

2016 ADI Colloquium: Development Issues and Challenges in Africa

A faint, light blue world map is centered in the background of the slide. The map shows the outlines of continents, with Africa being the most prominent feature in the center. The map is set against a dark blue background with a subtle grid pattern.

Governmental Intervention and Manufacture Industrial Policies in Mineral Rich Sub-Saharan Africa: Focused on Botswana and Nigeria

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※ Please do not circulate.



Socio-Economic Overview of SSA

Indicators (2014)	World	South Asia	SSA
Population (billion)	7.26	1.72	0.97
Surface Area (million km ²)	134.3	5.14	24.29
GDP (billion USD)	78,106.33	2,583.58	1,754.49
GDP per capita [PPP] (USD)	15,059	5,294	3,641
GDP Growth (%)	2.6	6.9	4.6
Life Expectancy at birth	71.5	68.1	58.6
Mortality rate under 5 (per 1,000)	43.9	54.6	86.1
FDI, net inflows (billion USD)	1,780.05	39.59	44.59
Net official development assist. and aid received (billion USD)	161.07	15.44	46.55

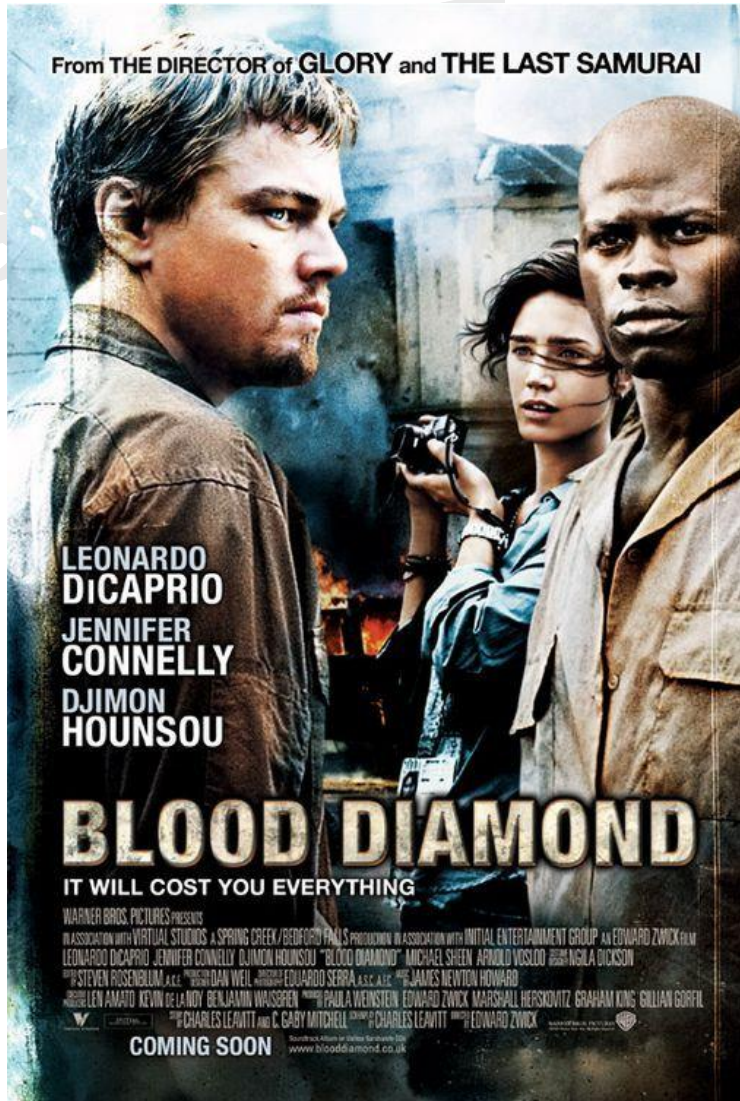
Source: World Bank, 2014, "World Development Indicators"

“Curse of Natural Resource”

“CURSE of NATURAL RESOURCES”

- Dutch disease
- Some countries with abundant natural resources tend to be in poor economies because:
 - 1) natural resources become major source of corruption
 - 2) high economic dependency on natural resources and negligence in developing other economic growth options.

