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# The Battle for Development: Economic Growth versus Institutions, Fighting for Long- term Sustainable Outcomes

By: Hannah K. Brown

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## ABSTRACT

The globalization process, accelerated through technology proliferation, has “brought about profound changes in the international context [and] could have far-reaching implications for development” according to Deepak Nayyar. He argues a myth exists advocating the spread of globalization and global economic wealth convergence; however, globalization is uneven and a sharp divide between rich and poor countries persists. For example, during the 1980s and 1990s poverty increased in most Latin American, Caribbean, and Sub-Saharan African countries. However, not all developing nations have stagnated, some have experienced high sustained economic growth rates. Both China and Botswana have been hailed as such examples in the developing world while some of their neighbors, notably Mongolia and Zimbabwe, have had more trouble. This begs the question, why have some developing countries achieved development while others have not? To begin to address this question, one must look at various development models and case studies. Before trying to achieve rapid economic growth, it is critical that nations have strong institutions embedded within state infrastructure to ensure long-term sustainable development.

**Keywords:** Development; Sustainability; Sub-Saharan Africa; Botswana; Diamonds

## INTRODUCTION

What does development mean? Development means something different to every region, nation-state, discipline, and individual, and globalization has stimulated the dialogue. Some of the most widely discussed definitions focus on economic development, human development, or institutional development. It is clear that various definitions each tell a different story on how to

attain development, which for the purposes of this paper is defined as a stable and decent standard of living for all world citizens that does not compromise future generations, but sustainable, long-term development involves a bit of each. Particularly for developing nations in Sub-Saharan Africa (SSA) looking to reach sustainable development the question becomes, what is most important for developing nations in SSA to pursue first to reach long-term sustainable development: strong institutions or economic growth?

This paper will discuss theory needed to understand this question. After a development models discussion, I will engage with theoretical arguments for both economic growth development and institution building, using Botswana as a case study. Ultimately, I will conclude that strong institutions must be in place before economic growth in order to ensure long-term sustainability in SSA.

## **THEORETICAL FRAMEWORK**

Experts argue over paradigms nation-states should follow to achieve sustainable development. From the Washington to the Beijing Consensus, individuals debate about the right path forward. Looking at historical occurrences and trial and error, nation-states adapt their economic policies to ensure development trajectories. Development takes numerous forms, and arguments for the right path forward include economic growth, increased regulatory systems, institution building, and more. In an increasingly globalized world, it remains to be seen which paradigm excels most. The first section below will briefly underscore general arguments for the economic growth development model. The second section will move beyond economic growth arguments and highlight development arguments for increased regulations and institution building.

### *Economic Growth Arguments*

Neoliberal economic development, also known as “the Washington Consensus,” has been the status-quo for development since the early 1980s. The Soviet Union’s ultimate fall solidified Anglo-American capitalism’s triumph over state-led U.S.S.R. communism. This development approach advocates for macroeconomic stability by controlling inflation and reducing fiscal deficits, open economies through free trade and capital liberalization, privatization, and deregulation (Gore 2000, 790). Although some argue that “the Washington Consensus is a ‘universal convergence,’ and that it constitutes ‘the common core of wisdom’” there is much evidence that neoliberal economic development is waning in significance as alternative paradigms show success (Ibid). The 2008 financial crisis marked a shift away from neoliberal development and more towards developmental cooperation and pluralism (Nederveen Pieterse 2012, 2). Emerging economic powers, like China, blame the 2008 crisis on a “lack of market oversight” and note that “Western governments must improve cross-border regulatory cooperation if they are to avoid future global financial crises” (Ibid, 1). While neoliberal development may work for short-term economic growth, long-term sustainable development is

not possible as represented by relative continuous Western economic shrinkage and increasing inequality rates (Gore 2000, 794). As the Washington Consensus declines, other development models remain viable and “the pendulum is swinging back toward state capacities” (Nederveen Pieterse 2012, 9).

