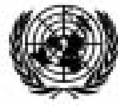
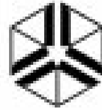

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Botswana and Zimbabwe

Relative Success and Comparative Failure

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Abstract

Botswana and Zimbabwe represent two cases of differential access to the world economy. Notwithstanding its lack of diversification and its reliance on a primary mineral export, Botswana has prospered while Zimbabwe has fallen into a deep crisis. Historical and comparative evidence allows us to transcend the superficial presumption common to much policy discourse, namely, that the basis for success depends upon adherence to the 'Washington Consensus' export-oriented strategy, or to good governance, or even to geographical considerations. We argue instead that there are much deeper problems and possibilities that Botswana and Zimbabwe unveil, which relate largely to developmental linkages and aspects of agency.

Keywords: sub-Saharan Africa, critique of the Washington consensus

JEL classification: F13, F43, O19, O49, O54, O55.

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Introduction

Neighbours in Southern Africa, Botswana and Zimbabwe represent two case studies of differential access to the world economy. Notwithstanding its lack of diversification and its reliance on a primary mineral export, Botswana has prospered; notwithstanding its once strongly-diversified, manufacturing-led economy (as well as excellent primary product export capacity), Zimbabwe has fallen into a deep crisis. In both cases, size and vulnerability are key factors, but in very different ways. In telling the stories of these countries, we mainly limit ourselves to the past quarter-century. But historical and comparative evidence allows us to transcend the superficial presumption common to much policy discourse, namely, that the basis for success depends upon adherence to the 'Washington Consensus' export-oriented strategy, or to good governance, or even to geographical considerations. We argue instead that there are much deeper problems and possibilities that Botswana and Zimbabwe unveil, which relate largely *to developmental linkages* and *aspects of agency* in economic management and planning (Fine and Rustomjee 1996).

To begin with Botswana, increasing integration into the global economy since political Independence from Britain in 1966 poses a number of questions about the nature of presumed opportunities and threats. At one level, Botswana's experiences appear to confirm the presumed benefits of globalization based on conventional macroeconomic management (Williamson 1990). Yet upon closer examination, Botswana's development trajectory calls into question fundamental assumptions about the accommodating nature of the global environment, for the economic restructuring and export diversification required to transform Botswana's *growth* into balanced *development* has not happened, to the detriment of the inclusivity and breadth of economic activity.

As Dani Rodrik (1999, vii) proposes, 'While globalization has opened up vast new opportunities for economic and social progress, it has also brought costs. These costs include instabilities as we have witnessed in Asia over the past year and marginalization of countries and individuals not equipped to take advantage of globalization's opportunities'. How such costs are addressed, and indeed whether an economy benefits or loses from international economic integration, are dependent upon external and internal factors. Debates continue over the relative significance of these factors, and the processes that shape each. Yet conventional wisdom remains that individual countries must simply adjust to the global environment.

Botswana ranks as a rare success story of such accommodation. However, concern is growing over the terribly uneven experiences of many developing countries in the world economy over the past quarter-century or so, because in many cases those countries that are most loyal in following the Washington Consensus continue to be marginalized. As argued below, Botswana provides grounds not for celebration of effective integration, but on the contrary for questioning orthodox assumptions about whether benefits arising from global economic integration reach deeply enough into a citizenry.

In Zimbabwe, meanwhile, the most recent international integration process has been more obviously unsatisfactory. International trade, investment and financial flows have disappointed Zimbabwean proponents of neoliberal macroeconomics. During the 1980s,

the first decade of independence, advocates of liberalization persistently argued that in the context of an exhausted import-substitution industrialization strategy, growth and job creation would occur only if the economy became more export-oriented, catalyzed by foreign investors in a deregulated financial and trade environment. The regulatory context changed dramatically from around 1990 when structural adjustment policies were introduced, but poor conceptualization and phasing of the reforms generated dramatic declines in living standards and rapid deindustrialization. The most recent three-year period is especially instructive, for President Robert Mugabe has made international headlines with controversial policies (ranging from land reform promises to patronage expenditure to involvement in regional warfare) which are understood to have upset macroeconomic balances.

Both economies' experiences are addressed in turn, in sections 2 and 3. What appears, superficially, as two cases which correspond to orthodox argumentation about international integration, are not actually so clear cut.

1 Botswana: economic success, development failure

1.1 Botswana's success story

Botswana has won international recognition for consistently high rates of economic growth, the prudence with which the country's macroeconomic balances have been managed, and the political-economic stability (including relatively deep-rooted democratic traditions) achieved in the process. Under colonial rule until the mid-1960s, Botswana's large expanse of underdeveloped, semi-arid land generated very little of a marketable character, aside from cheap migrant labour for export to South African mines, and livestock as a basis for beef exports to Europe. The Botswana economy had evolved—as did those of Swaziland, Lesotho and Namibia—through peripheral dependency upon South Africa, from which it imported manufactured and industrial goods as part of the Southern African Customs Union. Monetary policy was also set in Pretoria, through the Common Monetary Area. Thus at independence the economy of Botswana was one of the poorest in Africa and the country's prospects appeared bleak.

Botswana has a small population (about 2 million) but occupies an enormous geographical area. Population density is 2 per square kilometre, compared to 24 per square kilometre across Africa as a whole. However, thanks to three decades of rapid growth, Botswana's Gross Domestic Product of about US$ 4.5 billion is almost equivalent to Zimbabwe's. Per capita income, at over US$ 3,000 is higher than that of South Africa, and more than five times greater than Zimbabwe. Botswana ranks seventh amongst fifty African countries on the UNDP's Human Development Index (97th overall), behind the Seychelles (52), Mauritius (61), Libya (64), Tunisia (81), Algeria (82), and South Africa (90).

But Botswana's economy remains vulnerable in a number of ways. Its geographical location in a semi-arid part of the African continent makes the country prone to drought. For the rural majority, scraping out a livelihood is arduous in the absence of attenuating interventions such as irrigation. The large expanse of the country, coupled with the dispersed nature of the population, also drives up costs (of transport, service provision

and infrastructure construction) and militates against economies of agglomeration arising from concentration of population. Botswana's economic vulnerability is underscored by its dependence on mining, particularly diamonds, which account for about one third of GDP and about three quarters of export earnings (and nearly half of government revenue). The local entrepreneurial class has also developed based on livestock and particularly on beef exports to Europe. The economy thus remains far less diversified than Zimbabwe's notwithstanding the latter's relative poverty.

As a consequence of the discovery of diamonds and judicious economic and political management based on a calculated predisposition to the market and adherence to democratic forms of governance, Botswana elevated itself to one of the fastest growing countries in the world. Between 1966 and 1980, Botswana's GDP grew at an annual rate of 14.5 per cent, while industrial production grew at 18 per cent per year, manufacturing at 23 per cent per year, agriculture at 8.3 per cent per year and services at 14.5 per cent per year. Per capita GDP quintupled over the first 20 years of independence. Throughout this period Botswana managed to escape the fate of many African countries. During the 1990s, as global integration intensified, Botswana's economic growth slowed. GDP rose at slightly below 10 per cent per year during the first half of the decade.