Curse of Mineral Rich SSA



- ❖ Half of population lives a day with less than \$2
- ❖ Half of SSA countries are among the least developed.
- ❖ Conflicts over minerals

Curse of Mineral Rich SSA

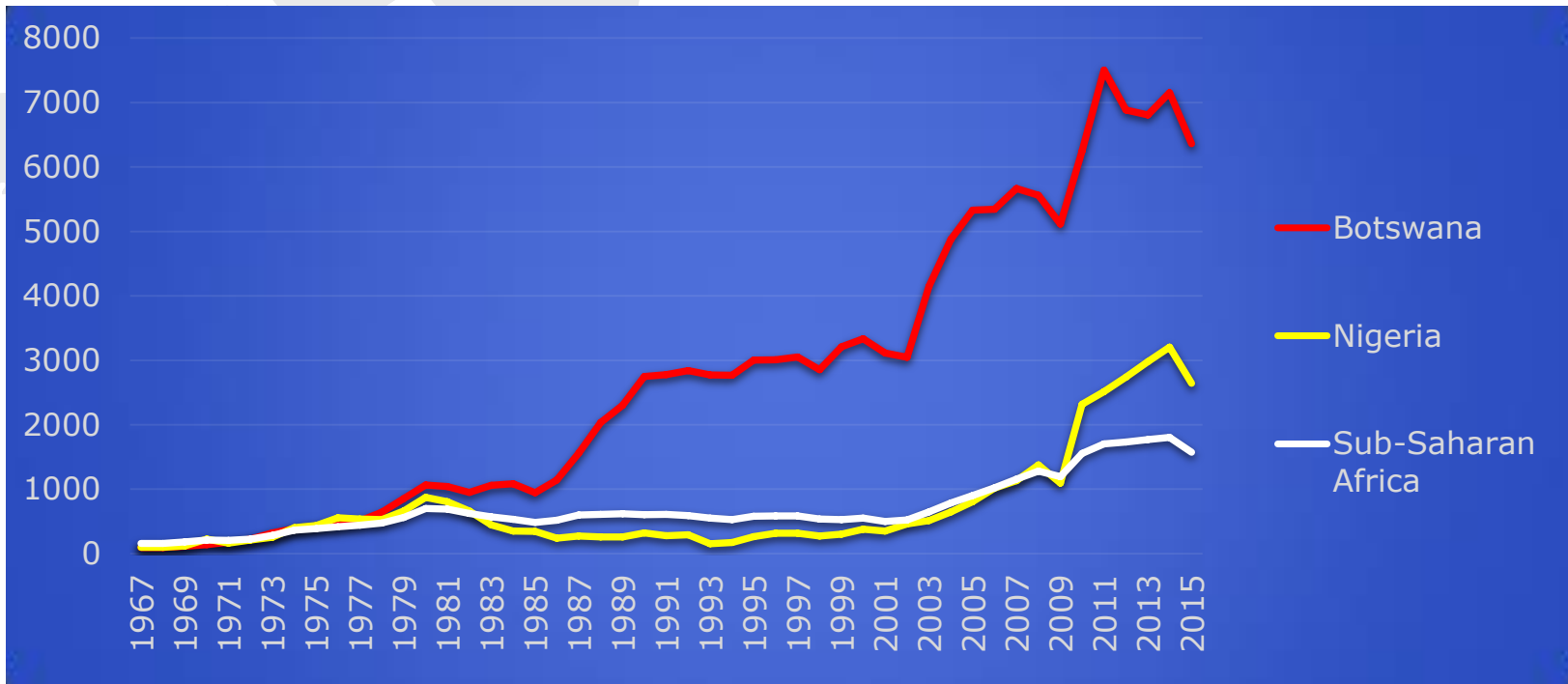


✦ Nigeria

- In 2004, 70% of gov. revenue from oil and natural gas (Keichi 2011)
- In 2009, 93.6% of exports was oil and natural gas (Joo 2011)
- In 2010, 46% lived daily with less than \$2 (IMF)

Curse-free BOTSWANA

❖ Exceptional economic growth



<Botswana's GDP per capita> (current USD)

1967	1985	1995	2005	2015	...	2011
93	942	3,001	5,328	6,361	...	7,505

Source: World Bank, "World Development Indicators"

Question



Q: How Botswana avoided the curse of natural resources and achieved economic development?

Market-centered View on SSA Economy

❖ **Neo-liberalism:**

- World Bank(1994; 1996; 1997), IMF
- Key to success: political and economic liberalization
- i.e. South Africa, Botswana, etc.

❖ **State as the source of Underdevelopment:**

- Incapability of the government
- Irrationality of planned economy
- Concentration of power on the central government
- Lack of private sector
- i.e. Nigeria and many other SSA countries

❖ Botswana's Neo-liberalist Success?

