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*NOTE: This paper uses US standards for spelling and punctuation*

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## **Sustainable Economic Development: Ten Lessons**

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### **1) Introduction**

Development is a dynamic process that provides an opportunity to pursue a life that is secure and in which basic needs are met. It is a process that offers the prospect to create, innovate, and thereby open an opportunity to build a better future for everybody. Development makes a lot of sense when it is a home grown phenomenon owned by the people and its elected leaders. International partners have role to play in supporting development by sharing technology, expertise as well as providing financing to stimulate sound capital allocation. However, this can in no way be a substitute for the efforts and sustained commitment of local communities and leaders. Development occurs when strong and efficient institutions are in place and good governance is practiced to enable developing and developed countries manage their national challenges effectively and in a sustainable way.<sup>1</sup> Development occurs when the people's talents and energies are allowed

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<sup>1</sup> USAID, *USAID Policy Framework 2011-2015*. 3, [http://www.usaid.gov/policy/USAID\\_PolicyFramework.PDF](http://www.usaid.gov/policy/USAID_PolicyFramework.PDF) (accessed November 1, 2011)

to flourish in the context of a stable society where sound governance ensures that productivity and production can be maximized.

Development results in people living a healthy and long life with creativity at the center. It presupposes that people are actively engaged in shaping it as well as reap its benefits. As individuals and groups, people should take the lead in determining their future. Therefore, equity and sustainability are the underlying principles of development.<sup>2</sup> In *2011 Human Development Report*, UNDP brings equity and sustainability at the center of any development process. It points out that it is very difficult to separate sustainability with basic issues of equity that include social justice and of greater access to a better quality of life. The report asserts that sustainability is “about how we choose to live our lives, with an awareness that everything we do has consequences for the 7 billion of us here today, as well as for the billions more who will follow, for centuries to come.”<sup>3</sup>

## 2) Development policies

Today, there is no consensus about development policy.<sup>4</sup> However, there are trends that are the result of decades of practice and deliberation on development. Contemporary development thinking also recognizes that *one size fits all* solution is not appropriate and the upshot to any policy reform can differ one from the other. It

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<sup>2</sup> UNDP, *Human Development Report 2010, Sustainability and Equity: A better Future for All* [http://hdr.undp.org/en/media/HDR\\_2010\\_EN\\_Complete\\_reprint.pdf](http://hdr.undp.org/en/media/HDR_2010_EN_Complete_reprint.pdf) (accessed on October 29, 2011)

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

maintains that suitable strategies that respond to local needs need to be decided and formulated locally.<sup>5</sup>

Economic growth is essential to combat poverty, to set free the full potential of individuals and communities, and to enable governments to provide basic public services effectively. However, for growth to be sustainable, it should be inclusive, widely and judiciously shared amongst all strata of the population, and able to use and manage natural and environmental resources responsibly in view of obviating depletion of resources and averting environmental degradation. Daly claims that the macro-economy is not the whole but a sub-system of much more bigger ecosystem and that the ecosystem is finite.<sup>6</sup> He argues that the macro-economy has an optimal scale and as such the process of the transformation of the raw materials to products which in turn result in waste outputs should be within the regenerative and absorptive capacities of the ecosystem.<sup>7</sup> In 2010 Human Development Report, UNDP maintains that “concerns with sustainability and equity are similar in that they are about distributive justice.”<sup>8</sup> In *How economic inequality harms societies*, Richard Wilkinson establishes correlations between income inequality on the one hand, and social mobility, violence, dropout rates, mental illness, life expectancy at birth, people’s trust amongst each other, infant mortality rate, and

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<sup>5</sup> Dani Rodrik, “Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank’s Economic Growth in the 1990s: Learning from a Decade of Reform.” *Journal of Economic Literature* 44(4) 2000: 973–87.

<sup>6</sup> Herman E. Daly, *Beyond Growth*, Bacon Press, Boston, USA, 1996, 27

<sup>7</sup> Ibid. 28.

<sup>8</sup> UNDP, *Human Development Report 2010, Sustainability and Equity: A better Future for All*, 19 [http://hdr.undp.org/en/media/HDR\\_2010\\_EN\\_Complete\\_reprint.pdf](http://hdr.undp.org/en/media/HDR_2010_EN_Complete_reprint.pdf) (accessed on October 29, 2011)

proportion of population in prison. He concludes that the more unequal income distribution is in countries, the worse they are doing on all kinds of social problem.<sup>9</sup>

Over the past 50 years, several countries have embarked on the path to development with a good number of them having genuine intentions. However, not all of them did succeed in achieving what they aspired. There could be a number of reasons behind this. The point worth deliberating is that there are several lessons that the international community and the developing countries in particular could learn from these experiences. The paper is aimed at shedding some light on this matter. It begins by providing a conceptual framework of sustainable economic development. It will then look at eight countries (some belonging to the developed world other to the developing world) which pursued different paths towards development and what their status is now. Last, the paper discusses ten lessons learned from these experiences and will try to put them in the context of sustainable economic development.

### **3) Sustainable economic development: a conceptual framework**

This section will start by defining the conceptual framework of sustainable economic development. Sustainable economic development is “about long-term conditions for humanity's multi-dimensional well-being.”<sup>10</sup> The famous Rio Declaration factors in human beings as being the center of concern for sustainable development and declares

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<sup>9</sup> [http://www.ted.com/talks/richard\\_wilkinson.html](http://www.ted.com/talks/richard_wilkinson.html) (accessed on November 11, 2011)

<sup>10</sup> Tatyana P. Soubbotina, *Beyond Economic Growth: An Introduction to Sustainable Development*, 2nd ed. (Washington, DC: World Bank, 2004) 11, *Questia*, Web, 4 Nov. 2011.

that they are entitled to a healthy and productive life in harmony with nature.<sup>11</sup> Other economists define it in a slightly different way but always bring the human aspect at the center.

In *Ecological Economics*, Herman E. Daly and Joshua Farley define economics as the study of the allocation of limited or scarce, resources among alternative competing ends.<sup>12</sup> In *Beyond Growth*, Herman Daly, a proponent of ecological economics, perceives the economy as a subsystem of the ecosystem and recognizes that while it is not free from the dictates of the law of nature, it is not a natural system by itself.<sup>13</sup> Daly claims that the macro-economy is not the whole but a sub-system of much more bigger ecosystem and that the ecosystem is finite.<sup>14</sup> He argues that the macro-economy has an optimal scale and as such the process of the transformation of the raw materials to products which in turn result in waste outputs should be within the regenerative and absorptive capacities of the ecosystem.<sup>15</sup>

Daly and Farley uphold that perpetual or systemic growth (quantitative expansion of production) only cannot be the solution as there is a limit as to what the ecosystem could provide and that other creative solutions should be thought. Instead they call for

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<sup>11</sup> UNEP, Rio Declaration, 1992,  
<http://www.unep.org/Documents.Multilingual/Default.asp?documentid=78&articleid=1163>

<sup>12</sup> Herman E. Daly and Joshua Farley, *Ecological Economics: Principles and Applications*, (Washington DC: Island Press, 2009), 3.

