

Economics 172
Issues in African Economic Development

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Issues in African Economic Development

Lecture 29 – May 8, 2007

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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 - 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
- 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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 - Major weapons sales to Zimbabwe, and investments in petroleum in Sudan, where China has blocked action on the Darfur Genocide
- 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
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 - The main opposition candidate for President last year ran on an anti-Chinese investment platform (but lost)
- Is foreign direct investment that disregards local workers' rights and environmental contamination worse than no investment at all?

Remaining questions on Chinese investment

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

Whiteboard #1

Whiteboard #2

Whiteboard #3

Whiteboard #4

Whiteboard #5