Botswana fortuitously benefitted from the discovery of diamonds, which have enjoyed a relatively sustained demand in the international market and whose supply was for decades adroitly managed by an international selling monopoly (De Beers' Central Selling Organization). But many developing countries also enjoy similar bonanzas in the form of minerals and oil, for instance, and others in terms of other non-mineral commodities, and yet have not been able to manage windfalls judiciously. For many such countries, income flows have, soon or later, been interrupted by secular declines in export prices of their valued commodity. Alternatively, the benefits of primary products have been offset by weak domestic policies, endemic corruption and 'Dutch disease' overreliance upon a few export commodities.

The IMF (1999: 4) observes that the Botswana authorities 'struck a balance in the use of mineral revenues by investing part of them abroad and investing in domestic infrastructure and social services, such as education and health'. Achievements in the social sphere are shown in Table 1. On this basis, most observers would concur with Roderick's (1999) comment that 'Botswana's economy has benefitted greatly from openness'. Fortunately, terms of trade with respect to diamonds were generally favourable. In addition to diamond exports, commentators have attributed Botswana's success to a number of other factors (Roderick 1999; IMF 1999; Salkin et al. 1997):

- good macroeconomic management reflected in stable and neutral fundamentals;
- commitment to market forces, liberalization and an outward-looking policy framework;
- commitment to democracy and good governance;
- judicious government spending and intervention in spite of a relatively large and growing public sector;

- the strong influence of rural exporters on economic policy, hence avoiding the common bias against rural activities and by the same token the absence of an urban-based import substituting lobby;
- the presence of an open trade environment in the form of the Southern African Customs Union, hence the absence of an administered trade regime;
- the pursuit of monetary polices and exchange rate polices flexible enough to survive external shocks;
- low levels of corruption that do not unduly compromise the process of economic management and accumulation;
- an early demographic transition that has reduced the dependency ratio; and
- well developed human resources.

Table 1

Botswana: Social Indicators, 1971–96

	1971	1981	1991	1996
Population (in thousands)	597	941	1,327	1,496
Formal sector employment (in per cent of total labour force)	31	31	53	46
Under 5-years mortality rate (out of one thousand)	151	109	56	56
Under 5-years malnutrition rate (in per cent)	…	25	14	13
Adult literacy rate (in per cent)	…	34	54	69
Primary net enrolment rate (in per cent)	42	86	94	97
Junior secondary net enrolment rate (in per cent)	7	12	35	45
Senior Secondary net enrolment rate (in per cent)	1	4	14	20
Memorandum item:				
Real per capita GDP (in US> Dollars) [a]	572	1,546	3,034	3,278

Sources: UNDP, Botswana Human Development Report 1997; Botswana authorities; and Fund staff estimates.

Note: [a] At 1990 prices, using 1990 exchange rates. [Source: IMF Country report, 1999.]

The scale of Botswana's success is particularly impressive in view of the fact that it is surrounded by neighbours whose economies have been afflicted by both economic and political mismanagement. Botswana is situated centrally in a geographical region which has, until recently, experienced protracted political instability and conflict.

1.2 Assessing Botswana's success

Yet Botswana's success story also raises troubling questions about international economic integration (Tsie 1993; Mhone 1993; Salkin 1997). After more than three decades of phenomenal growth, Botswana still manifests a dualistic economy in which

the majority of its citizens live in non-formal sectors which primarily reflect under-employment. Consider three phenomena. First, high rates of growth have failed to broaden and diversify the economy so as to capture the majority of its labour force into productive employment and ensure sustainable increases in employment over time, or to assure increasing income equality. Second, Botswana's high rates of economic growth have not been accompanied by increasing rates of foreign direct investment or by increasing diversification. Third, Botswana's growth is dependent upon diamond exports, which have been sustained over many decades relatively independently of other international economic processes. The diamond-led boom began before the dramatic international increase in trade and financial flows from the 1980s, but overreliance on one export threatens Botswana with a form of Dutch disease. Each issue is considered in turn.

First, with respect to unemployment, the IMF (1999: 45) concedes that 'Despite the strong growth, Botswana has experienced persistent and rising unemployment, owing not only to the weakness in the agricultural sector but also to the lack of adequate employment creation in the non-agricultural sectors'. A significant proportion (if not a majority) of the labour force continues to eke out a living through low-productivity activities in the urban informal sector and the traditional agricultural sector. According to the IMF (1999: 8), unemployment stood at 10 per cent of the labour force in 1981, increased to 17 per cent in 1984, and reached 22 per cent by the late 1990s. The problem is particularly acute for the youth. Table 2 shows recent changes in employment by sector and Table 3 shows average annual growth rates in employment between 1983 and 1997. Employment increased markedly between 1983 and 1992, averaging about 8 per cent per year, and began to stagnate thereafter to a low of about 0 per cent per year since 1992, a trend that has continued to the present.

Table 2
Botswana: Formal Sector employment, 1990–98[a]
(In thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	6.5	6.7	6.1	5.9	5.3	4.5	4.5	3.7	4.0
Mining and quarrying	7.8	7.8	7.6	8.4	7.9	8.4	8.3	8.6	8.7
Manufacturing	23.3	26.0	25.5	22.1	21.7	23.4	23.7	23.8	24.0
Electricity and Water	2.1	2.5	2.6	2.6	2.5	2.6	2.7	2.5	2.7
Construction	29.3	33.8	33.8	28.3	26.7	22.1	22.6	22.7	22.5
Commerce	35.7	41.0	40.9	40.7	45.9	44.9	45.7	40.1	43.1
Transport and communication	8.1	9.1	10.2	9.8	9.0	9.0	8.8	8.7	9.0
General government	63.0	68.5	72.2	80.7	81.8	85.3	86.3	93.1	100.0
Finance and other	22.7	27.4	28.6	27.7	30.4	31.2	31.5	24.0	25.6
Total	198.5	222.8	227.5	226.2	231.2	231.4	234.1	227.3	239.5

Source: Botswana authorities.
Note: [a]Data for March. [Source; IMF Country Report, 1999.]

Table 3
Botswana: Formal Sector Employment, 1983-97[a]
(Average annual percentage change)

	1983-87	1988-92	1993-97
Agriculture	5.9	1.0	-8.9
Mining	-0.3	3.5	0.7
Manufacturing	15.3	8.4	1.6
Construction	4.4	12.6	-5.8
Services	11.4	12.9	-1.1
General government	8.9	7.8	3.9
Total	8.5	8.5	0.1

Sources: Central Statistics Office; and Fund staff estimates.
Note: [a]Data for March. [Source: IMF Country Report, 1999.]

