Economics 172
Issues in African Economic Development

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Outline:
(1) Acemoglu, Johnson, Robinson (2003) on Botswana
(2) Chinese trade and investment in Africa
(3) Final questions and comments
Why did Botswana succeed? AJR’s reasons

(1) Representative pre-colonial institutions, with lots of institutional checks/balances (e.g., public assemblies)

(2) The limited U.K. colonialism left these existing institutions intact, and largely legitimate

(3) Rural economic interests (especially cattle owners) were politically powerful → pro-agriculture policies

(4) Huge diamond and other mineral income

(5) Visionary nation-building decisions by post-independence leaders (especially Seretse Khama)

(6) Heavy involvement of the state in the economy (central government expenditure 40% of GDP), combined with property rights protection, encouragement of FDI
Additional questions about Botswana

• Why did Botswana succeed and Lesotho fail?
  -- Is it all about good leadership? (Khama)

• Was Botswana’s collaboration with the Apartheid regime a key to their success?

• Is it Botswana’s ethnic homogeneity?

• What is the key factor?
Another possible success: Chinese investment

- China is a leading economic development model for other poor countries, and flies in the face of Western donor economic policy suggestions
  - China has had 8% annual growth over the past two decades without rule of law, good corporate governance or democracy, and with a large state industrial sector
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• Chinese firms are rapidly expanding their investment activities in Africa
  -- Over US$1.2 billion in investment in 2005
  -- $10 to $40 billion increase in trade from 2000 to 2005
Chinese growth fueling African growth?

- Major investments in energy (China gets 30% of its petroleum from Africa), mining, timber, textiles, telecommunications
- Chinese demand has pushed up world commodity prices, benefiting Africa and boosting growth since 2000
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• Why are Chinese firms investing where U.S. and European firms do not?
  -- Chinese firms may be more experienced working in settings with poor infrastructure, limited rule of law
  -- Western firms fear the public relations consequences of dealing with authoritarian rulers, human rights abusers
The politics of Chinese involvement in Africa

• China has used its diplomatic clout (as a permanent member of the U.N. Security Council) to protect allied regimes accused of major human rights abuses
  -- Major weapons sales to Zimbabwe, and investments in petroleum in Sudan, where China has blocked action on the Darfur Genocide
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• Chinese deals and aid typically have less “conditionality” than World Bank or other Western assistance: “no strings attached” aid, no concern with local governance
  -- One exception: drop recognition of Taiwan
The case of mining in Zambia

• Major new Chinese investment revitalized the decrepit Zambian Chambishi copper mine a few years ago
  -- Chinese firms are used to operating in China with scant regard for workers’ rights or safety standards: when 49 Zambian miners died in an accident in April 2005, their families received no compensation
  -- The main opposition candidate for President last year ran on an anti-Chinese investment platform (but lost)
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• Is foreign direct investment that disregards local workers’ rights and environmental contamination worse than no investment at all?
Remaining questions on Chinese investment

• Is Chinese investment doing more harm than good or vice versa in Sub-Saharan Africa?

• Is Western donor opposition to Chinese economic ties in Africa based mainly on a fear that the West will lose political sway over African countries?
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- Is Chinese investment doing more harm than good or vice versa in Sub-Saharan Africa?
- Is Western donor opposition to Chinese economic ties in Africa based mainly on a fear that the West will lose political sway over African countries?
- Is the Chinese attitude towards its relations with Africa more or less respectful of African sovereignty?
- Is the Chinese development model more likely to succeed in Africa than that advocated by Western donors?
The final exam

• As for the midterm, three types of questions: essay questions on broad themes in the course; questions on econometric methods and approaches; questions on theoretical issues and models

• The final will cover the entire course, weighted more heavily towards the second half (2/3 on the second half)
• Good luck on the final exam! (next Tuesday 5/15) – and thanks for being a great class
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