<sup>13</sup> Herman E. Daly, *Beyond Growth*, (Boston: Bacon Press, 1996), 11.

<sup>14</sup> Ibid. 27.

<sup>15</sup> Ibid. 28.

development or the qualitative improvement of life. Daly summarizes economic progress in a few words by saying that it is an economics of better and not bigger.<sup>16</sup>

As opposed to Gross National Product (GNP)<sup>17</sup> or income per capita<sup>18</sup> as the prime measurements of growth, the proponents of sustainable economic development argue that development should be measured against parameters such as the concept of quality of life (QOL).<sup>19</sup> They argue that income is only one element among many that provides human welfare and Gross National Product (GNP) is a measure of economic activity and not a measure of welfare.<sup>20</sup> It tells how fast it is growing but not the direction growth is heading for.<sup>21</sup> According to Michael P. Todaro and Stephen C. Smith, these indicators should be supplemented by some social indicators such as gains in literacy, health conditions, and provision of housing articulated in Human Development Index developed by UNDP.<sup>22</sup>

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<sup>16</sup> Ibid. 167.

<sup>17</sup> The market value of final goods and services purchased by households, by government, and by foreigners in the current year.

<sup>18</sup> Michael P. Todaro and Stephen C. Smith, *Economic Development-8<sup>th</sup> ed.*, (Boston: Addison Wesley, 2003), 15.

<sup>19</sup> Herman E. Daly and Joshua Farley, *Ecological Economics: Principles and Applications*, (Washington DC: Island Press, 2009), 228.

<sup>20</sup> Herman E. Daly and Joshua Farley, *Ecological Economics: Principles and Applications*, (Washington DC: Island Press, 2009), 237.

<sup>21</sup> Ibid. 228.

<sup>22</sup> Michael P. Todaro and Stephen C. Smith, *Economic Development-8<sup>th</sup> ed.*, (Boston: Addison Wesley, 2003), 15.

Herman E. Daly and Joshua Farley further define development as the improvement in quality of goods and services geared towards promoting human welfare.

Sustainable development starts with the premise that the economic subsystem should not grow beyond the scale at which it can permanently sustained by the ecosystem.<sup>23</sup> Development also refers to qualitative change, the maximum utilization and attainment of potentialities, and the transition to an improved state.<sup>24</sup> Sustainable economic development goes beyond efficient allocation of resources and its enhanced and sustained growth over time. It also tries to address economic, social and political issues which are requisites in contributing drastic improvement in the lives of the poor.<sup>25</sup> Michael P. Todaro and Stephen C. Smith, in their book entitled *Economic Development*, summarize development as follows

Development must therefore be conceived of as a multi-dimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty. Development, in its essence, must represent the whole gamut of change by which an entire social system , tuned to the diverse basic needs and desires of individuals and social groups within the system, moves away from a condition of life widely perceived as unsatisfactory towards a situation or condition of life regards s materially and spiritually better.<sup>26</sup>

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<sup>23</sup> Herman E. Daly, *Beyond Growth*, (Boston: Bacon Press, 1996), 28.

<sup>24</sup> Ibid. 167.

<sup>25</sup> Michael P. Todaro and Stephen C. Smith, *Economic Development-8<sup>th</sup> ed.*, (Boston: Addison Wesley, 2003), 9.

<sup>26</sup> Ibid. 17.

Proponents of sustainable economic development argue that there is a deeper and more comprehensive meaning to development i.e. sustained rise of societies and social systems to an improved and more humane life.<sup>27</sup> Herman Daly takes it beyond that to imply to restoring the integrity of the ecosystem, the interdependence of economic growth, environmental protection and social equity, the stabilization of populations, and the elimination of poverty. Measuring growth should thus factor in economic, social and institutional factors that demonstrate the broadest section of the societies' benefits from economic progress. It should be able to show the extent countries trapped in poverty have been able to move on to the next level of economic development.<sup>28</sup> It should also assume that development should be measured against present day needs without sacrificing the needs of the future.<sup>29</sup>

In *The Process of Economic Development*, James M. Cypher, and James L. Dietz contend that development should encompass diverse and broad aspirations such as equality of opportunity, improved standard of living, equity in the distribution of income and wealth, political democracy and wide-spread participation, expanded role for women, minorities and all social classes in economic and political spheres, increased opportunities for education and self-improvement irrespective of class, race, ethnicity, religion, or gender, the expanded availability of, and improvements in, health care, public and private safety nets to protect the most vulnerable-particularly the young, the old, the

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<sup>27</sup> Ibid. 20.

<sup>28</sup> Herman E. Daly, *Beyond Growth*, (Boston: Bacon Press, 1996), 13-17

<sup>29</sup> Ibid. 1.



infirm, and the poorer-from extreme hardship, a reasonably clean and healthy environment, an efficient, competent, transparent, and fairly administered public sector, and a reasonable degree of competition in the private sector.<sup>30</sup>

It is against those development parameters that countries level of economic development should be measured. These parameters will help measure the economic status of the following eight countries. These include: South Korea, Argentina, Iceland, Zimbabwe, Greece, Mauritius, India, and Botswana.

### **a) *The Republic of South Korea***

With a population of 48,875,000 and GDP per capita of US \$20,757<sup>31</sup>, South Korea has developed into one of Asia's most affluent countries in the last sixty years.<sup>32</sup> Its economy ranks thirteenth in the world and also the third largest in Asia next to Japan and China.<sup>33</sup> Only a few countries have been able to achieve what this country was able to achieve in a generation time. A country that counted on subsistence farming in the mid-20<sup>th</sup> century was able to rank first in producing home appliances, the second in producing semi-conductors and shipbuilding, and one of the twelve countries largest economies and trading nations.<sup>34</sup> Several factors contributed towards its rehabilitation, eventual

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<sup>30</sup> James M. Cypher, and James L. Dietz, *The Process of Economic Development* (New York: Routledge, 2004) 29, *Questia*, Web, 6 Nov. 2011.