### *Increased Regulations and Institution Building Arguments for Development*

Joseph Stiglitz argues that while economic growth is important, the government must play a strong institutional and regulatory role emphasizing employment, social justice, and non-materialistic values (Stiglitz 2007, 28). He notes that developing countries blindly following the Washington Consensus cannot fully enjoy the fruits of globalization and “catch-up” to the West (Ibid, 26). While “GDP is a handy measure of economic growth, it is not the be-all and end-all of development,” growth should be sustainable and the government must pursue an active role in promoting development (Ibid, 45, 27). Other experts argue that alternatives to simple economic growth models are necessary to the sustainable development path. Jan Nederveen Pieterse says “a substantive and comprehensive manner with equal emphasis both on the ‘social’ and ‘development’” is needed, or in other terms, “an integrated approach to social concerns and growth strategies” (Nederveen Pieterse 2010, 128).

Dani Rodrik states that while economic policies and growth are important, long-term sustainable development can only be achieved with strong institutions, allowing markets to function correctly (Rodrick 2000, 4). Economic growth arguments for development fail to explain the kind and quality of growth they achieve. Therefore, Rodrik does not simply argue for “growth,” but rather, “higher-quality growth,” implying sustainable, long-term equitable growth and particular institutions that contribute to development (Ibid, 16). He does not argue democratic institutions are a panacea for long-term sustainable development; however, he is explaining that with some exceptions, strong institutions are correlated with “high-quality” growth (Ibid, 2).

## **CASE STUDY - BOTSWANA**

Keeping these arguments in mind, we turn to a case study of Botswana to show why strong institutions over economic growth is most integral to long-term developmental sustainability in SSA. However to examine Botswana, it is first critical to gain insight into some of Africa’s continental history as well as briefly examine Botswana’s own historical context.

### *Continental Background*

SSA has been deemed “the classic basket case of twentieth century development” and its history plays a crucial role in understanding its current context (Nederveen Pieterse 2012, 6). As the twentieth century began Western powers controlled over 90% of Africa and plundered the continent for their own economic benefit (Schrader 2004, 70). In the second half of the 20<sup>th</sup>

century, all African countries gained independence and with little to no preparation and no choice were thrown into the Western-created and Western-implemented Westphalian international system. As African nations transitioned abruptly to self-rule in an international system where most Western nations already had centuries to work on their own development strategies, many African countries faced imminent development issues. Additionally, in the midst of the Cold War, many African nations experienced devastating proxy wars where the United States and the U.S.S.R. supported various militia groups to carry out their ideological preferences via violent civil wars (Ibid, 276-277). Also, in the 1980s and 1990s the International Monetary Fund attempted to assist African nations through Structural Adjustment Programs, enforcing neoliberal policies with devastating outcomes (Ibid, 288). This period, now coined ‘the lost decades’ of African development, was peppered with negative growth rates and rising African national debt burdens (Ibid). As SSA attempts to attain sustainable development today despite their difficult historical context, experts debate which development paradigm will move nations forward most. In particular, Botswana, poses an excellent case study to discuss sustainable development.

### *Botswana Background*

Prior to independence in 1966, Botswana was a British protectorate known as Bechuanaland (Ibid, 83). Surrounded by minority white-ruled neighbors, Botswana experienced relatively minimal British interference as no significant resources had been discovered to exploit (Good 2008, 1). However, in 1967, one year following independence it was announced that diamond deposits existed and in 1969 the De Beers Botswana Mining Company started production (Ibid, 9). With new diamond wealth, the nation’s economic growth rate took off and coupled with consistent parliamentary elections held every five years, Botswana has been hailed as an “African miracle” (Ibid, 1). To provide some general national information, Botswana is a small country with a population just over two million and 79% of the population shares a Tswana ethnicity (World Bank 2012). Additionally, no civil war or major conflict has ever erupted. The HIV/AIDS epidemic remains one of Botswana’s most serious concerns as it has the second highest prevalence in the world at 24.8% of the adult population aged fifteen to forty-nine (UNICEF 2009).