Notwithstanding rising unemployment, some scholars argue that income inequality of Botswana citizens is declining to some degree. According to Hudson and Wright (1997), Botswana's income gains have been distributed rather widely; once the incomes of expatriates are excluded, income inequalities have declined in Botswana relative to those in other African countries and to many other developing countries. Trends in poverty studied by Jefferis (1997) are hopeful, including a decline in households falling below the poverty datum line from 49 per cent in 1985/86 to 37 per cent in 1993/94. Yet 23 per cent of households remain 'very poor'. The poverty data suggest that growth elasticities with respect to the proportion of the poor that can be lifted above the poverty line as a consequence of a given percentage increase in GDP have historically been very low.

Second, Botswana remains locked in an extractive economic mode. The slow growth in employment in the formal economy and continuing high levels of income inequality and poverty are both related to the lack of transformation and restructuring of the Botswana economy. Table 4 shows sectional trends and the composition of GDP (excluding the private service sector). The consistent dominance of mining and general government over the past three decades confirms a disturbing lack of diversification. Declining rates of growth in agriculture are also troubling, given that this is the sector in which the majority of the labour force resides. The continued dominance of diamond mining is obvious. Relying on Ogive and entropy indices to measure the degree of diversification, the IMF concludes that the Botswana economy has made little headway, and instead suffers from 'concentration of economic activity in the mining sector and the over-reliance on diamond exports' (Table 5). According to these calculations, the economy achieved its highest degree of diversification between 1979 and 1984 when mining accounted for about 30 per cent of gross domestic product and was least diversified between 1984 and 1989 when mining accounted for about 45 per cent of gross domestic product (Table 6).

There have been slight improvements in diversification in recent years, due to active promotional measures being undertaken by government. But these efforts have not been

adequate in reversing the dominance of mining and in broadening the economic base so as to make it more inclusive of the majority who so far have been marginalized. Conventional wisdom provides two sources of diversification flowing from increasing international economic integration: foreign direct investment (FDI) and new domestic investments (as domestic entrepreneurs emerge in non-traditional activities).

Botswana has not witnessed particularly spectacular FDI, in spite of sound macroeconomic fundamentals, political stability and the proximity of larger markets in South Africa and Zimbabwe. Net FDI was negative in 1993 (-US$ 296 million) and 1994 (-US$ 24 million), before turning positive from 1995 onwards (rising to US$ 167 million in 1998). Moreover, FDI has tended to be lumpy and associated with once-off megaprojects (such as the Hyundai motor assembly plant) whose sustainability has been questionable, especially when incentives expire. In short, FDI has not provided a basis to underpin diversification and employment creation.

Table 4

Botswana: Sectoral Real GDP, 1979 / 80–1997 / 98[a]

	1979/80-1983/84	1984/85-1988/89	1989/90-1993/94	1994/95	1995/96	1996/97	1997/98
				(In per cent of GDP)			
Agriculture	10.9	5.8	4.6	4.1	3.9	3.4	3.1
Mining	29.3	45.5	38.2	33.3	34.1	37	37.6
Manufacturing	5.9	5.2	4.9	4.9	5.0	4.9	4.8
General government	15.7	13.7	15.3	15.3	14.9	14.2	14.5
				(Average annual percentage change)			
Agriculture	-8.4	11.7	1.3	-4.6	-0.4	-0.2	-1.2
Mining	28.7	7.2	1.2	-1.5	9.9	5.8	9.5
Manufacturing	10.6	16.9	3.2	4.3	6.5	5.2	4.7
General government	10.6	12.7	9.6	3.6	4.5	9.1	11.0
TOTAL GDP	11.1	12.1	4.8	2.7	6.6	7.2	8.3

Source: Central; Statistics Office.

Notes: [a]National accounts year beginning 1 July. [Source: IMF Country Report, 1999.]

The Ogive index measures deviations from an equal distribution of sectoral (export) shares among sectors and is given as follows:

$$Ogive = \sum_{n=1}^{N} - \frac{(Xn-1/N)^2}{1/N}$$

Where N is the total number of sectors (or export commodities) being considered, $1/N$ is assumed to be the “ideal” share of earnings for each commodity, and Xn is the actual share of each commodity in total exports. Perfect diversification is defined as an equal distribution of sectoral shares (Xn equals $1/N$ for each commodity), and in this case the Ogive index would be equal to zero. A more unequal distribution of export shares results in a high Ogive measure. 46 An alternative measure for diversity is the entropy index, which can be expressed as

$$Ogive = \Sigma - \sum_{n=1}^{N} Xn \quad 1n \quad Xn.$$

Where *Xn* is the sectoral (export) share of total output (exports). If the economic activities are concentrated in a single sector (commodity), then $Xn = 1$, and hence the value of the entropy index equals zero. If there is equal distribution among the *N* sectors, then the entropy index achieves a maximum value, In (*N*), which indicates perfect diversity.

Table 5

Botswana: Aggregate Sectoral Diversification Indices, 1979/80–1997/98

	1979/80-1983/84	1984/85-1988/89	1989/90-1993/94	1994/95	1995/96	1996/97	1997/98
	(In unites indicated)						
Ogive index	0.7	1.5	1.1	0.8	0.9	1.0	1.1
Entropy index	2.0	1.8	0.4	2.0	2.0	1.9	1.9
			(Average annual percentage change)				
Ogive index	6.4	19.5	-12.5	-11.6	6.4	17.1	4.5
Entropy index	0.1	-2.5	2.5	1.4	-1.0	-2.3	-0.8

Source: Fund staff estimates; IMF Country Report, 1999.

Table 6

Botswana: Sectoral Real GDP Growth, 1995/96–1998/99[a]

(Annual percentage change)

	1995/96	1996/97	1997/98	1998/99 Est.
Agriculture	-0.4	-0.2	-1.2	1.0
Mining	9.9	5.8	9.5	-2.0
Manufacturing	6.5	5.2	4.7	5.0
Water and Electricity	-0.9	4.9	9.8	9.0
Construction	2.7	5.6	4.3	10.0
Trade and hotels	7.3	10.6	8.4	8.0
Transport	5.9	12.9	9.3	10.0
Financial	5.5	7.1	7.0	10.0
General Government	4.5	9.1	11.0	4.0
Total GDP	6.6	7.2	8.3	4.0
Nonmining private GDP	5.1	7.5	6.7	8.0

Sources: Botswana authorities; and Fund staff estimates.

Note: [a]National accounts year beginning 1 July. [Source: IMF Country Report, 1999.]

Meanwhile, domestic entrepreneurship has primarily been restricted to cattle farming and entry into small-scale service industries taking advantage of the fast-growing

service sector. Livestock farming has been the mainstay of the local bourgeoisie, and ownership of cattle and farms has historically been skewed (even if there is evidence that income from such activities is shared through intra-kinship transfers). The sixth National Development Plan noted that between 45 per cent and 54 per cent of rural households did not own any cattle, and about 15 per cent of the households accounted for about 75 per cent of the national herd (Mhone 1993). Not only are the majority of rural households excluded from market-related cattle farming, but government's main pro-entrepreneurial policy interventions have favoured livestock. There has been insufficient advocacy for the development of a national industrial bourgeoisie, and a lack of strategic direction with respect to domestic policy. Tellingly, while increased monetary liquidity has been one result of the high growth rates, much of it has been directed into consumption-oriented credit (40 per cent), with a small amount (20 per cent) channelled into service-related business ventures (IMF 1999).

