

Simon Johnson: One Page Summary

15.223, class #5: Emerging Markets/Uncertain Rules – Africa

Review economic development in your favorite countries [through this link](#). The World Bank also offers alternative indicators that you can use (e.g., for your final papers).

Is there a short-cut up the productivity/ growth ladder? Natural resources may be conducive to high productivity forms of mining – with a lot of capital and little labor. This could mean high wages for those employed but how does this impact the rest of the population?

In principle, the benefits could be shared more broadly – through taxation or public sector employment or other forms of redistribution. In practice, we worry about the “natural resource curse,” which could involve an overvalued real exchange rate (reducing jobs in export/import-competing sectors) or even social conflict.

Not all natural resources require capital-intensive mining. If diamonds are alluvial (e.g., Angola, Sierra Leone) or other minerals can be extracted easily (e.g., Congo), does that help or hurt the prospects for economic development? The Kimberly process had some positive impact in terms of reducing the appeal of conflict diamonds, but does this sort of initiative really make a difference? Can civil wars be prevented or made shorter by outside pressure of any kind?

How should a country manage the development of its natural resources? To what extent should foreign firms be allowed in to run mining operations (e.g., as in the case of Debswana)? Does this bring the latest technology or encourage tough discussions about confiscation down the road? Around the world, oil producing nations have moved to create their own national oil companies, feeling that this is a better assurance of benefits for local people.

But if a country lacks savings, is there an alternative to using some “foreign capital” (e.g., Botswana at the beginning)? What then should be the strategy for developing local capabilities?

Porter-type analysis for diamonds in Botswana suggests the importance of leadership, which produced an early social agreement across tribes. Relatively honest government was important throughout. The fact that British colonial rule had little impact in “Bechuanaland” may also be viewed as a good thing, as it kept traditional structures in place – and Seretse Khama later proved that these could be conducive to political independence and economic growth. Developing a consensus around the Mineral Rights Act was essential.

To what extent did de Beers and the nature of the diamond industry help – given that the stones are not geologically rare, limiting market sales has been an important strategy. De Beers had to worry about additional diamonds flooding the market. Botswana was able to renegotiate its Orapa agreement in 1975 and also get a better deal for Jwaneng – in return for strategic stockpiling (leading to the July 1987 swap of diamonds for cash/shares of De Beers).

Did foreign assistance (“aid”) make a difference? Are there particular issues, for example around health, where aid can be more effective? How exactly (e.g., HIV/AIDS)?

How can Botswana develop sectors other than diamonds?

Is oil “better” than other natural resources? Some oil producers have done very well, particularly over the past 40 years. But oil can also lead to conflict and instability.

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