<sup>31</sup> World Bank, World Economic Indicators, 2010 <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> (accessed on November 1, 2011)

<sup>32</sup> [http://news.bbc.co.uk/2/hi/asia-pacific/country\\_profiles/1123668.stm](http://news.bbc.co.uk/2/hi/asia-pacific/country_profiles/1123668.stm) (accessed on November 1, 2011)

<sup>33</sup> *Ibid.*

<sup>34</sup> Charles Harvie and Hyun-Hoon Lee, *Korea's Economic Miracle: Fading or Reviving?* (New York: Palgrave, 2003): 2, <http://www.questia.com/> (accessed on October 29, 2011).

reconstruction, and ultimately to embark on a path to dramatic social and economic transformation.

Heavy investment on education was one of the crucial factors in South Korea's economic development. This provided a well-educated labor force that enabled it to overtake countries such as Mexico, Argentina, Brazil, Portugal, Poland, Yugoslavia and Hungary in the mid-1980s. By 1989, its economy was so developed that it joined the ranks Israel, Hong Kong, Singapore, and Taiwan.<sup>35</sup>

In *Korea's Economic Miracle: Fading or Reviving?*, Charles Harvie and Hyun-Hoon Lee argue that an authoritarian rule and government-sponsored family-owned industrial conglomerates, known as "chaebol" (the Hyundai and Samsung groups happened to be amongst them) was one of the factors that helped the country to transform itself into one of the world's major economies and a leading exporter of cars and electronic goods quite similar to Japan.<sup>36</sup> Some also believe that state intervention in the economy of the country meant to the country's rapid development. A system of close government and business ties including directed credit and import restrictions made this success possible according Sung Yeung Kwackin in his book, *The Korean Economy at a Crossroad: Development Prospects, Liberalization, and South-North Economic Integration*. The author points out that the South Korean Government channeled resources into growth industries and provided financial and nonfinancial assistance to favored firms so that they could carry out strategic investment projects, achieve

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<sup>35</sup> Charles Harvie and Hyun-Hoon Lee, *Korea's Economic Miracle: Fading or Reviving?* (New York: Palgrave, 2003): 1, <http://www.questia.com/> (accessed on October 27, 2011).

<sup>36</sup> [http://news.bbc.co.uk/2/hi/asia-pacific/country\\_profiles/1123668.stm](http://news.bbc.co.uk/2/hi/asia-pacific/country_profiles/1123668.stm) (accessed on Nov. 3, 2011)

economies of scale, absorb foreign investment and technology, and above all maximize exports.<sup>37</sup> Also, in the early 1960s the South Korean government established an institutional arrangement in support of an export-led economic development strategy. This strategy was targeted not only at industry but also at the rural sector.<sup>38</sup>

Sung Yeung Kwack argues that Korea's rapid export expansion could have been the engine of growth. He maintains that the growth of exports supported by the outward-looking development strategy played a vital role in South Korea's economic development. He also argues that market-oriented economic system itself was an important factor which in turn inspired South Korean entrepreneurs' and workers to benefit from the atmosphere this has created and to pursue their own interests. He claims that the government has been instrumental in taking advantage of international conditions and in mobilizing and organizing various growth elements domestically that in turn catapulted the economy.<sup>39</sup>

In *Korean Economic Development: An Interpretive Mode*, another economist by the name of Paul W. Kuznets summarizes factors that contributed to South Korea's development to high rate of investment, export expansion supported by helpful policies (organizations established to assist in marketing exports, good entrepreneurship most

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<sup>37</sup> Sung Yeung Kwack, *The Korean Economy at a Crossroad: Development Prospects, Liberalization, and South-North Economic Integration*, (Westport: Praeger Publishers, 1994): 8, <http://www.questia.com/> (accessed October 28, 2011).

<sup>38</sup> Daniel A. Pinkston, *The Evolution of South Korea's Rural Institutions: The Political Economy of Export Promotion and Market Protection*. (Journal of East Asian Studies. Volume: 7. Issue: 1). <http://www.questia.com/> (accessed October 28, 2011).

<sup>39</sup> Sung Yeung Kwack, *The Korean Economy at a Crossroad: Development Prospects, Liberalization, and South-North Economic Integration*, (Westport: Praeger Publishers, 1994): 16, <http://www.questia.com/> (accessed on November 5, 2011).

notably displayed by the heads of Korea's largest conglomerates, the chaebol), abundant labor and competitive labor markets that have constrained wage costs, education, and state intervention.<sup>40</sup>

Factors commonly cited with South Korea's economic success are an export-oriented, outward-looking development strategy; a favorable international economic climate that prevailed from the 1960s to the middle of the 1970s in terms of export markets as well as availability of financial and technological resources; ethnic and cultural homogeneity and a strong Confucian tradition that places a high value on education, achievement, and loyalty to the nation; people's faith in the free enterprise system; a strong and effective leadership by the authoritarian government; and the communist security threat from the North that helped the government forge national cohesion and consensus in favor of economic development as well as prolong its authoritarian political power.<sup>41</sup>

In 2004, South Korea joined the trillion dollar club of world economies, and currently is among the world's twenty largest economies. Korea adopted numerous economic reforms following the financial crisis of 1997-98 including greater openness to foreign investment and imports. Growth moderated to about 4-5% annually between 2003 and 2007. With the global economic downturn in late 2008, South Korean GDP growth slowed to 2.2% in 2008 and declined 0.2% in 2009. In the third quarter of 2009, the

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<sup>40</sup> Paul W. Kuznets, *Korean Economic Development: An Interpretive Model*. (Westport: Praeger Publishers, 1994) 1, <http://www.questia.com/> (accessed on Oct. 27, 2011).

<sup>41</sup> Sung Yeung Kwack, *The Korean Economy at a Crossroad: Development Prospects, Liberalization, and South-North Economic Integration*. (Westport: Praeger Publishers, 1994): 4, <http://www.questia.com/> (accessed on November 2, 2011).

economy began to recover, in large part due to export growth, low interest rates, and an expansionary fiscal policy.<sup>42</sup>

The South Korean economy's long term challenges include a rapidly aging population, inflexible labor market, and overdependence on manufacturing exports to drive economic growth.<sup>43</sup>

At this point, it is worth noting that South Korea and North Korea entertain a number of similarities in terms of population, language they speak, climate, and other geographical features. The interesting thing is that there is a huge gap between the countries in economic development. Whereas South Korea is considered one of the fast growing economies with GDP per capita estimated at US \$20,757<sup>44</sup> as discussed above, North Korea's GDP per capita is estimated at \$741 in 1997 (one-thirteenth of South Korea) according *Far Eastern Economic Review. Financial Times (FT)*, 16 June 2000, p. 13) estimated it at \$57. *The Economist* estimated it at \$573 in July 2000 publication.<sup>45</sup> This is attributed to the closed nature of North Korea's society. "Transparency, clear delegation of authority, rule by law, democratic processes, public accountability, and a free press are not part of the North Korean system of governance" says Bradley O.

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<sup>42</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html> (accessed on November 13, 2010)

<sup>43</sup> Ibid.