Botswana poses a prime case study because it has been deemed a “success story” and one can delve into its political economy to further understand how this was accomplished. Additionally, a closer look at the nation’s economic growth and institutions reveals how some development remain to be seen, and it may not be the success story people make it out to be. As other SSA countries strive for successful development, many might look to Botswana’s seemingly effective policies. Therefore, it is important that a closer examination is made to ensure long-run success both for Botswana and other nations looking on. It is necessary to look deeper into Botswana as many ask the question, how has Botswana been deemed successful while so many other SSA countries have consistently been positioned on the failed states list?

*Botswana's Economy*

From 1966 to 1991, Botswana experienced an extremely high and unprecedented economic growth rate averaging 13% annually (UNDP 1999). Economic development can truly be seen through a large increase in per capita income between 1966 and 2010. At independence, per capita income was 70Pula, or \$12USD, however in 2010 per capita income was 18,340Pula, or \$3,056USD (Ibid). These numbers potentially show a rapid increase in citizens' annual income, which is also usually connected with increasing living standards. (However, as will be elaborated on below, this sharp increase in per capita income does not take inequality into consideration.) Additionally, Botswana houses the richest diamond mine in the world and diamonds are the economy's main driving force (Good 2008, 9). For example, in 2002 diamonds accounted for 45% of GDP, 65% of government revenue, 80% of export earnings, and 90% of foreign direct investment went into mining (Ibid, 10). Other sectors of Botswana's economy contributing to GDP include agriculture and tourism, but at strikingly low comparisons. While Botswana's economic growth and overall economy has been key to their development, economists are beginning to question its sustainability.

Rampant inequality exists in Botswana with currently 47% of the population living below the national poverty line (UNDP 2012). Their Gini-coefficient remains at 0.6, indicating an extremely high inequality level with the poorest 20% of the population accounting for 4% of national income and the richest 20% accounting for 59.3% of national income (Ibid). While economic growth is necessary for development, equity is important because growth that is not equal is not sustainable as it creates social tensions and provokes social fragmentation among other negative effects (Nederveen Pieterse 2012, 11). It seems that while Botswana has experienced rapid economic growth, they have implemented "economic trajectories [that] maintain poverty and deepen inequalities," which can be argued undermines citizenship and thus democracy (Good 2008, 4-5). Botswana's diamond wealth has moved the nation to spend on importing food and manufactured goods from South Africa rather than work to stimulate domestic agricultural and manufacturing sectors (Ibid, 10). As Botswana has been given twenty-five years until their diamond resources are depleted, their non-diversified economy poses an imminent crisis on its horizon (Hanson 2008, 2).

Additionally, Botswana's dependence on diamond revenues is susceptible to global financial crises and demand. For example, since the 2008 financial crisis diamond sales are down, affecting Botswana's revenues (Shine 2012, 2). Although, it can be argued that while Western diamond demand is down, the increasing middle classes in China and India will create a new diamond demand (Ibid). However, as Peilin Li points out, "Chinese residents' consumption rate, namely the proportion of consumer spending to GDP, actually declined from 52 percent to 35.4 percent, which represents a low level in the world" (Li 2012, 143). As seen in Botswana's case, economic growth booms are not always associated with sustainable development and it is important for Botswana to recognize the need to diversify their economy to achieve long-term sustainable development, which can also be aided by strong institutions guiding the way.

### *Botswana's Institutions*

Botswana consistently ranks high on international anticorruption measures and has been endlessly commended for strong political stability (Hanson 2008, 1). Also, Botswana remains the highest ranking African country on the 2007 Transparency International Corruption Perceptions Index, third on the continent for the Ibrahim Index of African Governance, and fourth in SSA on the World Bank's Doing Business Report (Ibid). Since its 1966 independence the nation has held consistent parliamentary elections every five years, recognized as free and fair by international observers, thus being acknowledged as an African model for democracy (Good 2008, 25). Former Botswana President Festus Mogae described his nation's political institutions as "one of the world's longest established multi-party democracies, as well as the oldest on this continent with an uninterrupted record of good governance" (Ibid, 2). The nation has also been hailed for implementing sound resource management policies. For example, the government owns 50% of the sole operating diamond-mining company, Debswana, and therefore has direct access to its diamond revenues (Hanson 2008, 2). However, a more careful look may reveal a more sobering story.