Thus international openness did not result in FDI, nor were domestic savings directed into the expansion and diversification of the economic base. The decline in the severity of income inequality and poverty may be an outcome of social policy interventions and income transfers within and between households (especially in the face of high rates of migration from rural to urban areas in Botswana). But it is clear that sound macroeconomic management, outward orientation and high rates of economic growth have not been sufficient to diversify the economy away from diamonds, to broaden the economic base so as to resolve persistent under-employment and unemployment and to reduce poverty significantly.

Indeed, third, there remains the danger that for Botswana, diamonds have generated a Dutch disease: both a boon and a curse, especially in controlled open economies (Bigsten and Horsnell 1990). The problem arises from temporary or permanent booms induced by increases in prices of a major export commodity, which in turn induce major shifts in resource allocation. In underdeveloped economies, such resource flows sometimes prevent balanced, equitable forms of growth and development. They also heighten the vulnerability of the economy to external shocks if commodity prices decline substantially. Botswana has been fortunate that notwithstanding cycles in the diamond market, prices have trended upwards. Yet this may not continue (especially given the recent surrender of De Beers' monopolistic position in diamond distribution, in favour of entry into diverse luxury-goods markets).

In sum, diamond dependence has resulted in a shift of resources away from other sectors, such as agriculture. In the absence of countervailing state interventions, the boom increased savings rates, consumption and public sector revenues, but in ways that reinforced the monocultural heritage of the economy. This helps explain the persistent income and wealth inequality, poverty, and unemployment.

For example, although mining output increased by 10 per cent in 1995/96, 6 per cent in 1996/97 and 10 per cent in 1997/98, agricultural output was negative. The non-tradable construction sector increased output dramatically. Government's official reserves increased from just over three months import coverage in 1990 to 28 months by 1998. The boom also permitted strong growth in the public sector.

So while Botswana has witnessed growth of per capita incomes and employment, and somewhat reduced levels of poverty, troubling problems include: the country's inability to diversify and shed its monocrop heritage, and the continuation of an 'enclave'-type

formal sector in which the majority of the labour force continues to be either under-employed or unemployed.

The Botswana economy thus exemplifies the limits of laissez-faire economic management, not because of disastrous consequences, but because notwithstanding good economic management and high growth rates (for a period of three decades), Botswana has not restructured its economy so as to generate inclusive growth and development.

1.3 Government policy challenges

Decades of rapid GDP growth and export success were insufficient to diversify and develop Botswana's economy. Typically, blame for such an outcome can be traced to the inadequacy of domestic policies, to structural failures in the economy for which orthodox policies may not be sufficient, or to constraints arising from the global economy. These factors have not been adequately considered in the literature on the Botswana economy, in part due to overenthusiasm by analysts intent upon proving Botswana's role as a success story, and in part due to the general dominance of conventional views of economic management and globalization among policy analysts specializing in Africa.

In Botswana, the government has not been oblivious to the concerns raised above. Indeed every development plan has clearly articulated the need to diversify the economy and generate adequate income-generating and employment opportunities. The main policies aimed diversifying the economy and promoting employment are the Financial Assistance Policy, the Local Preference Scheme, the Selibe-Phikwe Regional Development Programme, and the Arable Lands Development Programme (IMF 1999):

- Financial Assistance Policy: This scheme provides employers with grants based on the size and location of new investment, the number of unskilled workers employed, and the cost of training programmes. The grant is limited to five years and covers entrepreneurs in manufacturing small scale mining, mineral processing, agriculture other than beef production and tourism.
- Local Preference Scheme: This scheme is aimed at encouraging non-mining investment in the Selibe-Phikwe area and allows for 15 per cent reduction in corporate tax over 20 years. This programme has been integrated into a general promotional programme for manufacturing under the Investment Promotion Agency also entailing a 15 per cent reduction in corporate tax for all manufacturing activities.
- Arable Lands Development Programme: This programme assists farmers with on-farm investment packages related to cattle farming aimed and increasing livestock production, management, and husbandry, as well as land conservation and improved land tenure.

These policies suggest a desire by the government to influence the structure and trends of the economy through proactive measures. Unlike the similarly proactive approach adopted in Mauritius, however, the outcome of these interventions for economic diversification and employment generation has been lackluster. While deemed necessary by the government, these policies are not normally what would be

recommended by the Washington Consensus, given that they retard or redirect market processes. This, in turn, reflects a realization by Botswana's policy-makers that under certain conditions, market forces exacerbate distortions in the economy, thereby leading to perverse outcomes even in the face of economic growth.

Domestic and global market forces reinforce a number of outcomes which militate against diversification of the economy and employment promotion. In the face of such outcomes, a passive policy stance would exacerbate the situation. In contrast, such situations call for bolder developmental initiatives, which may not fall under the rubric of conventional Washington Consensus prescriptions.

There appear to be three major structural constraints confronting the Botswana economy which require state intervention. Firstly, the dominance of mining has imparted Dutch-disease biases which prevent economic restructuring with the aim of diversification and employment creation. Increased growth arising from mining has resulted in mining wages distorting economy-wide wages. Wages in other sectors tend to increase faster than productivity increases would warrant, thereby discouraging investment in these sectors (IMF 1999). The increased incomes emanating from high economic growth have fuelled imports from South Africa, thereby obviating the need for efficient import-substitution within the country. Prospects for diversification have been further undermined by the smallness of the economy and the lack of minimum thresholds of demand that would warrant lumpy investments to meet local (or export) demand. The benefits of agglomeration are at the moment lacking, and are compromised by high transport costs.

Secondly, Botswana has failed to transform its high saving rates into investment. During the 1990s, the savings rate was around 40 per cent, while gross investment was between 25 per cent and 30 per cent, suggesting a low capacity to absorb savings in site of the backlog in unemployment. It should be noted, nonetheless, that both the savings and invest rates are quite high by any standards. Thirdly and relatedly, Botswana's rural economy is characterized by extremely unequal access to land and livestock, both of which militate against the broadening of economic base and the development industry based on domestic demand.

Before considering the implications of this analysis in the paper's conclusion, we look at Zimbabwe's far more diversified, but recently (since 1975) much slower-growing economy.

2 Zimbabwe: from dirigism to structural adjustment and back

Zimbabwe's post-Independence financial, trade and investment record is, essentially, one of residual social injustice and (related) economic stagnation under conditions of inherited state regulation. Initially this legacy was initially addressed through a gradualist, ineffectual export-oriented strategy (1980s), and later by a failed structural adjustment and liberalization package (1990s). The extreme disarticulations of economy and society characteristic of 'Rhodesian' settler-colonialism were, hence, never resolved. Instead, structural adjustment simply exacerbated the disarticulations and threw the country into a profound crisis which appears set to continue at least through the 2002 presidential elections.

