.” The BDP formed an important political alliance that has lasted since independence, and has only recently begun to fragment. Khama and the BDP attracted all of the politically significant groups, such as the educated elite, the traditional authorities, the
cattle farmers, and the rural population (Von Soest 2009). The assimilation of the chiefs was one of the party’s more important achievements. This coalition integrated within the party the traditional rural structures of loyalty between commoners and chiefs (Acemoglu, Johnson and Robinson 2001). At the same time, however, by being incorporated into the state structure, the chiefs were effectively subordinated to the state. Being at least somewhat based in the traditions of Botswana themselves, the state held legitimacy for most of the country’s population.

This legitimacy has resulted in an amazingly low demand for ethnic representation at the national level, or for ethnic distribution of government resources compared to other African countries. Reiterating a previous point regarding the country’s weak civil society, the Botswana elite is mostly free from civil society pressure. In Botswana political activism seems to take place at the local, grassroots level. Molutsi and Holm (1990, 334) state that “activists at the local level use community meetings…to legitimize criticism of the government,” and that “the focus is different from a pluralist system in that citizen mobilization deals with local problems rather than the national allocation of resources.” It is understood at the national level that many policies, especially those directly affecting the local level, must be vetted at the local level to be considered legitimate. This emphasis on local political discussion derives from the Tswana tradition of the tribal meetings called kgotlas. The kgotla is simply a gathering of the adult males of the tribe to discuss issues with the chief. However, the argument that the kgotla is an efficient means of expressing political criticism is questioned.

While the ability of the kgotla to appease political concerns at the local level is uncertain, what is certain is that social strife in Botswana has been rare. In the mid-1990s, political discontent with the BDP status quo grew. On 16 February 1995, riots in the capital city of Gaborone erupted as a reaction to the perceived cover up in the Mochudi village of the ritual
murder of a 14 year-old girl. The alleged perpetrators had been arrested and released due to lack of evidence; however, secondary school students in the village and in Gaborone were incited by what they perceived to be inaction by the government to protect them from such murders. In Gaborone, the protest quickly escalated into a riot when University of Botswana students and unemployed citizens joined the march. The protestors stormed Parliament, damaging private and public property, and were confronted by the Special Support Group of the police (Molomo 2001). The unrest of the students and other citizens continued for the following few days, resulting in violent clashes between the police and BDF and the protestors. This riot has been interpreted as being more than a reaction to the murder of the 14 year-old girl, and as a sign of underlying discontent with the BDP. Good (2008, 4) argues that “overall conditions of ‘negative peace’ or tacit underlying conflict exist in the inequitable society.” In accordance with Good’s statement, there are underlying social difficulties in Botswana, such as unemployment, and growing income inequality, but these difficulties for the most part have not resulted in social conflict, with the above exception, and are being expressed within the political arena.

4.3 Conclusions

The success of the Botswanan economy can be explained in part by resource curse hypotheses. The stability of the international price of diamonds has played a considerable part in the remarkable GDP growth experienced by the country. The argument of the third hypothesis, that the weak linkages between the mineral sector and other sectors of the economy accounts for the negative or slow growth experienced by many resource-dependent countries is not supported by the Botswanan case. The minerals sector in Botswana was not integrated into the domestic
economy, yet the economy still grew. Similarly, the Dutch disease argument is not supported by Botswana because although the country’s agricultural sector contracted due to Dutch disease effects, the overall economy still grew. For the most part, the avoidance of resource curse effects, as well as the high-growth rate, in Botswana has been due to political factors. It is clearly the case from the evidence that negative resource-dependency effects have been countered in Botswana by far-sighted, long-term policies contingent in turn on strong institutions and a stable political environment. Stable politics in Botswana have been underpinned by a relatively strong sense of social cohesion due to the pre-colonial roots of the state. This social cohesion has resulted not just in political stability and strong political institutions but also in effective economic policies for managing resource rents such as investment in infrastructure and savings funds.

The strong institutions include a meritocratic bureaucracy that has not generally been prone to corruption and that has directed and implemented development policy. An authoritarian-like democratic regime evolved in Botswana under the continued dominance of the BDP and the strengthening of presidential powers. This centralized political power resulted from the indifference of the people of Botswana towards politics. But while the ninth resource curse hypothesis suggests that authoritarianism weakens the economy of resource-dependent nations, in Botswana it strengthened the capacity of the government to pursue its economic development plans. Finally, due to its social cohesiveness Botswana has not experienced civil war, and even riots and marches have been uncommon.