- Political and economic liberalization
- **HOWEVER**, the government regulated private sector (i.e. foreign business) and redistributed mineral rents against the market signal
 - Monitoring foreign business
 - Rent Stabilization Fund (1972)
 - Wage control, tightening imports regulation, exchange rate control, etc. to avoid inflation from rent accumulation
 - Mineral rent redistribution toward infrastructure and education

Overcoming State-Market Dichotomy

❖ Institutionalism:

- State and market are interactive (Polanyi 1944; Gilpin 2001)
- Governmental intervention on market as “given.”
- Economic development plan is products from interaction of the government and various economic agents.
- The intervention can be effective or ineffective.

❖ Developmental State Model

- Late developing countries in East Asia
- Governmental intervention on market to achieve capitalist economic development

Developmental State Model

❖ Developmental State Model

- Late developing countries in East Asia
- Governmental intervention on market to achieve capitalist economic development
 - 1) Political decision to achieve “dynamic comparative advantages”
 - 2) led by the state and certain bureaucrats
 - 3) embedded autonomy of the state and society
 - 4) development of cooperation network between the state and society
 - Source: Weiss 2000; Onis 1991; Evans 2001; Stubb 2009; Lim 2008

Governmental Intervention



Preposition

❖ Governmental intervention on market as “given.”

▪ Peter Evans, 1995, *Embedded Autonomy*

- “In a globalized economy where most value is added at several removes from natural resources, the global division of labor presents itself as an opportunity for agency, not just an exogenous constraint.”
- “[...] emergence of advantages on a complex evolution of competitive and cooperative ties among local firms, on government policies, and on a host of other social and political institutions.”
- “In a world of constructed comparative advantage, social and political institutions – the state among them – shape international specialization. State intervention must be taken as one of sociopolitical determinants of what niche a country ends up occupying in the international division of labor.”
- “[...] withdrawal and involvement are not the alternatives. **State involvement is a given. The appropriate question is not “how much” but “what kind”.**”

4 Types of Governmental involvement

1. CUSTODIAN	2. DEMIURGE
<ul style="list-style-type: none">• Regulator• Regulatory efforts that privilege policing over promotion	<ul style="list-style-type: none">• Producer (i.e. infra)• Assumption about limitations of private capital and try substitute private producers• Establish enterprises that compete in markets for normal “private” goods
3. MIDWIFE	4. HUSBANDRY
<ul style="list-style-type: none">• Assist in the emergence of new entrepreneurial groups or induce existing groups to venture into more challenging kinds of production• “Greenhouse” to protect infant sectors from external competition• Providing subsidies and incentives	<ul style="list-style-type: none">• Cajoling and assisting private entrepreneurial groups to meet the challenges from the global markets.• Overlapping techniques with midwifery.

Botswana vs. Nigeria



❖ Similarities

- Independence in 1960s with extremely poor economy
 - In 1967, less than \$100 GDP per capita
- Abundant natural resources
 - Botswana: Diamond
 - Nigeria: Oil and natural gas
- High export dependency on natural resources
 - Botswana: 70% in 1990s (Kim 2007)
 - Nigerian: 90% in 2000s (Keichi 2011, Joo 2011)
- High import dependency on consumer and intermediate products

Botswana vs. Nigeria

❖ Similarities?

- Governmental interventions to breed manufacture industry
 - Both failed to achieve industrial diversification *because...*
 - Botswana: sufficient fund but trade disputes with neighboring countries occurred
 - Nigeria: deficit increased and called for IMF bailout
- Governmental interventions to increase and redistribute the rents from natural resources
 - **BUT**, intervention types and redistribution methods were different

Botswana vs. Nigeria

Dev. Path/Policy	Botswana	Nigeria
Mineral discover and development	<ul style="list-style-type: none"> • Demiurge • Midwife 	<ul style="list-style-type: none"> • Custodian
Mineral rent accumulation	<ul style="list-style-type: none"> • Custodian • Midwife 	
Mineral rent redistribution	<ul style="list-style-type: none"> • Demiurge 	
Manufacture industrial policy (1) : import substitution	<ul style="list-style-type: none"> • (limited) Midwife 	<ul style="list-style-type: none"> • (limited) Midwife
Manufacture industrial policy (2) : export-led	<ul style="list-style-type: none"> • Midwife • (limited) Husbandry 	(After IMF Bail-out) <ul style="list-style-type: none"> • Least intervention • Led-by IMF

Botswana's Governmental Intervention



1. Rent Accumulation and Redistribution

1. Mineral Utilization: Demiurge + Midwife
2. Rent Accumulation: Custodian + Midwife
3. Rent Redistribution: Demiurge

2. Manufacture Industrial Policy

1. Import Substitution Strategy until 1970s: Midwife
2. Export-led Strategy in 1980~1990s: Midwife + Husbandry

Botswana's Governmental Intervention

1. Rent Accumulation and Redistribution

1. Mineral Utilization: Demiurge + Midwife

- Poor industrialization
 - Mineral utilization was the only growth engine
 - Lack of resources and technologies
- Inviting foreign business
 - Support their tasks (i.e. facility and information provision)
 - Monitoring on foreign business to achieve long-term efficiency on mineral exploration and utilization
- Cooperation of the government and private sectors
 - In mid-1970s, the Botswana gov. became partners of domestic business or founded state-owned companies. Foreign business was also utilized excessively
 - Gov.-Private Sector Committee: balancing national plan and practical opinions from business