<sup>44</sup> World Bank, World Economic Indicators, 2010 <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> (accessed on November 1, 2011)

<sup>45</sup> Ian Jeffries, *The Economies in Transition: A Guide to China, Cuba, Mongolia, North Korea, and Vietnam at the Turn of the Twenty-First Century* (London: Routledge, 2001) 373, Questia, Web, 11 Nov. 2011.

Babson, in his book entitled *The Potential Future Role for the Multilateral Development Banks on the Korean Peninsula*.<sup>46</sup>

### **b) Argentina**

Argentina stretches 4,000 km along to the west of the Atlantic Ocean and is bordered by Chile to the east, and Bolivia, Uruguay, Paraguay, and Brazil to the north.<sup>47</sup> Argentina boasts a population of 40.4<sup>48</sup> million and GDP per capita of US \$9124.<sup>49</sup> Argentina was subjected to military dictatorship for several decades and suffered a humiliating war against the United Kingdom over the Falkland Islands. The economic crisis of 2001 that the country went through and self-inflicted wound through dismal governance brought its economy in shambles and forced it to default.

Argentina is endowed with rich natural resources as well as a highly educated work force. At one point in its history, Argentina was one of the largest economies of the world before it started suffering from recurring economic crises, persistent fiscal and current account deficits, high inflation, mounting external debt, and capital flight.<sup>50</sup> As will be discussed later in this section other factors that contributed to resistance to

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<sup>46</sup> Bradley O. Babson, "7 The Potential Future Role for the Multilateral Development Banks on the Korean Peninsula," *North Korea in the World Economy*, ed. E. Kwan Choi, E. Han Kim, and Yesook Merrill (New York: Routledge, 2003) 44, *Questia*, Web, 11 Nov. 2011.

<sup>47</sup> [http://news.bbc.co.uk/2/hi/americas/country\\_profiles/1192478.stm](http://news.bbc.co.uk/2/hi/americas/country_profiles/1192478.stm) (accessed on Nov. 08, 2010)

<sup>48</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/SP.POP.TOTL> (accessed on November 6, 2011)

<sup>49</sup> The World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> (accessed on November 6, 2011)

<sup>50</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html> (accessed Nov. 8, 2010)

economic transformation by the ruling elite, unstable political situation due to military rule, heavy reliance on external support, absence of entrepreneurship, and lack of political consensus.<sup>51</sup> In *Argentina in the Twentieth Century*, David Rock maintains that the British capital investment, especially in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, was one of two reasons that contributed toward its transformation into a modern economy with focus on the export of agricultural and livestock. Another factor was immigration from southern Europe.<sup>52</sup>

Argentina's economy is geared towards export-oriented agricultural. Its industry is also highly diversified. Livestock (cattle and sheep) and grains have been a major source of its wealth. As an exporter of wheat, corn, flax, oats, beef, mutton, hides, and wool, Argentina rivals the United States, Canada, and Australia.<sup>53</sup>

An Argentinian author Domingo F. Sarmiento in his classic *Facundo*, described young Argentina represented a violent struggle between civilization and barbarism. He depicted the situation as the simultaneous and contradictory presence of, on the one hand, all the elements of "civilization" - moral values, learning, wealth – and on the other hand, all the elements of "barbarism" - brutality, ignorance, poverty. Tomás Roberto Fillol in his book, *Social Factors in Economic Development: The Argentine Case*, says that the development of modern Argentina's economy may have started by mid-19<sup>th</sup> century following the demise of an authoritarian regime and the enactment of a

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<sup>51</sup> Paul H. Lewis, *The Crisis of Argentine Capitalism* (www.questia.com.University of North Carolina Press. Chapel Hill, NC. 1990) xxi. <http://www.questia.com/> (accessed on November 2, 2011).

<sup>52</sup> David Rock, *Argentina in the Twentieth Century* (London: Gerald Duckworth London. Publication, 1975) <http://www.questia.com/> (accessed on October 23, 2011).

<sup>53</sup> The Columbia Encyclopedia, Sixth Edition Copyright© 2004, Columbia University Press.

constitution. Spanish settlers focused mainly on cattle, sheep and horse rearing prior to the introduction of wheat farming by immigrants.<sup>54</sup>

Argentina was hit by the world depression by mid-1929. Its exports and foreign investment were affected which in turn contributed to the decline in imports. In *Argentina in the Twentieth Century*, David Rock argues that Argentina's status before the Second World War as a dependent primary producer linked to overseas trade was the most important factor that contributed to slow social and political development. He also claims that her focus on particular agricultural products monopolized by rural oligarchy led to ever worsening exclusion of the nascent urban economy in some part of the country.<sup>55</sup> This was compounded by Britain's move to give preferential treatment to countries under its influence. This move on the part of Britain and the withdrawal of capital from Argentina aggravated the Argentina's economic situation in the early 1930s.<sup>56</sup> It has suffered from economic stagnation for much of the 20<sup>th</sup> century due to unstable political situation and fluidity of political alliances. The military that took over in the late

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<sup>54</sup> Tomás Roberto Fillol, *Social Factors in Economic Development: The Argentine Case* (Cambridge: M.I.T. Press, 1961) <http://www.questia.com/> (accessed on October 26, 2011)

<sup>55</sup> David Rock, *Argentina in the Twentieth Century* (London: Gerald Duckworth Publication, 1975), <http://www.questia.com/> (accessed on October 25, 2011)

<sup>56</sup> Tomás Roberto Fillol, *Social Factors in Economic Development: The Argentine Case*. (Cambridge: M.I.T Press, 1961) <http://www.questia.com/> (accessed on October 26, 2011)



seventies brought this cycle to a close and gave a free hand to a group of monetarist economists to implement free-market policies that devastated domestic industry but rewarded financial speculation contributing to non-payable external debt.<sup>57</sup>

Argentina witnessed a new government led by Carlos Menem in 1989. The government was characterized by privatization, deregulation, and the liberalization of finance and trade while leaving the reform of the public sector untouched. The Mexican “Tequila Crisis” and the subsequent emerging market crisis badly affected the Argentine economy exposing its vulnerability to external shocks and the dangers of its increasing external debt. This led to another prolonged recession made worse by the fact that investors lost confidence in the government and IMF’s suspension of a US 1.2 billion payment which in turn led to widespread economic dislocation with a prolonged breakdown of the credit and payments system. GDP sank by 10.9% in 2002, following a 4.4% fall in 2001. Argentina’s economy is seen to rebound since 2003 with real GDP growing by about 8-9% a year throughout the period 2003 to 2007. Recent administrations have to a certain extent succeeded in renegotiating the country’s external debt with a view to ending the default and regaining access to foreign capital as a major step on the path to securing growth over the medium term. However, notwithstanding progress made so far, investor confidence is yet to be restored and export to be