The interaction effects of the critical variables in the Botswanan case have created a positive feed-back loop between the relative price stability of diamonds, a cohesive society and
strong political elite, and strong institutions able to formulate and implement efficient economic policies.
5: General Conclusions

President Kenneth Kaunda aptly summarized Zambia’s experience with the resource curse when he said, “We are in part to blame, but this is the curse of being born with a cooper spoon in our mouths.” Zambia encountered many of the effects attributed by the resource-curse literature to single resource dependency: dramatic price fluctuations, the low level of integration of its minerals sector with its domestic economy, a mismanagement of resource rents, weak political institutions, rent-seeking, corruption, and modest instances of authoritarianism and social pressure. But nuancing the resource-dependency approach, not all of these factors, including the enclave nature of Zambia’s copper industry, the authoritarianism, and the instances of social conflict were devastating for the Zambian economy.

In Botswana, fluctuations in the diamond price were not problematic for the government, but weak linkages between the diamond industry and the broader economy, as well as certain Dutch disease effects have created difficulties for the government. Nevertheless, the economy has still grown despite these effects and contrary to the expectations of hypotheses three and four. Regarding political explanations, the government has better managed its resource rents than might have been expected, developed stronger institutions, experienced little rent-seeking or corruption, and has encountered little social conflict. Botswana has, however, developed a very strong presidency with authoritarian characteristics.

Using Mill’s method of agreement, five of the nine major explanations provided by the resource curse literature account for most of the difference between the economic outcomes of Zambia and Botswana. These five hypotheses are: (2) price stability, (5) rent management, (6) strength of political institutions, (7) rent-seeking and corruption, and (9) social conflict. These
five have significantly differed between the two cases. The fourth hypothesis regarding the Dutch disease is also different between the two cases; however, since the suggested negative effects of the Dutch disease existed in Botswana and not Zambia, the Dutch disease itself cannot explain the difference in outcome between the two. The three hypotheses that reveal similarities between the two cases are (1) declining terms of trade, (3) weak linkages between the minerals sector and the rest of the economy, and (7) authoritarianism. Returning to table 2.1 we can illustrate these conclusions with a simple appraisal of the effects of each of these hypotheses by country.

| Table 2.1: Resource Curse Hypotheses and Their Degree of Presence in Botswana and Zambia |
|---------------------------------|-----------------|
|                                | Botswana | Zambia |
| H1: Declining Terms of Trade    | 0        | 0      |
| H2: Price Volatility            | 0.5      | 1      |
| H3: Weak Linkages               | 0.5      | 1      |
| H4: Dutch Disease               | 0.5      | 0      |
| H5: Rent Mismanagement          | 0        | 1      |
| H6: Weak Institutions           | 0        | 1      |
| H7: Rent-seeking and Corruption | 0.5      | 1      |
| H8: Authoritarianism            | 0.5      | 0.5    |
| H9: Social Conflict             | 0        | 0.5    |

As indicated earlier, the declining terms of trade explanation for the resource curse is not supported by the evidence simply because there has not been an overall downward trend in the prices of copper or of diamonds. However, there has been great volatility of the price of copper, which corresponded directly with the fiscal difficulties of the Zambian government in the way of decreased revenue and increased debt. This erratic relationship between government revenue,
debt and copper prices began when copper prices dropped in the mid-1970s, undermining the ability of the Zambian government to manage its affairs. Botswana, on the other hand, has benefited from a unique relationship with the diamond cartel, De Beers, which has sought to manage supply and demand in the international diamond market, resulting in more stable prices. The importance of high and stable diamond prices to the Botswana economy has been evident at various points in its history. One point occurred in 1980 when diamond prices did experience an uncharacteristic decline. This fall caused a similar decline in government revenue. While this fall in prices did not last long, the stability of diamond prices has become increasingly uncertain because more countries have begun exploiting newly discovered reserves outside of the De Beers cartel and because of the recent global recession. These two cases reveal the importance of the second hypothesis, commodity price stability, for a government’s ability to overcome the resource curse effects.