While Botswana is usually depicted in a favorable light in the international imagination, a closer look beyond surface level compliments and global praises reveals a less rosy picture of this seeming democracy. Australian political scientist Kenneth Good notes in his book *Diamonds, Dispossession and Democracy in Botswana* that regular parliamentary elections in the nation has never produced change, the predominant political party has maintained executive power since independence. (Good 2008, 25). Botswana also has low eligible voter turnout and a system which discourages opposition and delays change (Ibid). In actuality, state power is centralized in the person and office of the executive president and all bureaucracy, military, police, information and broadcasting, and the anti-corruption agency are located at one man's hand (Ibid). Since 1998, the president has not been elected by the people, but rather by his predecessor and the parliament, although voted on democratically, is located within the office of the president and therefore dependent on the executive for its finances and the approval of its budget (Ibid, 26, 33). The president also appoints all judges in Botswana's high court and the vice-president is not obliged to report to parliament, but rather directly to the president himself (Ibid, 36). After Good began publishing these critical outlooks of Botswana, he was expelled from the country (Good 2008, 2). This expulsion, under the institutional promise of free speech, and Good's revealing information just discussed casts a shadow of doubt on Botswana's model of African democracy. Botswana has weaker institutions than is often noted resulting in negative consequences that affects long-term sustainable development.

### *Botswana's Development Model*

Botswana's trade policy is governed by their membership in the Southern African Customs Union (SACU) and in line with the Common External Tariff of SACU, they apply a 7.5% tariff on non-member goods (World Bank 2012). Botswana rates 9% on the MFN Tariff

Trade Restrictiveness Index, showing that its trade policy is more liberal than most other SSA countries; however, these rates also reveal that it is more restrictive compared to other upper-middle-income countries (World Bank 2012). Additionally, Botswana is a member of the Southern African Development Community where members enjoy a free trade zone (Ibid). As for economic exports to the West, Botswana benefits from quota and duty-free entry of particular goods to the United States under the African Growth and Opportunity Act and Botswana enjoys duty-free entry of beef to the EU under the Interim Economic Partnership Agreement (Zizhou 2009, 15-16). It is clear Botswana's economic development model does not strictly follow the Washington Consensus as it enacts certain restrictive tariffs to protect domestic markets. Botswana follows human development ideals to progress towards sustainable development.

The human development approach argues for growth and equity looking at human capital and social development (Nederveen Pieterse 2010, 125). Botswana engages in practices including substantial health and education spending. For example, Botswana's government spends 20% of their budget on education resulting in a 95.5% literacy rate for school aged individuals (UNICEF 2009). Botswana has invested heavily in the University of Botswana and recently built the nation's first medical school (Hanson 2008, 3). It also spends large sums of its budget on health. With 24.8% of its population HIV/AIDS positive, the government provides all affected citizens free antiretroviral drugs with the assistance of foreign aid. Botswana has also worked towards sustainable development with efforts to conserve the environment and culture.

When discussing long-term sustainable development experts argue the necessity to couple economic strategy with environmental and cultural conservation alongside their development model to ensure growth without compromising the needs of future generations. Botswana's economy, focused mostly on diamond mining and tourism, presents various challenges to those affected by its impacts. Due in part to the fact that Botswana has a small population, natural resources have remained relatively intact. Botswana has made strides in maintaining and preserving its environment by creating the National Eco-Tourism Strategy (Fabricius and Leechor 2004, 30). Additionally, many environmental groups lobby and fight for stronger government and community conservation practices, leading currently to twenty-five laws related to environmental resource management (UNDP 2012). To maintain high returns while maintaining environmental sustainability, Botswana operates on a "high cost, low volume" tourism strategy (Fabricius and Leechor 2004, 83). While this seems all excellent at first glance, due to this strategy many Batswana cannot afford to travel within their own nation. Additionally, certain local and indigenous populations have been affected by environmental and mining practices in the absence of strong institutions.