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<sup>57</sup> P Mark Alan Healy and Ernesto Seman, *The Costs of Orthodoxy: Argentina Was the Poster Child for Austerity and Obedience to the IMF Formula. Not Surprisingly, Its Economy Tanked* (The American Prospect. Volume: 13. Issue: 1. January 1, 2002) 34. <http://www.questia.com/> (accessed November 1, 2011).

reactivated to become a driving force in the Argentinian economy. It is also noted that the government has been slow in starting significant public sector reform.<sup>58</sup>

Argentina's failure to make economic advances while several others did has become an area worth looking into by many scholars. Many are fascinated by the fact that many of the factors (modern institutions, a temperate climate, an integrated national territory, vast stretches of fertile soil, large deposits of petroleum, easy access to the sea, and a literate and fairly homogeneous population) that are requisites for economic development are available in Argentina. Despite these facts, scholars tend to agree on the following factors that contributed to Argentina's economic stagnation and at times deterioration. In *The Crisis of Argentine Capitalism*, Paul H. Lewis summarizes the causes as the reluctance on the part of the oligarchy towards change, the political instability caused by the military's interference in politics, the total dependency on foreign support, the lack of a true entrepreneurship, the influence of one political personality (Perón) on the fate of the country and the people, and the well-entrenched conflicting interests of different political groups that incapacitated collective national construction efforts.<sup>59</sup> Such was the situation in Argentina that the basic contradictions in its economy and politics created a nation of internal conflict that would slow progress.<sup>60</sup>

Therefore many developing countries have much to learn from Argentina.

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<sup>58</sup> Oxford Economic Country Briefings, Argentina, [www.questia.com](http://www.questia.com), October 26, 2009. 1.

<sup>59</sup> Paul H. Lewis, *The Crisis of Argentine Capitalism* ([www.questia.com](http://www.questia.com).University of North Carolina Press. Chapel Hill, NC. 1990) xxi. <http://www.questia.com/> (accessed on November 2, 2011).

<sup>60</sup> David Rock, *Argentina in the Twentieth Century* (London: Gerald Duckworth Publication, 1975) <http://www.questia.com/> (accessed on November 2, 2011).

### **c) Iceland**

Iceland is classified as one of the high income economies.<sup>61</sup> Its economic growth was the result of a boom in domestic demand following the rapid expansion of the country's financial sector which was characterized by aggressive expansion in foreign markets, and foreign currency borrowing of its businesses. Iceland privatized its banking sector in the early 2000s.<sup>62</sup>

Iceland is located in northwestern Europe. With a population of 317,398<sup>63</sup> it is endowed with hot springs, volcanos and glaciers and of vast green pastures, and a vast fishing grounds close by the coasts.<sup>64</sup> The service sector contributes 67% (2010)<sup>65</sup>, industry 27% (2009)<sup>66</sup>, and agriculture 6% (2009) of GDP.<sup>67</sup> 6.3 percent of the population

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<sup>61</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/country/iceland> (accessed November 2, 2011)

<sup>62</sup>World bank, World Development Indicators 2010. <http://data.worldbank.org/indicator/SP.POP.TOTL> (accessed November 2, 2011)

<sup>63</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/SP.POP.TOTL> (accessed November 2, 2011)

<sup>64</sup> Delegations for the promotion of economic co-operation between the northern countries, and Delegations for the Promotion of Economic Co-Operation Between the Northern Countries, *The Northern Countries in the World Economy: Denmark, Finland, Iceland, Norway, Sweden*, 2nd ed. (Helsingfors: The Delegations for the promotion of eco, 1939) 2, *Questia*, Web, 5 Nov. 2011.

<sup>65</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/NV.SRV.TETC.ZS> (accessed November 2, 2011)

<sup>66</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/NV.IND.TOTL.ZS> (accessed November 2, 2011)

<sup>67</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS> (accessed November 2, 2011)

is engaged in fishing and is considered to be the highest amongst the Nordic countries.<sup>68</sup>

The population is homogeneous in nature comprising a mixture of descendants of Norse and Celts (94%) and a population of foreign origin that amounts to 6%.<sup>69</sup>

Its economy has been subject to volatility in the last five years. Its GDP fell from \$16.6 billion to \$12.5 billion between 2006 and 2010. The corresponding GDP per capita was \$54,813 and \$39,679 respectively for 2006 and 2010. The rate of unemployment rose from 3 to 7.2 percent between 2006 and 2010.<sup>70</sup> In an article entitled *The Cold Shoulder: Iceland and the UK Spar over Debt*, Emily Villa attributes Iceland's financial crisis to the failure of its three largest banks. Failure of these banks was associated with poor decisions that led to significant exposure to volatility.<sup>71</sup> The country secured over \$10 billion in loans from the IMF and other countries to stabilize its currency and financial sector.<sup>72</sup> Its currency nose-dived by almost 260 percent against the euro. According to the same author, the crisis hit hard Iceland's small population and this was perhaps considered the hardest of all European nations and has converted what was previously a

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<sup>68</sup> Delegations for the promotion of economic co-operation between the northern countries, and Delegations for the Promotion of Economic Co-Operation Between the Northern Countries, *The Northern Countries in the World Economy: Denmark, Finland, Iceland, Norway, Sweden*, 2nd ed. (Helsingfors: The Delegations for the promotion of eco, 1939) 43, *Questia*, Web, 5 Nov. 2011.

<sup>69</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ic.html> (accessed November 3, 2011)

<sup>70</sup> World bank, World Development Indicators 2010, <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> (accessed November 2, 2011)

<sup>71</sup> Delegations for the promotion of economic co-operation between the northern countries, and Delegations for the Promotion of Economic Co-Operation Between the Northern Countries, *The Northern Countries in the World Economy: Denmark, Finland, Iceland, Norway, Sweden*, 2nd ed. (Helsingfors: The Delegations for the promotion of eco, 1939) 43, *Questia*, Web, 5 Nov. 2011.

<sup>72</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ic.html> (accessed on November 3, 2011)

wealthy, stable society into one struggling to make ends meet.<sup>73</sup> Other sources maintain that the worsening global financial conditions throughout 2008 contributed to a sharp decline of the krona. The banks' loans which comprised more than 10 times the country's GDP became unsustainable.

