Botswana has long been lauded for developing uniquely strong political institutions and using its diamond revenues productively to enhancing the welfare of its citizens. However, depleting diamond sources conjoined with an inadequate level of economic diversity poses serious challenges to further development. Unequivocally, the country has arrived at a crossroads. Botswana must seize the narrow window of time before its diamond resources are depleted, by nurturing economic sectors and investing in human capabilities, in order to climb higher on the ladder of economic development. If they do not, the country may be set back dramatically after decades long successful policy efforts. This essay addresses the puzzle of why the development of Botswana has suddenly stagnated despite having powerful facilitating factors such as political stability and advanced economic policies. This essay will shed some light on the dilemma by discussing key political economy developments driven by the diamond dependency, and the way in which Botswana is integrated into regional markets. Current policy deliberations should be informed by a greater understanding of the main factors affecting past developments. Therefore, my aim is to contribute to the ongoing debate on the structural conditions affecting developmental outcome in the region, and to reinvigorate the discussion on possible policy solutions to mitigate/overcome contingency.

**Keywords**

political economy, resource dependency, Botswana, inequality, economic policy

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Introduction
Botswana is a sparsely populated, landlocked country in Southern Africa. It is home to 2.3 million people in an area roughly the size of France and shares borders with South Africa, Namibia, Zimbabwe and Zambia. It is a relatively homogenous country ethnically, where the Tswana group comprises 80% of the population. A former British colony, it achieved Independence in 1966. Since that time, Botswana gradually transformed from one of the poorest countries into a stable, middle-income nation with the highest Human Development Index in Sub-Saharan Africa (UNDP, 2019). The driving force behind this transformation was the discovery of diamonds in the late 1960s, which provided the funds for developing the country and became the most significant national asset in Botswana’s modern history. Although the discovery of the precious mineral was a blessing, which uplifted the independent nation in all aspects of life, its tenacious economic dominance became an ever-increasing burden, crippling all other economic sectors, rendering achievement of further socioeconomic development impotent.

This essay has been written to contribute to critical political economy discussions on current socioeconomic developments in Botswana and stimulate dialogue about possible ways forward. By reviewing a great deal of literature, I aim to get a good grip on the political economy dynamics governing current developments and informing policy discussions. This is crucial as the main asset of the country; the diamond fields, will be soon depleted and there are no other economic sectors in sight that can drive or support further development.

I. The Puzzle
This essay analyzes the enormous challenges that can face resource-abundant developing nations, striving to break free from commodity-dependency, even when significant facilitating factors are in place. Examining this dilemma through the case of Botswana is illuminating for multiple reasons. First of all, contrary to other Sub-Saharan African countries, Botswana has developed political institutions which, many scholars argue, are crucial for mediating between various socioeconomic factors (such as effective use of foreign aid and regulating market forces) and for reaping and distributing economic benefits to the broader society (specifically on Botswana, see: Acemoglu, Johnson, Robinson and Rodrik, 2002 and Iimi, 2006 for a general overview, Brady, Blome and Kleider, 2016). From this perspective, Botswana is indeed a ‘success story’ because it has maintained a stable political environment since its Independence. It has not experienced coups, escalated elite disagreements, enclaves or excessive state spending, oftentimes seen in countries suffering from the resource curse (World Bank, 2000). Botswana holds regular and free elections and maintains a pluralistic media. It is revealing that Botswana has a lower corruption level than numerous more developed European Union countries (Transparency International, 2019).

The political sphere is not the only one in which Botswana has excelled in the last 50 years. The country is lauded for having had one of the highest rates of sustained
economic growth; averaging 9% from its independence in 1966 up to the millennium. The number of people living under the poverty line fell from 59% to 20% in the period of 1985-2009 (Okatch, Siddique and Rammohan, 2013, p. 1). Measured by the standards of those scholars who suggest that the main concern of a country should be poverty alleviation and not inequality per se, Botswana has performed outstandingly. A stable and linear expansion of trade volumes was the main driver of this impressive economic growth (see Figure 1). The country also put their foreign aid and investments to economically and socially productive uses, such as infrastructure and education. This has fueled their continuous economic development and alleviated poverty (Maipose, 2008). As a result, the country transformed from a poor, aid-dependent country to a trade-oriented middle-income economy by the millennium. Their dependence on foreign aid dropped from 61% of the state budget in 1970, to a mere 2% by the year 2006 (Maipose, 2008, p.2).