The effects of the weak linkages of the mining sector to the broader economy that has been experienced in both countries, as well as the Dutch disease in the case of Botswana, have made it difficult for Zambia and Botswana to diversify their economies. In Zambia the dual nature of the mining industry was established before independence when the British South Africa Company created an industrialized mining sector that was surrounded by subsistence agriculture. Since colonialism, Zambia’s manufacturing sector has not expanded much into the production of exportable capital or consumer goods. It has continued to produce supplies for the mineral sector and some domestic consumer goods. The relatively consistent growth of the manufacturing sector complicates simple assertions of Dutch disease effects. In Botswana the enclave nature of the minerals sector is indicated by the low level of employment generated by the diamond industry. Also, similar to the Zambian case, Botswana has been unable to diversify its economy.
Its manufacturing sector has oscillated between 3% and 5% of GDP, while its agricultural sector has declined since independence, in part due to Dutch disease effects with the rise of the pula making Botswana’s agricultural products uncompetitive. In comparing the experiences of each country with regard to the four economic hypotheses, the second hypothesis, price stability, is the only one on which the cases have diverged significantly.

While only one of the economic hypotheses has been shown to be significant in accounting for the difference in outcome between Zambia and Botswana, four of the five political hypotheses are significant. The first of these regards rent-management policies. Initially, directly after independence both Zambia and Botswana used their resource rents to build physical and social infrastructure. These infrastructural programs were successful and aided their economic growth by building roads, railways, and schools. After its initial success with constructing infrastructure, the economic situation in Zambia began to decline. This decline was due in part to the loss of copper revenue because of the drop in copper price mentioned previously. However, it was also due to the policies implemented, and policies that were badly needed but were not implemented, by the Zambian government. In contrast, much of the Botswana’s success was due to the formulation and implementation of productive economic policies.

The first policy that Zambia needed was the conservation of resource rents in a reserve fund. The government of Zambia had established a foreign currency reserve fund, but after the fall in copper prices it quickly went through its reserves. In Botswana, the government created two such funds, the Public Debt Service Fund and the Revenue Stabilization Fund. By 1998, the Botswanan government had saved US$6 billion that allowed for three years of import cover. The government’s goal was not to spend all of its resource revenues and not to use resource revenues
to pay for recurrent budget spending. The second policy that Zambia needed was a policy of exchange rate control. The government of Botswana implemented exchange rate controls that helped control inflation, but the Zambian government failed to control its currency and subsequently inflation as well.

Regarding the unsuccessful policies implemented by the Zambian government, the first is import-substitution policy. This policy only managed to substitute the importation of final products for the inputs of the previously imported goods. Ultimately import-substitution resulted in an unproductive use of Zambia’s foreign currency reserves and acted as a drain on its copper revenues. The second policy that was poorly implemented by the Zambian government was minerals taxation, which directly affected the generation of resource rents. The new government after independence was reluctant to change the minerals tax system due to its distrust of the mining multinationals, Anglo American and the Rhodesian Selection Trust. The policy was eventually changed after years of fruitless negotiations and conflict with the MNCs. In contrast, the government of Botswana did not inherit a vibrant mining industry at independence, and was therefore free to establish its own tax system, which it did quickly. It established a 35% royalty and income tax rate which has been kept relatively steady ever since.

Nationalization of its major industries was another policy of the Zambian government that ended as a drain on state revenue. The mining industry was nationalized in 1969, but the negotiation process between the Zambian government and MNCs revealed its inability to establish and pursue consistent policy goals. This inability resulted in the subsequent nullification of the negotiated contracts, which had kept the industry under foreign management, in 1973. This abrogation of the managerial contracts had three major consequences: it essentially depleted all of the country’s foreign currency reserves; it gave government complete
responsibility over the industry (i.e. for reinvestment purposes, the marketing of copper, etc.), making the country even more dependent on the health of copper prices; and it provoked the departure of valuable expatriate managerial experience at a pivotal point in the development of the Zambian copper industry, when such expertise was badly needed due to the shift of production to deeper and lower quality orebodies.

While Zambia inherited a relatively strong and more industrial economy, Botswana had only its cattle industry to nationalize (which it did) at independence. The governing elite of Botswana sought to develop its mineral sector along with cattle and allowed multinationals to prospect for minerals throughout the country. In 1967, as had been suspected, diamonds were found at what is now the Orapa diamond mine. After this discovery, the government worked with De Beers to establish a joint venture company named Debswana. Debswana was at first a 15%-85% equity share with the government owning the 15%. Through the years Botswana continued to negotiate with De Beers and earned a 50%-50% partnership and eventually the government gained a 15% share in De Beers itself. By embracing a policy of public-private negotiation with De Beers from the outset, the government benefited from De Beers financing, expertise and position within the international diamond market; as a result, Botswana’s diamond industry has not become a drain on its financial resources as the copper industry has in Zambia.