The government embarked on four major efforts to stabilize the economy following the crisis. These include external assistance, debt repudiation, currency depreciation and capital controls. Iceland has so far received £1.38 billion assistance from the International Monetary Fund (IMF) and £2 billion from Nordic nations to boost its foreign exchange reserves of its central bank. Instead of nationalizing the banks the government allowed the banks to go into administration. Depreciation has helped too. For example a weak krona has led to a boom in tourism.<sup>74</sup> The other measure that the government imposed was capital controls. This was aimed at "preventing investors from withdrawing funds from the country in a panic."<sup>75</sup>

Iceland's economy is characterized by Scandinavian-type social-market economy that free-market principles with an elaborate welfare system. Iceland had attained remarkable growth, insignificant rate of unemployment, and an astonishingly even distribution of income. Sources of geothermal and hydropower have attracted substantial foreign investment in the aluminum sector and enhanced economic growth. 40 per cent of

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<sup>73</sup> Emily Villa, "The Cold Shoulder: Iceland and the UK Spar over Debt," *Harvard International Review* 31.4 (2010), *Questia*, Web, 5 Nov. 2011.

<sup>74</sup> Emily Villa, "The Cold Shoulder: Iceland and the UK Spar over Debt," *Harvard International Review* 31.4 (2010), *Questia*, Web, 5 Nov. 2011.

<sup>75</sup> <http://www.independent.co.uk/news/business/analysis-and-features/iceland-the-broken-economy-that-got-out-of-jail-2349905.html>

its export earnings came from the fishing industry while diversifying it secondary and tertiary sectors of the economy in fields of software production, biotechnology, and tourism.<sup>76</sup>

Though the circumstances do not look promising, some economists believe there is hope for recovery. For example a weak krona has led to a boom in tourism. Creativity and entrepreneurship is being displayed by its citizens. Its application to join the European Union is also expected to help with its recovery.<sup>77</sup>

Having said that one should not forget that the economic system the Iceland pursues is the envy of many countries. Its vast welfare system, the judicious distribution of the county's wealth amongst the population, the universality of access to quality pre-primary (98%), primary (98%), secondary (108), and tertiary (74%), access to health services is classified as the highest in the world.<sup>78</sup>

#### **d) Zimbabwe**

The Zimbabwean economy started with industrial development in the early twenties followed high growth and inward maturation of secondary industry in the next two decades. The fifties witnessed large inflows of foreign investment on the one hand and overproduction problems and unsustainable financial and trade relations on the other.

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<sup>76</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ic.html> (accessed on November 3, 2011)

<sup>77</sup> Emily Villa, "The Cold Shoulder: Iceland and the UK Spar over Debt," *Harvard International Review* 31.4 (2010), *Questia*, Web, 5 Nov. 2011.

<sup>78</sup> Since the collapse of Iceland's financial sector, government economic priorities have included: stabilizing the krona, reducing Iceland's high budget deficit, containing inflation, restructuring the financial sector, and diversifying the economy.

Initial dramatic recovery appeared in the sixties and the seventies followed by a crisis of overproduction and civil war. Post-independence Zimbabwe boasted ten years of enhancement in developmental state's human capital functions, yet the economic record was uneven. Zimbabwe's problem started in the 1990s with the rapid liberalization of finance and trade characterized by dramatic volatility and vulnerability in many markets, de-industrialization, and underdevelopment. Since the late 90s the country witnessed deepening crisis across all sectors of the economy.<sup>79</sup> Why is it that a country once considered as a breadbasket of Africa and a food exporter turned out to be one of the worst performing economies characterized by huge budget deficits (22% of GDP in 2000), high inflation (which hit 620% in November 2003), and the shrinking of manufacturing by 51% and falling exports.<sup>80</sup>

The situation in Zimbabwe has deteriorated so fast that Zimbabwe now ranks 173 out of 173 countries in Human Development Index with GNP per capita at \$376 and life expectancy at birth 51 years. 24 percent of the population is vulnerable to poverty and 14.8 percent is exposed to severe poverty. The population below income poverty line is 72%.<sup>81</sup>

In article entitled *Costs and Causes of Zimbabwe's Crisis*, Michael Clemens and Todd Moss point out that Zimbabwe, once a vibrant and diversified economy, had been a

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<sup>79</sup> P. Bond, (1998), I. Phimister, A. (1988). Seidman, (1986), R.A. Sowelem (1967), C. Stoneman (1981) in Guy Mhone, and Patrick Bond, "16 Botswana and Zimbabwe," *Globalization, Marginalization, and Development*, ed. S. Mansoob Murshed (London: Routledge, 2002) 239, *Questia*, Web, 29 Oct. 2011.

<sup>80</sup> Michael Clemens and Todd Moss, *Costs and Causes of Zimbabwe's Crisis*, Center for Global Development, July 2005, (accessed on October 29, 2011)

<sup>81</sup> UNDP, Human Development Report 2011, Sustainability and Equity: A Better Future for All, <http://hdr.undp.org/en/reports/global/hdr2011/> (accessed on November 6, 2011)

hope for Africa's future. According to the two authors, Zimbabwe was country in deep crisis and the signs of collapse are everywhere around 2005. These included the contraction of the economy, triple digit inflation, the devaluation of the local currency by 99%, massive migration (estimated at 25% of the population) and food shortages.<sup>82</sup> The most recent household survey conducted by UNDP (2003 Poverty Assessment) estimated that 72 percent of the population fell below the poverty line defined in terms of total consumption.<sup>83</sup>

The government puts the blame on drought, donor withdrawal, and foreign economic plots.<sup>84</sup> But many renowned experts associate this failure with misrule. To put it in a slightly different way, it seems obvious that Zimbabwe's current economic difficulties are linked to specific government policy decisions.<sup>85</sup> Clements and Moss claim that this was attributed to the policy of land seizures and the chaotic disruption on the farms, the undermining of property rights, and absurd macroeconomic mismanagement. This impacted rural incomes, exports, and food security. They claim that the abandonment of sensible economic policy was compounded by internal political chaos which in turn is perceived to be the reason behind the shutdown of most of the aid

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<sup>82</sup> Michael Clemens and Todd Moss, *Costs and Causes of Zimbabwe's Crisis*, Center for Global Development, July 2005, (accessed on October 29, 2011)

<sup>83</sup> The study team did not have access to the 2003 Poverty Assessment itself. Figures cited in the text are from the UNDP draft country program for Zimbabwe (2007–2009). The UNDP report does not provide details on the definition of the total consumption poverty line. See: <http://www.undp.org.zw/images/stories/Docs/Zimbabwe%20Country%20Programme%20doc.pdf>

<sup>84</sup> Samantha Power, "How to Kill a Country: Turning a Breadbasket into a Basket Case in Ten Easy Steps—The Robert Mugabe Way," *The Atlantic Monthly* Dec. 2003, *Questia*, Web, 29 Oct. 2011.