Yet, despite the country’s considerable achievements thus far, breaking the resource dependency might prove to be an insurmountable challenge. Botswana seems unable to diversify its economy, which would be a prerequisite for eliminating commodity dependency, establishing independence from the diamond dependency, and proceeding forward to the status of a high-income nation (IMF, 2018). At this time, Botswana still suffers from one of the world’s highest and most persistent levels of inequality (World Bank, 2020c). It has recently become apparent that the country is stuck on the developmental ladder (both economically and socially). These observations lead me to my essay’s research question:

How can we explain Botswana’s stagnation despite its advanced economic policies and political institutions?

Figure 1. Development of exported goods and services (billions USD, constant 2010) and GDP/capita (constant 2010 USD). Own formatting. Source: World Bank (2020a, 2020b)
Stagnation primarily refers here to the lack of economic diversification but given the overall trend of slowing growth and social progress, and democratic backsliding, the term could be more encompassing. To gain insight, I propose examining the significance of the diamond industry in Botswana and its position in the global value chain and discussing the main implications of important social conditions, especially the long-lasting problem of inequality. The Botswanan case raises important questions about the developmental path of other Sub-Saharan countries because if the development of this economically successful country was bogged down, then what are the prospects for poorer, ethnically more heterogeneous countries where even basic institutions function insufficiently?

2. Theoretical Approach
While theories touting sound economic policies and a responsive political system are suitable to explain Botswana’s developmental success over the last 50 years, they are inadequate to account for or even delineate the determinants of its stagnated progress. I argue that this impasse can only be understood from a more structural viewpoint that asserts the ability of a country to altering its relative position in the global value chain and division of labour. This is the analytical lens through which I will examine the role of the diamond industry and the prospect for Botswana’s catching up. I will strive to present the significance of the diamond sector, its effects on domestic economic system and detail the social implications of this one-sided development. In order to fulfill this research purpose, I will synthesize a great deal of literature focusing on the diamond-development nexus from both a global and domestic perspective.

The essay proceeds as follows: first, I will give a brief overview of the economic policies and political environment that put the country on the developmental fast track leading up to the millennium. Then, I will discuss the role of the diamond industry, which appeared to be a blessing after the country’s Independence but later locked Botswana into commodity dependency. Some other structural barriers will be mentioned as well in order to provide a more complete picture about the country’s developmental challenges. I will show why it is difficult for Botswana to integrate itself into the regional economic system with higher value-added products and services. Subsequently, special attention will be paid to how the mining industry contributed to the inequality of the country, giving rise to burning and persistent economic and social maladies.

3. Economic Policies and Trade Regime
The Botswanan government implemented policies throughout its independent history that have been cherished by the Bretton Woods institutions. The country has made important steps towards trade liberalization to diversify its economy, developed ambitious plans and strategies (e.g. Economic Diversification Drive and Competition Policy, among others, for an overview, see: Malefane and Odhiambo, 2016) to better capitalize on trading opportunities (Malefane, 2020). As a result, the
country successfully transformed from import-substitution-industrialization to an export-based trade regime. Additionally, the government made meaningful efforts to attract foreign investments and boost the competitiveness of domestic sectors. As part of this strategy, the country gradually eliminated trade restrictions; joined regional and multilateral trade agreements (e.g. SADC -South African Development Community and the Cotonou Agreement); provided a solid macroeconomic environment (low inflation, stable exchange rates and disciplined fiscal policy); enabled market access; facilitated privatization of state-owned enterprises; and reduced costs of doing business in the country (UNCTAD, 2003; Malefane and Odhiambo, 2016, Paul and Motlaleng, 2008). From the perspective of trade volume, the country benefited considerably from this developed framework and their trade relations became more liberalized (see Figure 2). However, the composition of exported goods did not change, a problem that will be discussed further in this study.

4. Consolidation of Democracy

Botswana is the oldest continuous democracy in Africa with regular, multiparty free elections. This stability was, in itself, extraordinary as well as crucial, especially because investors normally “prefer non-democratic governments when they operate in resource exporting countries” (Asiedu and Lien (2011, p.101). Nevertheless, Botswana, which secures more than 50% of its revenue from diamonds sales, received a steady flow of investments throughout its independent history while simultaneously being a democratic country (UNCTAD, 2003). The country has been standing firmly because it took advantage of its democratic system (e.g. accountability and protection of private poverty rights) and political stability provided by the unchallenged dominance of the Botswana Democratic Party (BDP). What are the historical
reasons for the emergence and consolidation of this democratic regime, so rarely seen in the developing world? Two crucial political factors gave birth to this successful development (Sebudubudu and Molutsi, 2011). The first is the formation of a grand ruling coalition facilitated by ethnic homogeneity (Tswana) and a common ideological stance of the dominant economic groups (the white settlers and the new political elite who owned lands as well) that helped calm rising tensions and hold the traditional leadership figures (especially Chiefs) at bay during the transition.