The indigenous San population has been greatly affected by mining, tourism, and the conservation/creation of national parks. In the late 1980s, many San peoples were forced to evacuate and relocate from their native central Kalahari home to make room for the Central Kalahari Game Reserve (Hitchcock and Brandenburgh 1990, 1). In 1997 and in 2002, San populations were forcibly removed from their lands in the Kalahari for mining purposes and "no attempt was made to explain to any of the residents how compensation was being calculated and

what they individually could expect” (Good 2008, 136). The indigenous San took their case to Botswana’s high court and won; however, after San began moving back, individuals were arrested for hunting to feed their families and the government moved forward plans for a massive diamond mine worth \$2.2 billion on San land (Ibid, 134-135). Therefore, looking at Botswana’s economic and environmental development plans it seems the government “failed to take into consideration the knowledge, culture and ideologies of the San” (Ibid, 137). Botswana’s economic growth strategies focused on diamonds and tourism coupled with weak institutions are not sustainable in the long-run, which is further seen by shortcomings in health and education despite their high spending.

Botswana’s human development efforts have placed them in the medium level Human Development Index (HDI), second among nations in SSA (UNDP 2012). However, despite their efforts Botswana still ranks 118<sup>th</sup> overall on the HDI and certain efforts have yet to make much effect (Ibid). Unemployment remains high between 20-25% and while a large proportion of the populations is educated, jobs are not created fast enough (Hanson 2008, 3). University level graduates seek white collar jobs; however, the economy is not yet diversified to provide those (Ibid). Additionally, while Botswana has worked to combat HIV/AIDS, their average national life expectancy rate of 53 is still below the general SSA rate (World Bank 2012). Dr. Gloria Somolekae, a Botswana State Minister, explained that the country is not keeping up and that “nearly 30 years into the epidemic and in spite of manifold efforts, HIV is still outpacing our efforts as evidenced by the high incidence rate of 1.5% or over 15,000 new infections per year” (Edwin 2012, 1). While their development model marks an alternative to the Washington Consensus, Botswana has room for growth. To assure sustainable development, stronger institutions are needed to better oversee the nation’s development plan.

## CONCLUSIONS

Returning to the original research question—what is most important for developing nations in SSA to reach long-term sustainable development: strong institutions or economic growth?—one can argue that both economic growth and strong institutions are needed to achieve long-term sustainable development. However, while both are needed, institutions lay a necessary foundation that must be present before economic growth can truly benefit society. As seen through Botswana’s case, unprecedented economic growth due to massive diamond wealth coupled with weak institutions, despite global praise, has resulted in rampant inequality, high HIV/AIDS prevalence rates, high unemployment, and questionable land grabbing from indigenous populations within a context of an undiversified economy. Peilin Li warns that an “oversized income gap [can] become the underlying cause of many social problems, lending to general discontent of the public” (Li 2012, 145-146). Botswana has worked to move away from the Washington Consensus development paradigm by allocating large budgets to education, health, and environmental preservation plans. However, they have also struggled due to weak institutional oversight. Even with diamond wealth almost half of Botswana’s population survives under the national poverty rate. If Botswana had stronger institutions and true democracy, such

high economic and social inequality might not exist and a higher quality of growth could be reached. But how is it that Botswana has not experienced social and political instability on such grand scale as other resource rich nations?

Some argue that despite its weak institutions and high inequality, poverty, and HIV/AIDS rates, Botswana should be deemed a relative “success” compared to other SSA countries. For example, when comparing Botswana and Sierra Leone, another diamond rich SSA country, many argue Botswana is a shining example next to the civil-war and blood-diamond affected Sierra Leone. However, this argument makes an unfair comparison. First, Botswana found its diamonds after independence, second, it has a population of just over two million, and third, it enjoys general ethnic homogeneity (UNDP 2012). Contrarily, Sierra Leone found its diamonds thirty years prior to independence, has a population of over six million, and is vastly more ethnically diverse (CIA 2012). These three factors in particular are crucial to understanding why Botswana has not experienced a “resource curse” like Sierra Leone has. Since Botswana did not discover diamonds until after independence the government was able to own 50% of the sole diamond mining company in the nation allowing greater financial oversight. However, despite the fact that Botswana has evaded conflict and still experiences economic growth, their attempts to secure long-term sustainable development have fallen short due to their weak institutions.

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