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Economics Focus: **The African exception**

Experience in one sub-Saharan country shows that overseas aid is not the only prerequisite for growth

Which country has had the fastest growth in income per person over the past 35 years? A few hints: it's not an East Asian "tiger", such as South Korea or Singapore, nor an oil-rich Gulf state, nor China or the United States. The answer is Botswana, a landlocked former British colony in a region marked by poverty.

Recently, some of its neighbours seem at last to have found new friends in the rich world. After this month's conference in Monterrey, Mexico, both Europe and America made fresh promises of billions of dollars in aid to poor countries. Even George Bush, a sceptic about foreign aid, has agreed to increase it, if only for countries with sound economic policies.

Development economists often speak blithely of good "institutions" and wise "policies". This is easily said in Washington. But where is the evidence that good government leads to economic growth, in Africa or anywhere else? For example, Harvard University's Robert Barro has argued that there has been no post-war correlation between democracy and income.

Botswana serves as a useful case study in getting the details right. Sadly, this defies simple prescriptions. Some on the political left might attribute Botswana's success to egalitarianism. Not quite: inequality there is as severe as it is in Colombia or Brazil. Those on the right would like to point to a laisser-faire regime. Wrong again: the government spends a hefty 40% of GDP.

In two recent papers, Daron Acemoglu and Simon Johnson of MIT and James Robinson of the University of California, Berkeley, delve deep to find the secrets of Botswana's success and Africa's failures. In many African countries, such as Congo and Sierra Leone, gems and other natural resources seem to be the root of all evil. Easily plucked from the riverbeds, they fuel countless civil wars. In one study*, the authors argue that in Botswana, valuable minerals have had benign effects: diamonds enriched the elite enough to discourage further "rent-seeking".

Another paper** points, perhaps unsurprisingly, to "institutions of private property" as a cause of success. But the paper turns to history for explanation. The harder it was for Europeans to settle a region, the greater the culture of exploitation created: finding a foreign land hard to settle, colonists preferred to exploit the natives from afar, rather than to build wealth. By looking at mortality rates of pioneering soldiers, sailors and bishops, the authors found a strong correlation between colonists' death rates and modern measures of political risk and expropriation. indeed, the authors estimate that these shortcomings account for nearly all the income gap between Africa and rich countries.

Though the model works well for most countries, Botswana offered a surprise. British colonialists left the country pretty much to its own devices, seeing it merely as a buffer zone against Germans and Boers. One would thus expect more expropriation rather than less. Even so, Botswana did far better than the authors' equations would predict, leading them to dig deeper.

They first examined Botswana's history before the colonists. The country's tribal politics made dissent easy, giving commoners a voice against the king. Cattle were privately owned, with wealth spread across the rural population, not concentrated in cities. The country was ethnically homogenous. Fortunate facts all, but hardly a guide for other places with weaker checks on leaders. A more pressing question is how to build institutions even when history is not on your side.

Perhaps more telling is the way the interests of the elite have been harnessed to good effect. At independence in 1966, Botswana had two schools and few roads. Perhaps Britain's most valuable legacies, besides the English language, were the law and contract procedures. Botswana's politics have developed along the lines of a single dominant ruling party, closer to Japan's pre-recession LDP than to Europe's ideas of multiparty democracy. But minority parties do exert pressure.

Wealthy and secure, the elite pursued sensible policies, such as a customs union with South Africa, and a currency pegged to the rand. The country never tried to oust most of its expatriate labour as some other countries did. Foreign mining companies were welcomed, and the country dealt with them fairly but firmly: it even renegotiated its contract with South Africa's diamond giant De Beers when it realised the scale of its reserves.

The worm in the bud

Botswana's experience suggests that poor countries must try to align the incentives of the elite with those of the masses, much as companies in rich countries try to tie managers' rewards to those of shareholders. it also backs the view of Hernando de Soto, a Peruvian economist, who has proposed a stronger approach to land titling in poor countries. Where countries receive aid, Botswana's experience suggests that profitable goals include better courts and legal systems; and that one good use of cash is to fight diseases.

Disease is Botswana's greatest problem. Around 30% of its adults are infected with HIV, the virus that causes AIDS. Can good governance help hero? Perhaps: Botswana's diamond wealth is being put to good use, including free AIDS drugs to anyone in need.

One lesson from Botswana is that history shapes countries. Another is that good management is at the centre of growth, and that the rule of law is as important as are the laws of economics.

* "An African Success Story: Botswana", by Daron Acemoglu, Simon Johnson and James A. Robinson. CEPR Discussion Paper 3219, February 2002.

** "The Colonial Origins of Comparative Development", by Daron Acemoglu, Simon Johnson and James A. Robinson. American *Economic Review*. December 2001.