The second factor is the successful co-opting of the traditional, historical social practices into the modern institutional arrangements. The transition to independence did not abolish traditional institutions, as was the case in many African countries, but blended them into the emerging configuration providing stability and continuity in a period where power struggles were intense. A good example is ‘Kgotla,’ which serves as a forum for citizens to debate changes in policy and law and settle disputes. This assembly facilitates information exchange, maintains social order and keeps local political power accountable. These two factors, along with the inclusion of minorities in leadership, consensus building and productive cooperation with mineral capital, enabled the crystallization of democratic governance.

5. The Diamond Industry at a Glance
The discovery of the first diamond fields in Botswana coincided with the beginning of the country’s independence from Britain in 1966. Since then, Botswana has become one of the largest diamond producers in the world (NS Energy, 2020). The mining sector (mainly diamond, gold and copper-nickel) is undoubtedly the most significant economic sector in Botswana, with diamonds generating the lion’s share of the trading profit and the bulk of foreign investments (UNCTAD, 2003). The sector accounts for approximately 60% of the government revenue (subject to market volatility) and 90% of the export (IMF, 2018). The accrued revenues from export have financed the state’s developmental project. The joint venture of Debswana manages the production and export, while the Government of Botswana and De Beers Group each own 50% of the company. This shared ownership provided Botswana the opportunity to influence resource-allocation, as demonstrated by the successful in-sourcing of diamond beneficiation, thus integrating an important process of the supply chain into domestic production. Nevertheless, it should be noted that the negotiation process took decades and that the transaction only happened when De Beers lost its monopoly (and thus its strong bargaining position against the Botswanan government) in the world market, becoming more dependent on their sources of supply (Grynberg, 2013).

6. Economic Consequences and Prospects for Catching Up
Diamond dependency has had some markedly detrimental effects on economic development. Notably, the development of the agricultural sector was paralyzed by the import of agro products from more efficient neighbours, financed by the diamond revenues (Good, 2006). This rendered domestic investments redundant,
leading to persistently low productivity and the lowest wages in all sectors. There was no growth at all in the agricultural sector between 1974 and 2000 (Seleka, 2005). This affected the rural population very negatively, where the main employer had been agriculture.

Another effect was that the enhanced state revenue facilitated the expansion of the public sector (both on the local and central levels and in the parastatals), that accounts more than half of the former employment. The wage premium in this sector is approximately 60%, contributing to slow job creation in other sectors (IMF, 2018). Even worse, most well-paying public servant jobs are concentrated in the capital, Gaborone, where the infrastructure is ideal for the establishments of manufacturing plants.

Even though Botswana faces many challenges caused by diamond dependency, structural factors might be even more formidable. Above all, the geographical proximity to South Africa produces disadvantageous conditions because the southern neighbor siphons off investments (especially labor-intensive manufacturing jobs) from Botswana (Good, 2006). Although the Botswanan government kept the minimum wage low despite significantly higher GDP/capita, and provided a more favourable business environment, the country cannot compete with the more populous, strategically located, economic powerhouse of South Africa. The rules of the South African Customs Union also prevent nurturing domestic industries since a disproportionate share of tariff revenues abnormally increases import dependency (Biedermann, 2020). Overall, it is difficult to see how a small country, despite its significant efforts, could surmount these structural barriers and become a regionally important economic player, not to mention integrate itself into the higher value-added segments of the world economy. The outlook on this front is even less promising if we consider that diamond production (and hence revenues) will soon drop dramatically (already by the mid-2020s). In this case, can the available fiscal capacity and narrow time frame possibly allow for economic transformation? (Grynberg, 2013)

7. The Polarizing Effects of Diamond
Botswana has generated one of the world’s highest, tenacious, (albeit currently slowly downward-trending) inequality levels (Hillbom and Bolt, 2015). The most significant factor driving inequality in the country is the polarization between groups who benefited from resource abundance and increased trade, especially those working in the mining- and the public sector, and those groups which did not have access to these opportunities, especially the unemployed and informally employed youth and rural population (Ulriksen, 2016). Being a capital-intensive sector, mining employs only fraction of the workforce (currently 2%), creating an imbalanced concentration of wealth (Statistics Botswana, 2018, p.9).