By way of historical background, the economy experienced uneven relations with the world economy, depending upon both global conditions and local policy impulses. The initial macroeconomic regulatory techniques were established by the nascent Rhodesian state during the 1920s, enhanced during the 1950s and cemented during the 1965-79 period of Unilateral Declaration of Independence by approximately 200,000 white settlers. Figure 1 summarizes the experience of oscillating inward and outward economic policy orientations, with corresponding economic and development conditions (Bond 1998; Phimister 1988; Seidman 1986; Sowelem 1967; Stoneman 1981).

Figure 1:
Zimbabwe: phases of inward/outward macroeconomic policy
1920s-present

Period	Relevant Policy	Economic Conditions
1920s	protection for local manufacturers	beginning of industrial development
1930s-40s	relative isolation	high growth and inward maturation of secondary industry
1950s	increasing financial and trade regulation	large inflows of foreign investment, but overproduction problems and unsustainable financial and trade relations
1960s-70s	heightened financial/trade regulation coincident with sanctions	initial dramatic recovery, followed by a crisis of overproduction and civil war
1980s	gradual loosening of financial/trade restrictions and strong export drive	enhancement of developmental state's human capital functions, yet uneven economic record
1990s	rapid liberalization of finance and trade	dramatic volatility and vulnerability in many markets, deindustrialization, underdevelopment
1997-present	uneven return to a few dirigist policies (exchange controls accompanied by capital flight, currency peg, luxury import tariffs followed by regional free trade agreement, foreign debt defaults, uncontrolled budgetary growth) under conditions of desperation	deepening crisis across all sectors of the economy

The current turmoil in Zimbabwe rests to some extent upon social tensions—inequality, worsening unemployment, deindustrialization, heightened shortages of basic-needs goods ranging from land to housing to energy—that were exacerbated particularly since the early 1990s adoption of structural adjustment and openness to international economic influences. But the Zimbabwe government's failure to deal more conclusively with the inherited distribution of economic resources during the 1980s, contributed crucially to two problems: a desire by large-scale businesses (represented by the Confederation of Zimbabwe Industries) to escape the limits imposed by stagnant effective demand, on the one hand; but on the other, insufficient economies of scale and outdated production processes which left most manufacturers incapable of competing in international markets. When, by late 1997, this became evident, the government's

response was, tragically, a self-destructive return to dirigism plus corruption/ malgovernance, without the structural transformations required to correct earlier problems of economic disarticulation.

2.1 Post-Independence stagnation and debt crisis 1980-1990

Structural adjustment promised, above all, a solution to Zimbabwe's chronic stagnation of fixed capital investment. The reasons for the persistent lack of fixed investment during the 1980s are complex, and included white investor confidence (negative until 1984); a steady fall in the rate of non-financial firms' profit (averaging 25 per cent as a share of GDP from 1980-84, but only 15 per cent from 1985-90); the rise in speculative activity in share and property markets which, at least temporarily, proved more attractive sites of investment; the failure by the government to substantially alter wealth and income distribution to improve effective demand; and regional and international economic factors, especially the dramatic fall in the gold price (affecting both Zimbabwe and neighboring South Africa) and the steady fall in other commodity export prices.

Upon taking power, the new Zimbabwe African National Union (ZANU) government of Robert Mugabe maintained the bulk of Rhodesian-era regulatory controls initially, and good rains plus a business cycle upturn led to a very rapid growth rate in 1980-81. The inherited traditions of dirigism began to fade, however, and economic managers—especially Finance Minister Bernard Chidzero—were soon committed to both financial and trade liberalization. Chidzero spelled the connections out as early as 1982, in a self-imposed promise of conditionality (in a letter to the World Bank [1982, Annex IX: 39]): 'We are convinced that we could appreciably increase the volume of our exports through liberalization of credit facilities'. The Bank (1983: 13) soon heralded 'important policy directions—including an outward-looking, export-oriented industrial strategy'. By 1985, a joint World Bank and UN report on Zimbabwe noted possible 'success stories' in manufacturing exports (*Sunday Mail*, 6/10/85), although no marketing studies were subsequently carried out. Two years later, the Bank's (1987: 70) 'Strategy for Sustained Growth'—credited with winning over a critical mass of government bureaucrats—suggested that 'it is highly difficult to predict which manufacturing subsectors will enjoy rapid growth, but there is sufficient evidence on the responsiveness of Zimbabwe's manufacturing sector to be optimistic on its export prospects... The European market is likely to be central to growth in manufactured exports'.

Yet the majority of Zimbabwe's domestic manufacturers initially had no ambition to penetrate global markets (in terms of which they would have required cutting-edge imported capital goods and advanced technology), but on the contrary preferred protection from international competition (Riddell 1983). In spite of continual complaints about foreign exchange shortages, manufacturers had access to a World Bank Manufacturing Rehabilitation Loan (1981), a Bank Manufacturing Export Loan (1983), and the Export Incentive Scheme, as well as enjoying generous depreciation allowances introduced during the Rhodesian era (thus keeping fixed capital costs extremely low). Their hesitancy to expand into global markets was not for lack of opportunity or investment financing.

As a result of stagnant fixed investment, the government's main strategy to increase export revenues was periodic currency devaluation. A 1984 devaluation reached nearly 40 per cent within eighteen months, for example, and was accompanied by massive cuts in development spending and an unpopular reduction of the maize subsidy. The main beneficiaries were agricultural and minerals exporters, but the devaluations simply cheapened goods temporarily, rather than structurally improving Zimbabwe's export capacity.

Relations with international financial markets during the 1980s were also disappointing. Mugabe initially resisted—but then under pressure agreed upon—the repayment of foreign debt inherited from the illegal Rhodesian 'Unilateral Declaration of Independence' (UDI) regime at Independence. But servicing the debt became increasingly difficult as real interest rates soared from negative 1970s levels to very high early 1980s levels. In early 1983, Chidzero predicted Zimbabwe's ratio of debt payments to export earnings—which had soared from 4 per cent at independence to 16 per cent—would 'decline sharply until we estimate it will be about 4 per cent within the next few years, depending on the world's economic position... Zimbabwean manufacturers would be in a position to capture the (export) market when the world economy reflated and recession receded' (*Herald* 22/2/83). The World Bank (1982: 3) issued a report which concurred: 'The debt service ratios should begin to decline after 1984 even with large amounts of additional external borrowing'. Zimbabwe accepted large new foreign loans, as a result. But even as the world economy began to rapidly improve, Zimbabwe's debt servicing ratio spiralled upwards to an untenable 35 per cent of export earnings by 1987.