One risk of nationalization is the creation of an extensive system of bureaucratic organizations, parastatals and state-owned enterprises that will deplete government finances. This certainly happened in Zambia with the formation of its industrial parastatal holding company, INDECO and its major subsidiary, Zambia Consolidated Copper Mines. Similarly, Botswana established many parastatals that were coordinated by the Ministry of Finance and Development Planning (MFDP) and its equivalent to INDECO, the Botswana Development
Corporation (BDC). It is possible that in leaner times this sizeable parastatal complex in Botswana could become a strain on the Botswanan economy, as it has more generally in Zambia.

The final policy difference between the countries that became important for the productive use of mineral revenues was the policy of localization in which governments decided to hire citizens over non-citizens. Zambia implemented a policy of localization known as “Zambianization” that ultimately ended in the continued and chronic mismanagement of copper revenues. The goal of this policy was to include more Zambians in the country’s economy and was not limited only to the public sector; however, the policy became a means for the government to use the public sector as a source of jobs. This has increased the government’s recurrent expenditures to pay for public sector salaries. Also, as a result of Zambia’s scarcity of skilled labor and technocratic expertise, the economy was in need of expatriate experience; however the Zambianization policy scared such assistance away. This result was anticipated by the government of Botswana and it therefore introduced the opposite policy, which was to recruit expatriate workers, especially to bureaucratic and management positions. This policy was especially useful in the creation of a strong technocratic class in Botswana. Botswana also used expatriates to renegotiate the South African Customs Union that led to the country’s receiving more revenue, and it used expatriates in its negotiations with both the European Economic Community and De Beers.

Rent management and economic policies were definitely important factors in the collapse of the Zambian economy, where they were dysfunctional and unproductive, and for the growth of the economy of Botswana, where they were successful. Additionally, the contrasting quality of the political institutions in Zambia and Botswana is also important in explaining the different outcomes, feeding into the contrasting nature of critical public policies in the two countries. As
discussed, institutional quality is indicated by a wide variety of measures such as the strength of the executive, the parliament, the judiciary, and the bureaucracy. In the analysis above, the strength of political institutions, specifically the bureaucracy and the judiciary, was considered a strong indicator of institutional quality when investigating hypothesis six. Corruption and rent-seeking, and authoritarianism, also measures of institutional quality, were discussed as separate hypotheses. Zambia suffers from a weak bureaucracy with neo-patrimonial promotion practices, and poor policy implementation due to a clientelistic allocation of state resources and a lack of expertise. The associated problems are exemplified by the attempted agricultural reform, when the creation of the Credit Organization of Zambia led to the distribution of loans to peasant farmers and regions according to party loyalty. By contrast, Botswana has developed a more Weberian-type bureaucracy with meritocratic promotion and strength in the policy-making and implementation. Table 5.1 presents a comparison of the World Bank’s regulatory quality indicators, which measure the perceptions of the government’s ability to implement sound development policies.

Table 5.1: Regulatory Quality: Botswana and Zambia Compared

<table>
<thead>
<tr>
<th>Year</th>
<th>Botswana</th>
<th>Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>90</td>
<td>70</td>
</tr>
<tr>
<td>1998</td>
<td>80</td>
<td>70</td>
</tr>
<tr>
<td>2000</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>2002</td>
<td>60</td>
<td>70</td>
</tr>
<tr>
<td>2004</td>
<td>50</td>
<td>70</td>
</tr>
<tr>
<td>2006</td>
<td>40</td>
<td>70</td>
</tr>
<tr>
<td>2008</td>
<td>30</td>
<td>70</td>
</tr>
</tbody>
</table>
Regarding the strength of the judiciary and the rule of law, Zambian courts have been found to be less likely to rule against the government in cases brought against the government or governmental officials. The ruling party amended the Constitution in order to solidify its power with the creation of the Second Republic in 1972. While the judiciary in Botswana has been found to be more independent because its courts have ruled against the government in highly controversial cases, the government does have significant influence over the judiciary in other respects. Table 5.2 shows the comparison between the Zambian and Botswanan judiciaries, as measured by the World Bank’s rule of law indicator.