Lack of economic diversity and diamond dependency multiplies inequality in other significant ways. By paralyzing other economic sectors, unemployment remains high, producing a sheer number of labor market outsiders who receive little support from the government and are unable to exert influence on policies, resulting
in unchanged, disadvantageous policy positions. The unemployment rate is currently at 18%, and social assistance policies (coverage and expenditure) have stayed at a moderate level (Seekings, 2016; Okatch, Siddique and Rammohan, 2013; IMF, 2018). Ulriksen (2017) asserts that by keeping the minimum wage low and restricting social spending, thereby preventing tax increases, Botswana’s objective is to attract foreign investments in labor intensive sectors in order to diversify the economy. However, as noted above, the object of diversification has not been accomplished thus far (Barczikay, Biedermann and Szalai, 2020), and the attempt has contributed to perpetuating the substantial income inequality in the country. By further analyzing the domestic effects, Mogalakwe and Nyamnjoh (2017) argue that limited social transfers keep rural, poor populations dependent on governments, thus material interests are linked to being loyal and voting for the ruling party. This theory is supported by data showing that groups which are generally considered marginalized such as rural people, women and very poor, demonstrate higher voting turnout (see Figure 3.) As

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*Figure 3. Voter turnout in 2014 by different socioeconomic groups (%). Own formatting. Source: Afrobarometer (2018, p.3)*
a result of its failure to diversify its economy and increase spending on social policies, Botswana has stayed locked into inequality that prohibits the realization of further social progress (IMF, 2018; Ulriksen, 2017).

Although Botswana has held regular free elections, the Botswana Democratic Party, which has been in power since Independence, shows increasingly autocratic characteristics, such as media censorship and deep entanglement between the public and business elite, pointing towards cemented social structures (Mogalakwe and Nyamnjoh, 2017). Elite alliances were a crucial factor in the national development of Botswana and resulted in impressive economic growth (Sebudubudu and Molutsi, 2011), but recently these alliances have become tools for cementing power and privilege. One might theorize that the reason behind this development is the approaching depletion of the diamond deposits and the apparent dead-end of the diversification attempts. In this tenuous situation, incumbents are trying to exploit resources as much as possible in the remaining time, including rent and economic exploitation, causing eroding institutions and turning the developmental undertaking into a predatory rent-seeking project.

**Conclusion and Policy Recommendations**

While for most Sub-Saharan African countries resource abundance proved to be a burden difficult to escape, Botswana successfully managed to reap the benefits by reducing poverty and investing in human development (e.g. provision of universal free antiretroviral treatment to people with HIV) and avoided common burdens (such as conflicts and appreciation in the exchange rate) but significant challenges remain. In order to overcome structural barriers, rethinking the trade relationship with South Africa and renegotiating the SACU mechanism will be inevitable. Undoubtedly, Botswana can better capitalize on the trade potential in the SADC and SACU, which can contribute to the emergence of new economic sectors counterbalancing the revenue loss caused by depleted diamond sources. Secondly, diamond revenues should be used more strategically. Conditional cash transfers (such as Bolsa Familia in Brazil) would increase the education enrolment rate and prolong growth spells by reducing inequality (IMF, 2012). Easier said than done but strengthening the civil society may be essential to keeping the political elite accountable in the
upcoming, crucial period where the effective use of state revenue will be even more important due to the depleted sources of diamonds. Emergence from the diamond trade, and the conditions facilitating the creation of higher value-added economic segments, should happen over a relatively short time, thus the transition will be of utmost importance. This is crucial because if major transformation in the economy does not happen in the next decade, dreadful consequences will ensue. According to some estimations the GDP will fall by 20 % by 2025-26 when diamond sources will be nearly fully depleted (Grynberg-Sengwakete-Mostwapong, 2015, p. 391 as cited in Kiss, 2016).

Another crucial policy prescription would be to decrease food imports and redirect transfers to the development of sustainable domestic agricultural production. Productivity enhancement and land reforms (unequal access to lands is also a rampant issue in Botswana, see: Malope and Batisani, 2008) are inevitable to achieve a higher level of self-sufficiency and provide a decent livelihood for the rural population. I believe this question should be top priority for policy makers as science claims that climate change effects (an entirely overlooked aspect in the literature) will be severe in Botswana. For example, more frequent and intense droughts will severely stress existing water management systems. Failure to invest sufficiently in climate adaptation could lead to considerable setbacks in the advances in poverty reduction won by decades-long policy work.

Note
1 Botswana ranks 40, South-Africa 106 in the Index of Economic Freedom, but 87 and 84 in the World Bank’s ‘ease of doing business’ ranking (The Heritage Foundation, 2020; World Bank, 2020e).

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