<sup>85</sup> S. Power, "How to Kill a Country: Turning a breadbasket into a basket case in ten easy steps—the Robert Mugabe way," *Atlantic Monthly*, December 2003.



tap, the flight of foreign investment, and the brain drain or the migration of the talented workforce out of the country.<sup>86</sup>

In *Globalization, Marginalization, and Development*, S. Mansoob Murshed contends that badly designed liberalization of trade and finance during the period of structural adjustment in the 1990s is to blame for the economic failure and led to the demise of industries set up during an earlier era of sanctions-induced import substitution policies. That may be no bad thing, but the economy has failed to diversify successfully into new areas.<sup>87</sup>

In *How to Kill a Country: Turning a Breadbasket into a Basket Case in Ten Easy Steps-The Robert Mugabe Way*, Samantha Power summarizes the ten rules that President Robert Mugabe is using to destroy the country. These include: destroy the engine of productivity, bury the truth, crush the dissent, legislate the impossible, teach hate, scare off foreigners, invade a neighbor, ignore a deadly enemy (HIV AIDs), commit genocide, and blame the imperialists.<sup>88</sup>

To summarize the situation, the regulatory context that government introduced in the 1990s changed when structural adjustment policies were introduced, but poor conceptualization and phasing of the reforms generated dramatic declines in living standards and rapid deindustrialization. The most recent three-year period is especially

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<sup>86</sup> Michael Clemens and Todd Moss, *Costs and Causes of Zimbabwe's Crisis*, Center for Global Development, July 2005, (accessed on October 29, 2011)

<sup>87</sup> S. Mansoob Murshed, ed., *Globalization, Marginalization, and Development* (London: Routledge, 2002) 14, *Questia*, Web, 29 Oct. 2011.

<sup>88</sup> Samantha Power, "How to Kill a Country: Turning a Breadbasket into a Basket Case in Ten Easy Steps-The Robert Mugabe Way," *The Atlantic Monthly* Dec. 2003, *Questia*, Web, 29 Oct. 2011.

instructive, for President Robert Mugabe has made international headlines with controversial policies (ranging from land reform promises to patronage expenditure to involvement in regional warfare) which are understood to have upset macroeconomic balances.<sup>89</sup> In *Virtue as a Corrective to Malpractices in Zimbabwe's Business Sector*, Masaka maintains that although the attempt to redress land imbalances could be morally justified, the way it was handled is controversial in controversy” primarily since it was done in a chaotic manner and took a racial dimension.<sup>90</sup> This ultimately proved devastating.

### **e) Greece**

Greece is the 30<sup>th</sup> largest economy in the world with a GDP of \$304,865,067,454 and per capita GDP of \$27,260 (ranked 23<sup>rd</sup>).<sup>91</sup> It is a small country with a population of 11,319,048.<sup>92</sup> It is classified as one of the high income economies and is a member of European Union and OECD to name some. The service sector contributes 79% (2009)<sup>93</sup>,

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<sup>89</sup> S. Mansoob Murshed, ed., *Globalization, Marginalization, and Development* (London: Routledge, 2002) 14, *Questia*, Web, 29 Oct. 2011.

<sup>90</sup> Masaka, D. (2010b). *Virtue as a Corrective to Malpractices in Zimbabwe's Business Sector* (Unpublished). [http://www.jsd-africa.com/Jsda/V13No1\\_Spring2011\\_A/PDF/Zimbabwes%20Land%20Contestations%20and%20Her%20Politico-Economic%20Crises%20\(Masaka\).pdf](http://www.jsd-africa.com/Jsda/V13No1_Spring2011_A/PDF/Zimbabwes%20Land%20Contestations%20and%20Her%20Politico-Economic%20Crises%20(Masaka).pdf) (accessed on November 11, 2011)

<sup>91</sup> The World Bank, *World Economic Indicators 2010*, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed on November 23, 2011)

<sup>92</sup> World bank, *World Development Indicators 2010*, <http://data.worldbank.org/indicator/SP.POP.TOTL> (accessed on November 2, 2011)

<sup>93</sup> World bank, *World Development Indicators 2010*, <http://data.worldbank.org/indicator/NV.SRV.TETC.ZS> (accessed on Nov. 2, 2011)

industry 18% (2009)<sup>94</sup>, and agriculture 3% (2009) of GDP.<sup>95</sup> The public sector revenue accounts for about 36% of total GDP.<sup>96</sup> This is more or less within the range of OECD countries i.e. Italy - 38.6%, Iceland - 29.5%; Spain - 22.4%; Germany – 29.4%, and France - 40.9.<sup>97</sup>

Greece went through three major challenges in the last twenty five years. These were: transition to democracy following the collapse of military regime in 1974; its adjustment to the membership of EC/EU, and the breakdown of the Eastern Europe. In 1993, it entered a phase of economic stabilization and convergence with the rest of the EU, but with much delayed effort at privatization and restructuring. Democracy was consolidated in a peaceful manner but at the sacrifice of much needed structural reforms. EU membership served as a motivation towards domestic reform though. This experience was not devoid of challenges as the resistance to change was relatively strong.<sup>98</sup>

Greece's enjoyed 4% average GDP growth between 1996 and 2008 unmatched by any mature European economy. Opportunities for investment were open in the construction, tourism, real estate, shipping and telecommunications sectors. Also, worth mentioning was the remarkable investment in infrastructure that Greece benefited in

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<sup>94</sup> Ibid.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

<sup>97</sup> <http://data.worldbank.org/indicator/GC.REV.XGRT.GD.ZS>

<sup>98</sup> Loukas Tsoukalis, "Greece: Like Any Other European Country?" *The National Interest* Spring 1999: 65, *Questia*, Web, 5 Nov. 2011.

preparation for the 2004 Summer Olympics. In addition, large EU structural fund investments helped it catch up with the EU average per capita GDP and have also aided the country's construction firms.<sup>99</sup>

Greece is experiencing an economic turmoil these days. Its \$413.6 billion national debt was estimated at 120 percent of its Gross National Product in 2010.<sup>100</sup> CNN attributed this failure to unrestrained spending, cheap lending, and failure to implement financial reforms. This left Greece exposed when the global economic decline hit.<sup>101</sup> In an article entitled, *Greek Crises & its Impact on the World Economy*, T. Koti Reddy - Professor of Economics - suggests that domestic and international factors contributed to Greece's current economic crisis. High government spending, structural rigidities, tax evasion, and corruption were some of the internal problems. This resulted in the accumulation of debt.<sup>102</sup>

The BBC attributes the crisis to the fact the Greece was living beyond its means before it joined the euro.<sup>103</sup> What compounded the problem was that that the Greek authorities were engaged in shameless creative budget accounting that evidently misled

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<sup>99</sup> Adam Rombel, "Greece Presents Many Opportunities and Challenges," *Global Finance* June 2008, *Questia*, Web, 5 Nov. 2011.