Substantive rescheduling or debt relief were not under serious consideration. Reflecting its capacity to apply leverage, the IMF terminated a US$ 315 million line of credit due to a larger than expected fiscal deficit in 1984 (*Herald* 23/8/84). Although the resulting forex crisis required increased restrictions upon profit repatriation (from 50 per cent to 25 per cent) and justified ongoing exchange controls, the World Bank (1987: 20-22) noted that with regard to external private debt, Zimbabwe had adopted a 'highly conservative policy'. Of US$ 420 million per annum in new loans during the 1980s, an average of US$ 110 million came from commercial banks.

The quid pro quos for access to commercial loans and the Bank's seal of approval included not only fiscal constraints, high interest repayments and Zimbabwe's hesitancy to ask for rescheduling of payments. There were also specific conditions on US$ 700 million in new loans by the World Bank (Zimbabwe's single largest foreign lender), culminating in the 1991-95 Economic Structural Adjustment Programme (ESAP).

2.2 Structural adjustment and economic crisis 1991-2000

ESAP projected that by the end of 1995 there would be a 25 per cent cut in the civil service, and the demise of all labour restrictions, price controls, exchange controls, interest rate controls, investment regulations, import restrictions, and government subsidies. Parastatal privatization was practically the only major ingredient in the typical structural adjustment recipe that Zimbabwe was allowed to delay (World Bank 1995: 35). ESAP made the following ambitious claims:

- Reaching 5 per cent growth annually, the economy would have grown in excess of 4.3 per cent for eight consecutive years (1988-95)—in spite of the fact that the longest stretch of positive growth since 1973 had been just three years.
- The overall budget deficit would shrink to 5 per cent of GDP. And although Zimbabwe's foreign debt would initially increase from US$ 2.4 billion in early 1991 to a projected US$ 4 billion in 1995, repaying the debt would become easier. The debt service ratio (repayments as a percentage of export earnings)—which peaked at 35 per cent in 1987 and fell to 24 per cent in 1990—would drop further, to 18.5 per cent by 1995, in spite of the addition of US$ 3.5 billion in new loans in the intervening years (US$ 1.9 billion of which would meanwhile be repaid).
- Private sector investment would rapidly overtake government investment, doubling from levels of the late 1980s, and total investment, which averaged less than 20 per cent of GDP from 1985-90, would reach 25 per cent by 1993 and remain there.
- Inflation, running at 20 per cent in early 1991, would be down to 10 per cent by 1994.
- Relative to the rest of the economy, exports would grow by about one third from late 1980s levels; specifically, mining exports would increase from less than US$ 400 million in 1990 to more than US$ 500 million in 1994, manufacturing exports would double from US$ 400 million in 1988 to US$ 800 million in 1995, and agricultural exports, which were in decline since 1988, would grow steadily through 1995.
- Except for 1991, Zimbabwe would have better terms of trade in its dealings with the world economy over the subsequent five years.
- New direct foreign investment would flood in (US$ 30 million a year from 1992-95) notwithstanding the fact that such investment flooded out during the 1980s.

In reality, growth only reached 5 per cent during one year (1994), and averaged just 1.2 per cent from 1991-95. Inflation averaged more than 30 per cent during the period, and never dropped anywhere near the 10 per cent goal. The budget deficit was more than 10 per cent of GDP during the ESAP era (with no prospect of getting down to the targeted 5 per cent from a drought-related high of 13 per cent in 1994/95) (*Zimbabwe Economic Review*, September 1995).

It is true that forces external to the logic of reforms—the 1992 and 1995 droughts, durable fiscal deficits and severe losses by parastatals—all threw the model off track (yet the 1992-93 and 1993-94 rainy seasons were fine). Conceptually, it is extremely difficult to control for the drought factor, although historically, the previous period of sustained economic crisis, from 1974-78, was a time of extremely good rains, while the late 1960s and early 1970s period of booming growth witnessed years of severe drought.

Nevertheless, the World Bank (1995: 7) was impressed in 1995 that 'trade liberalization proceeded without delays... [and] the foreign exchange control system has been largely dismantled. All current account transactions have been freed from exchange controls and import licensing and the exchange rate is now market-determined' (although

‘anomalies remained in the tariff/tax structure’). Yet as a result, the trade deficit exploded during the early 1990s, and not only because, as Gibbon (1995: 13) reports, the ‘increase in imports was roughly double that anticipated’. Exports dropped a crippling 17 per cent in US dollar terms between 1990 (US$ 1.753 billion) and 1992 (US$ 1.531 billion) (World Bank 1995: 163). This was not purely due to agricultural failure (or the temporary rise in demand for formerly-exported food products) in 1992, for manufactured exports fell 19 per cent in US dollar terms in 1991 (from US$ 537 million to US$ 434 million) (ZCTU 1996: 52). The demise of some export incentives was often blamed, and government succumbed to pressure to revive incentives in subsequent years.

The capacity to export was weak partly because the favorable 1964 trade agreement Zimbabwe had enjoyed with South Africa expired in 1992; partly because Zimbabwe failed to qualify as a ‘least-developed country’ except for the purposes of gaining additional World Bank loans (at a lower interest rate); and partly because, as the ZCTU (1996: 49) concluded, trade liberalization ‘has tended to turn manufacturers into traders... (as) firms have tended to stop manufacturing products locally, preferring to import them directly and then sell them to local consumers’.

Thus as shown in Table 7, the manufacturing sector’s real (factor cost) contribution to GDP during the 1990s fell 18 per cent from a peak of Z$ 4.530 billion in 1991 (in constant 1990 terms) to Z$ 3.724 billion in 1995, and did not subsequently recover much ground. The subsectors ‘distribution, hotels and restaurants’ became the largest contributor to GDP, rising 25 per cent, from Z$ 3.267 billion in 1990 to Z$ 4.075 billion in 1998 (the last year for which data are available). Other notable increases were experienced in transport and communication (74 per cent), real estate (44 per cent), finance and insurance (40 per cent), education (35 per cent) and agriculture (26 per cent). But these did not balance the disappointing declines in volume outputs experienced in several manufacturing subsectors, as shown in Table 8. Total manufacturing output fell from an indexed peak of 143 (with 1980 = 100) in 1991 by 24 per cent to 109 in 1999, as deindustrialization ravaged the textiles (-64 per cent), metals (-35 per cent), transport equipment (-31 per cent) and clothing (-28 per cent) subsectors.

One of the only positive aspects of manufacturing performance, according to the Bank (1995, vii: 3), was that ‘Labor intensive sectors, such as wood products and textiles, have benefitted from the sharp reduction in real wages, reinforcing the expansion of exports’. But the drop in wages was disastrous for local effective demand. The ZCTU reported in 1996 that their members found themselves on average 38 per cent poorer than in 1980 and 40 per cent poorer than in 1990. According to the ZCTU (1996: 68), the biggest losers in direct standards of living (average annual earnings) as a percentage of 1980 levels were civil servants (-65 per cent), domestic workers (-62 per cent), construction workers (-56 per cent), teachers (-50 per cent), and farmworkers (-48 per cent), with miners (-20 per cent) and manufacturing employees (-19 per cent) the ‘best off’. Dramatically lower wages did not translate into more jobs. Unemployment remained rampant, with a tiny fraction of the 200,000 annual school-leavers able to find formal sector employment.