Table 5.2: Rule of Law: Botswana and Zambia Compared

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>70</td>
<td>65</td>
<td>60</td>
<td>55</td>
<td>50</td>
<td>45</td>
<td>40</td>
</tr>
<tr>
<td>Zambia</td>
<td>30</td>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Zambia has had more trouble than Botswana in avoiding rent-seeking and corruption and consequently their adverse consequences for its economy. The pressure exerted by unionized workers, most importantly the mining unions, has been detrimental for the Zambian economy. The unions pressed the government to continue to provide urban food subsidies and wage
increases long after these demands were no longer economically viable. These demands required the government to pursue a balancing act between engaging with the International Financial Institutions and placating the miners. In Botswana, by contrast, the mining industry was only established after independence and consequently, the mining unions were not strong enough to demand large government concessions. Additionally, the government took active measures to counter the unions. Social pressure exerted on the Zambian government by unions and other social and interest groups encouraged the creation of a neo-patrimonial, clientelistic state in which corruption became more widespread and extended to the highest office in the country, with allegations of presidential embezzlement against former President Chiluba. Botswana has also experienced cases of corruption, but not rent-seeking. The cases of corruption in the Botswana National Development Bank and the Botswana Housing Corporation amounted to no more than pula 150 million, compared with the allegations against President Chiluba, which is just one of many corruption cases in Zambia, of misappropriating US $46 million. Table 5.3 shows a comparison of the World Bank corruption control indicator between Zambia and Botswana.
The single political hypothesis that is not a plausible factor in accounting for the divergence between the Zambian and Botswana cases is the authoritarianism hypothesis. These regimes have very similar political systems in which an almost invincible presidency has emerged. The presidents of Zambia and Botswana have rarely been challenged by their parliaments or questioned by their electorates. In Zambia an authoritarian phase began in 1972 with the introduction of the one-party state of the Second Republic, and lasted until 1990. During this period, the country remained under the control of the UNIP and President Kaunda used detention or assimilation tactics to suppress political opposition. In Botswana a one-party state has never been officially established; however, the BDP has won every election since independence. The position of president has gradually accumulated power and become less and less connected to the electorate following the constitutional amendment that allows for the automatic succession of the vice president. Despite their authoritarian tendencies, these regimes have not followed the logic of the resource curse hypothesis regarding authoritarianism, which predicts that resource rents enable governments to mollify dissent that leads to distorted
economic policies and poor growth. While Zambia has experienced poor economic growth, Kaunda’s establishment of a one-party state was a reaction to political instability in the country, which is contrary to the predictions of the hypothesis. In Botswana’s case gradual presidentialization was the result of stability and a placated electorate, which is the path to authoritarianism and poor economic growth predicted by the resource curse hypothesis; however, Botswana’s economic growth has not been affected by its authoritarian tendencies.

Political stability in Botswana leads to the final political hypothesis accounting for the difference with Zambia. Zambia has a more diverse tribal composition. Consequently regional politics are more important and create tension at the national level. Zambia also has a larger, more concentrated urban population which has facilitated a strengthening of the labor movement, which has been another source of instability. Labor unions have rioted on occasion to push for higher wages. Many of those riots occurred just before the establishment of the one-party state when members of opposing parties, such as the UP and the UPP, also clashed with UNIP members. After the declaration of the one-party state, opposition leaders were simply detained or co-opted. Just before the collapse of the one-party state, and during attempted economic reforms, these groups rioted and clashed again. Civil society in Zambia is stronger, although more fragmented, than in Botswana and as a result the country has experienced more conflict between these groups. In Botswana, the strong tribal institutions of the Tswana have maintained pre-colonial and pre-independence social cohesion between peasants and the elite. There has only been one riot in Botswana’s history, which occurred in 1995, and was due to the sentiment of young people that they were not being protected by the state, as well as to dissatisfaction among the unemployed. Despite recent dissatisfaction with the BDP, the party that was formed by the Tswana elite continues to be elected.
The cases of Zambia and Botswana show that the pessimistic correlation between resource-dependency and economic growth in developing countries can be avoided if social and institutional structures are conducive. The difference between these cases was not explained by the declining terms of trade hypothesis because it was not evident that copper or diamonds had suffered from an overall negative price trend. Nor was the difference between these two cases explained by the enclave nature of their minerals sectors, Dutch disease, or authoritarianism, because both experienced to varying degrees the presence of each of these mechanisms. The success of Botswana has depended on the interaction effects of five variables: the price stability of the resource (diamonds); social cohesion; the strength of the institutions built on this social foundation; the formulation and implementation of economic policies that used resource rents wisely by saving them and investing them appropriately; and the absence of pressures and problems associated with rent-seeking and corruption. Despite facing some challenges, the result has been an exemplary, if difficult to emulate, case of resource-dependent economic development.
Bibliography


Gewald Jan-Bart, Marja Hinfelaar and Giacomo Macola. 2008. *One Zambia, Many Histories*