Botswana's Governmental Intervention

1. Rent Accumulation and Redistribution

2. Rent Accumulation: Custodian + Midwife

- Maximization of Mineral Rent
 - Tax reform
- Revenue Stabilization Fund (1972)
 - In 1972, the first rent revenue
 - Preparation for potential diminution of rent upon global mineral price
 - In 1998, the fund was used for the first time after 26-year fiscal surplus
- Economy Revitalization Plans
 - Wage moderation, strengthening regulations on importing goods, and exchange rate adjustment

➔ Prevented the “Curses of Natural Resources”

Botswana's Governmental Intervention

1. Rent Accumulation and Redistribution

3. Rent Redistribution: Demiurge

▪ Infrastructure Development

- Even before the first rent revenue
- Exceptional as other mineral rich SSA countries did not see the need of further economic development

▪ Human Resource Development

- Emphasis on Education

➔ Botswana shows the highest education level and literacy rate in Africa.

- In 2008, secondary school entrance rate was 80% (Korea Exim

Botswana's Governmental Intervention



2. Manufacture Industrial Policy

1. Import Substitution Strategy until 1970s: (limited) Midwife
 - Backgrounds
 - In 1970s, trade deficit due to import of consumer and intermediate goods
 - Option (1): exporting more minerals
 - **Option (2): import substitution strategy on food process, textile, construction materials**
 - Import Substitution Strategy
 - Supporting entrepreneurship development
 - Tax favor and other incentives to attract private capital to breed manufacture industry
 - Failure of Import Substitution Strategy
 - Breeding manufacture required enormous amounts of money, but industrialization level was too low
 - Most investment concentrated on mineral industry

Botswana's Governmental Intervention

2. Manufacture Industrial Policy

2. Export-led Strategy in 1980~1990s: Midwife + (limited) Husbandry

- Backgrounds
 - Excessive rent accumulation in 1980s, so government's capacity increased
- Financial Assistance Policy in 1982
 - Goals: Creation of employment and Industrial diversification
 - Business loans and business activity monitoring
 - Results: increased manufacture exports and increased employment rate
- Export-led Mobile Industrial Policy in 1990s

(Continued)



2. Manufacture Industrial Policy

2. Export-led Strategy in 1980~1990s: Midwife + (limited) Husbandry

▪ Export-led Automobile Industrial Policy in 1990s

- Automobile export as growth engine
- The 1st Hyundai Automobile Factory in 1993: the Botswana gov. supported the Factory as it owes biggest numbers of employees and high ratio on exports.
- Automobile become the 2nd biggest export item in mid-1990s
- The 2nd Hyundai Automobile Factory in 1998: the Botswana gov. invested 1/3 of establishment expenses
- Top sales in South Africa beating Toyota in 1999
- Volvo Automobile Factory in late 1990s
- **Problem:** damage on automobile industry in South Africa

Botswana's Governmental Intervention



2. Manufacture Industrial Policy

2. Export-led Strategy in 1980~1990s: Midwife + (limited) Husbandry

■ The End of Automobile Industry

- South Africa's declaration of trade war
 - threats to annul custom union
 - Inspection on multinational corporation, the actual owner of the factory
- Hyundai was under huge debt pressure due to the inspection, the 2nd factory establishment and other kinds of facility expansions.
- Although the government of Botswana had enough fund to rescue Hyundai, it gave up to.
- The Botswana government sold Volvo factory and transferred it to South Africa
- Results: manufacture exports decreased from 12% to 5%

Nigeria's Governmental Intervention



1. Rent Accumulation and Redistribution

1. Rent Accumulation and Redistribution: Custodian

2. Manufacture Industrial Policy

1. Import Substitution Strategy until 1980s: (limited) Midwife
2. IMF Bail-out and Export-led Strategy in 1990s

Conclusion



❖ Resource Curse Free Botswana

1. Government Intervention as “Given”

2. What matters is “HOW” it intervenes

→ Overcoming Dichotomy of State vs. Market

A light blue silhouette of a world map is centered in the upper half of the image, set against a dark blue background with a fine grid pattern. The map shows the outlines of continents and major landmasses.

Thank You!