Table 7:
Zimbabwe: GDP, 1990-98
factor cost (constant 1990 z$, in millions)

INDUSTRY OF ORIGIN	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	3188	3221	2474	3145	3375	3119	3737	3834	4023
Mining/quarrying	845	841	823	805	892	936	913	895	899
Manufacturing	4403	4530	4146	3825	4209	3724	3896	3992	3886
Electricity/water	543	512	501	443	486	477	469	473	447
Construction	615	619	645	633	635	483	541	633	661
Finance/insurance	1336	13380	1373	1578	1673	1723	1794	1848	1865
Real estate	474	494	522	549	569	594	617	648	681
Distribution/hotels/restaurants	3267	3488	3268	3277	3504	3696	3946	4037	4075
Transport/communication	1185	1230	1334	1273	1383	1706	2043	2062	2062
Public administration	1215	1235	1208	1153	997	1002	920	872	870
Education	1269	1286	1290	1307	1325	1357	1495	1612	1712
Health	316	340	347	381	466	441	415	314	299
Domestic services	348	355	339	331	346	327	348	356	363
Other services	770	891	930	924	951	900	971	1077	1111
(imputed banking charges)	-425	-448	-315	-412	-517	-402	-307	-288	-242
GDP AT FACTOR COST	19349	19973	18854	19212	20293	20084	21799	22365	22711

Table 8
Zimbabwe : volume of manufacturing output, 1990-99
(indexed, 1990=100)

SECTOR	*(weight %)*	90	91	92	93	94	95	96	97	98	99
Foodstuffs	*13.5*	144	147	150	123	130	142	128	135	133	148
Drink/tobacco	*10.4*	130	134	134	127	127	119	131	134	138	120
Textiles	*10.1*	217	226	177	192	206	81	80	80	83	82
Clothing/footwear	*7.2*	145	149	125	128	125	100	102	102	103	108
Wood/furniture	*4.4*	90	101	106	95	106	115	160	134	134	117
Paper/printing	*6.1*	137	144	143	150	169	156	153	153	149	143
Chemicals/petroleum products	*12.5*	159	159	138	129	149	134	137	156	140	134
Non-metallic mineral products	*3.7*	161	170	158	130	170	156	182	177	176	160
Metals/metal products	*28.8*	111	114	101	82	92	88	89	94	85	74
Transport equipment	*2.1*	147	143	141	82	133	139	201	203	147	100
Other manufacturing groups	*1.2*	49	48	39	95	85	53	55	414	37	39
ALL MANUFACTURING	*100*	139	143	130	119	131	113	117	121	115	109

Adding this to the falling 'social wage'—thanks largely to new cost recovery policies for health, education and many other social services, as well as the unprecedented interest rates on consumer credit—workers and poor people faced an unprecedented financial crisis during the early 1990s. The trends generated by Zimbabwe's exemplary social policy during the first decade of independence—reducing infant mortality from 86 to 49 per 1,000 live births, raising the immunization rate from 25 per cent to 80 per cent and life expectancy from 56 to 62 years, doubling primary school enrollment, etc—witnessed ominous reversals (to which HIV/AIDS also contributed). For example, primary school dropout rates soared during the 1990s, with girls particularly prone to suffer when school fee increases were imposed; and likewise, just as the HIV-AIDS pandemic hit Zimbabwe, from 1990-1995, per capita spending on care fell by 20 per cent in real terms (UNDP/PRF/IDZ, 2000: 33, 36). Crime also worsened noticeably during ESAP.

Foreign debt also ballooned. ESAP was to require US$ 3.5 billion in new foreign loans over five years (as against existing external debt of US$ 2.5 billion). But during the 1992/93 fiscal year, interest payments on both foreign and domestic debt soared 15 per cent more than projected, due to exorbitant interest rates and dramatic (downward) exchange rate movements (World Bank 1995: 35). Still, Zimbabwe avoided rescheduling and default. One of the main causes of untenable foreign debt was that with financial liberalization, large domestic corporate borrowers (including banks) began seeking funding overseas, discovering in the process that the nominal cost of overseas funds was as low as 7 per cent, compared to in excess of 35 per cent for domestic loans. The Zimbabwe Reserve Bank subsidized, on an immense scale, protection against currency devaluation on behalf of domestic banks' offshore borrowing (the subsidy essentially amounts to the difference between the seductively low 'nominal' interest rate on foreign loans and the 'real' rate at which the loans must be repaid, in hard currency, as the Zimdollar plunges in value). Reserve Bank losses in buying forward cover were Z$ 2 billion in 1991 alone (World Bank 1995: 21).

The IMF and World Bank insisted on tighter monetary policy in mid-1991, and as a result, short-term interest rates rose from 27.5 per cent to 44 per cent in a single day, shattering the stock market and leading merchant banks to 'sharply curtail lending to clients pending the stabilization of the money market' (*Financial Gazette* 31/10/91). The interest rate increases did not increase savings rates (which remained below 20 per cent of GDP), given the desperate state in which most Zimbabweans found themselves at that stage (Muzulu 1993).

One way in which high interest rates did affect savings, however, was in attracting a flood of 'hot money' to Zimbabwe, which played havoc with the stock market. Hot money inflows also required 'sterilization' through yet higher interest rates, so as not to contribute further to inflation. As *Financial Times* correspondent Tony Hawkins concluded, 'The irony of the Zimbabwe case is that although liberalization appears to be working in attracting capital inflows and the return of capital flight, it has been having a perverse effect on inflation and the exchange rate, leaving industrialists muttering gloomily about de-industrialization' (*Financial Gazette* 28/6/95).

The 1991-97 period during which ESAP was implemented can thus be considered a failure in many crucial respects (inexplicably, the World Bank 1995: 23, *Project Completion Report* for ESAP gave the best possible final grade for the first stage of the programme: 'highly satisfactory'). In contrast, popular opinion was reflected in 'IMF

Riots', including 1993 bread riots which broke out in high-density suburbs of Harare and in the city center in 1995. Public workers went on strike in 1996, and other private employees (including plantation workers) followed at an unprecedented rate in 1997. By the time that political opposition consolidated in 1998-99, leading to a new, labour-led political party that nearly won the 2000 parliamentary elections, leading ZANU ministers had come to the conclusion that ESAP was their most important policy error.

Still, the government was able to claim the following accomplishments during the period, in line with ESAP's 1991 commitments:

- 18,000 government jobs were abolished (with retrenchees numbering 7,000) and the civil service wage bill was reduced from 15.3 per cent of GDP in 1990 to 11.3 per cent in 1994 (World Bank 1995: 20);
- the foreign exchange control system was dismantled;
- tariffs were lowered (except for some 'import-competing activities') to the 15-25 per cent range (ie, even below the GATT requirement of 30 per cent, which was only meant to take effect by the year 2005),
- there was extensive liberalization of foreign investment regulations;
- price controls were eliminated;
- many local zoning and trading restrictions were abolished; and
- labour markets were largely deregulated (particularly regarding wage determination and employers' rights to hire and fire).

If ESAP was largely implemented, and if the implementation was unsatisfactory, the subsequent period suggests that the political costs and social instability generated by ineffectual international economic integration are substantial. One sign of coming economic collapse was the crash of the massively overvalued Zimbabwe Stock Exchange beginning in September 1997. This was soon followed by three controversial political calculations by Mugabe—first, to raise rhetorical (and later actual) conflicts surrounding land maldistribution; second, to grant large pension fund payouts to veterans of the 1963-79 Liberation War; and third, to involve Zimbabwean troops in the Democratic Republic of Congo war (apparently on behalf of his generals' and colleagues' own firms)—that signalled to the market the definitive exhaustion of the failed structural adjustment philosophy.

As punishment, investors simply ran from Zimbabwe. On the late morning of 14 November 1997, the Zimbabwe dollar lost 74 per cent of its value over a four-hour period. As a result, unprecedented inflation was imported, leading in January and October 1998 to urban riots over price increases for maize and fuel, respectively. Mugabe and the ZANU government reacted to the threat—essentially from the political left—by itself moving back into dirigist policy territory: imposing a mid-1998 price freeze on staple goods, a late 1998 tariff on luxury imports, and several minor technical interventions to raise revenues, slow capital flight and deter share speculation.

In sum, the objective of international integration had fallen apart by 2000, amidst a national political-economic crisis that was more severe than any other challenge over the previous two decades. The policy reversals were incomplete and haphazard, and because of ongoing problems with government legitimacy (as well as widespread corruption and a reracialization of political discourses), would not generate an

environment conducive to national economic revitalization. Such an environment is certainly possible, judging by the growing consensus that international economic integration can indeed be reversed.

2.3 Government policy challenges

International economic integration has evidently had a devastating impact on Zimbabwe. The country's current *Human Development Report*, sponsored by the United Nations Development Programme but involving both officials and leading civil-society intellectuals (associated with the Poverty Reduction Forum and Zimbabwe Institute of Development Studies), came to similar conclusions, after a detailed study of the background to and course of structural adjustment. The report (UNDP/PRF/IDZ 2000: 82) makes six recommendations for government economic development policy—the last two of which are worth citing in full—with which it is appropriate to conclude our deliberations on Zimbabwe.

i) Overall objective: restore confidence by creating conditions of fulfillment of basic human material and social needs, and by opening up democratic space for dialogue in all sectors of life...

ii) The hitherto neglected responsibility of ensuring conditions for the reproduction of labour and ensuring a life of dignity must form the core of the new strategy...

iii) Better integration of gender concerns...

iv) A well-focused land reform and agricultural regulation policy framework are necessary...

v) Restore production and safeguard the domestic market from external competition in respect of essential commodities and services, as a basic complement to fiscal and monetary tools. Probably considered subsidies and tariff protection might be necessary.

vi) Carry out an audit of imports and introduce measures to cut down all inessential imports and luxury products. Carry out a similar audit of debt, retire illegitimate debts, and negotiate with the creditors for the payment of the legitimately incurred debts on the *principle of joint responsibility*. Put in place capital controls, regulate the banking sector, and review financial liberalization measures to develop an indigenously led banking sector.

3 Conclusion

Murshed (2001) identifies both endogenous and exogenous obstacles to successful integration of small economies into the global economy. For Botswana, asymmetrical benefits from global integration raise the problem of translating growth into sustainable, long-term development for all the country's citizenry, based on economic diversification and resolution of unemployment and under-employment which still afflict the majority of the labour force.

Thus on the one hand, the Botswana economy has relied on relative openness and a market orientation to achieve high rates of economic growth over a number of decades. While the presence of diamonds may have been fortuitous, the country's growth was reinforced and sustained by judicious management of the economy, along relatively conventional lines similar to the Washington Consensus. Yet on the other hand, beyond its primary product exports, the benefits of globalization for Botswana are not evident. The case not only demonstrates the ambivalent implications of international economic integration for a small and vulnerable developing country that remains a price taker and that cannot on its own significantly influence the pattern of foreign direct investment in its favour. It also shows the limits of the anticipated trickle-down effects of growth on the domestic economy.

In terms of policy conclusions, there is a need for more effective ways of channelling foreign investment to small developing economies and to open up the markets of developed economies so as to facilitate the diversification of small economies away from traditional primary-product exports. There is, additionally, a need for Botswana to embark upon bolder long-term policies so as to translate the gains from economic growth into the development of a diversified and more inclusive economy which will reduce underemployment and eliminate poverty.

Zimbabwe's story is unequivocally gloomy. Several bouts of international economic integration prior to independence suggested the importation of severe imbalances, while on the other hand at least two decade-long periods of inward-oriented accumulation (1932-41 and 1965-74) were the eras of greatest GDP growth and generation of economic linkages (albeit under circumstances in both cases which entailed the adoption of brutally racist policies). From the 1980s, the overall structure of Zimbabwe's economy and society left it ill-suited for rapid liberalization and international economic integration, given that these were accompanied by extremely high real interest rates, a dramatic upsurge in inflation and devastating cuts in social welfare spending. Although Mugabe often confused matters by using rhetoric that was extremely hostile to the Washington financial institutions, finance ministers and Reserve Bank governors followed a fiscally-conservative, deregulatory agenda until late 1997.

The results of orthodox policies, especially the trade/financial liberalization and conditionality associated with ESAP, included an amplification of existing high levels of inequality. As a direct result of funding cuts and cost-recovery policies, exacerbated by the AIDS pandemic, Zimbabwe's brief 1980s rise in literacy and health indicators was dramatically reversed. In contrast, the stock market reached extraordinary peaks in mid-1991 and mid-1997, but these were followed by crashes of more than 50 per cent within a few months along with massive hikes in interest rates. The standard of living of the average Zimbabwean worker fell even further. For Zimbabwe, a long period lies ahead in which damage done to a once strong industrial base must be repaired. This will probably entail, as the United Nations Development Programme recommends, a substantial reversal of international economic integration.

Both small countries have relatively high profiles in international markets. While issues of size appear in the difficulty Botswana has experienced in broadening its industrial base, the same was true in Zimbabwe only insofar as luxury-goods import substitution industrialization generated problems of overproduction and subsequent stagnation. In both countries, had basic needs commodities been the subject of investment, far better

balance would have been achieved. Likewise, both countries are subject to external shocks (Botswana particularly in relation to diamond and beef prices; Zimbabwe to financial volatility). Remedial measures, we have argued, are based on the fundamental premise that for Botswana and Zimbabwe, several broad economic development objectives—better internal linkages, economic diversification, more thorough-going development processes, and socio-economic equality (with attendant environmental effects)—are all, now, excessively threatened by globalization.

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