<sup>100</sup> <http://www.cnn.com/2010/BUSINESS/02/10/greek.debt.qanda/index.html> (accessed October 28, 2011)

<sup>101</sup> *Ibid.*

<sup>102</sup> T. Koti Reddy, *Greek Crises & its Impact on the World Economy*, *The India Economy review*, <http://theindiaeconomyreview.org/Article.aspx?aid=41&mid=3> (accessed on November 3, 2011)

<sup>103</sup> <http://www.bbc.co.uk/news/business-13798000> (accessed on November 3, 2011)

not only Greece's Eurozone partners but Greek policymakers themselves.<sup>104</sup> This resulted in its increasing level of debt which in turn placed a huge burden on the country's economy. Increase in public spending and public sector wages were some of the government practices following heavy borrowing after it adopted the euro. While money was being disbursed, tax income was hit because of widespread tax evasion. When the global financial downturn hit, Greece was ill-prepared to cope.<sup>105</sup>

Greece is now negotiating with European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) to resolve the problem. Obviously, Greece's situation is affecting the world economic situation with the plummeting stocks. *World Economic Situation and Prospects 2011: Global outlook* predicts that many European countries including Greece (entrapped in sovereign debt distress and whose economies will either remain in recession or stagnate) will see even less growth, especially those in which drastic fiscal cuts and continued high unemployment rates are draining domestic demand.<sup>106</sup>

In *Greece in the European Union*, Dionyssi G. Dimitrakopoulos points out that Greece has never been at the center of the of European integration process. The 1980s witnessed both private and the public sectors in the Greek economy notwithstanding EEC's pressure on Greece to liberalize. The 1990s saw a gradual change on the part of the government attitude (foreign policy in particular) vis-à-vis the EU which culminated

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<sup>104</sup> Desmond Lachman, "A Greek Tragedy: New Questions about the Longer-Run Viability of the Eurozone," *The International Economy* Winter 2010, *Questia*, Web, 5 Nov. 2011.

<sup>105</sup> <http://www.bbc.co.uk/news/business-13798000> (accessed on November 3, 2011)

<sup>106</sup> [http://www.un.org/en/development/desa/policy/wesp/wesp\\_current/2011wesp\\_prerelease1.pdf](http://www.un.org/en/development/desa/policy/wesp/wesp_current/2011wesp_prerelease1.pdf) (accessed on October 26, 2011)

in Greece adopting the euro. He thinks that structural characteristics of the Greek state and historically defined patterns of political development are the root causes of the inability to play an active role in the process of integration in the long run. He believes that Greece's history of patronage in the distribution of economic and social benefits in society led to significant inequalities and prevented the emergence of societal checks on the growing, but lacking in legitimacy, state. This in turn contributed to the fragmentation of the productive structures which necessarily relied on state protection. Illicit practices, tax evasion and corruption were the ramifications of these practices.<sup>107</sup>

What transpired in Greece has become the subject of international debate. Many economists fear that if drastic measures are not taken, the destiny of many more European countries could be the same. Portugal and Ireland are likely to be the candidates of this debacle.<sup>108</sup> Others claim Spain and Italy could also join the team. It is thus timely and of extreme importance that all the necessary precautions should be taken to make sure that crisis similar to that of Greece is averted.

### **f) *Mauritius***

Mauritius is often considered as an example of economic success story. Hence, it has become a research topic worth looking into by several social scientists. The question they usually ask is how a small country like Mauritius can transform itself from a mono-crop economy into a well diversified one, strong enough to endure the various economic

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<sup>107</sup> Dionyssi G. Dimitrakopoulos, and Argyris G. Passas, eds., *Greece in the European Union* (New York: Routledge, 2004) 3, *Questia*, Web, 2 Nov. 2011.

<sup>108</sup> <http://www.cnn.com/2010/BUSINESS/02/10/greek.debt.qanda/index.html> (accessed on October 29, 2011)

shocks that the world is now encountering. In his book *In Search for Prosperity*, Rodrik points to Mauritius (along with China and Botswana) as example of a country which largely owe its economic success to the presence (or creation) of institutions that have generated market-oriented incentives, protected the property rights of current and future investors, and deterred social and political instability.<sup>109</sup> Ali Zafar – a macroeconomist at the World Bank – points out that despite its small economic size, meager natural resources, and remoteness from the world market, Mauritius has succeeded in becoming one of the most successful economies in Africa.<sup>110</sup>

Mauritius is a small country with a surface area of 2,040 square kilometers and is home to an estimated population of 1.3 million and a population density of 628 people per square kilometer.<sup>111</sup> It entertains a highly differentiated and mostly endogamous population groups (Hindu, Muslim, Sino-Mauritian, White or 'Francos', and the 'general population' or Creoles) speaking fifteen languages.<sup>112</sup> The government functions as a parliamentary democracy and is endowed with an efficient and technically competent administration and adaptive to changing global economic circumstances. It boasts a well

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<sup>109</sup> Dani Rodrik, *In Search of Prosperity*, (NJ: Princeton University Press, 2003)

<sup>110</sup> Ali Zafar, *Mauritius: An Economic Success Story*,  
[http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC\\_chpt\\_5.pdf](http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_5.pdf)  
(accessed on October 5, 2011)

<sup>111</sup> [http://search.worldbank.org/all?qterm=mauritius+economic+success&intitle=&as\\_sitesearch=&as\\_filetype=](http://search.worldbank.org/all?qterm=mauritius+economic+success&intitle=&as_sitesearch=&as_filetype=) (accessed on October 23, 2011)

<sup>112</sup> Eriksen, T, *Common denominators: Ethnicity, nation-building and compromise in Mauritius*, (Oxford: Berg, 1998)

developed financial sector which has positioned itself as a platform for investment linking East Africa with India and China.<sup>113</sup>

The World Bank estimates life expectancy at birth (years) 73 (as opposed to 52 for Sub-Saharan Africa), infant mortality 15 per 1,000 live births (as opposed to 80 for Sub-Saharan Africa), access to an improved water source 99% (as opposed to 60 for Sub-Saharan Africa), literacy, 88 % of population age 15+ ( as against 62 in Sub-Saharan Africa) and gross primary enrollment (of 99% of school-age population.<sup>114</sup> These human development indicators are all high by Africa standards. Mauritius's economic performance is also impressive. Growth of real gross domestic product (GDP) has averaged more than 5 percent a year since 1970. GDP per capita increased about sevenfold (from less than \$1,000 to roughly \$7,000) between 1976 and 2008. Imports and exports reached more than 100 percent of GDP during the late 1990s and early 2000s. Efforts at economic diversification have also been successful, allowing the country to move from sugar to textiles to a broader service economy.<sup>115</sup>

In his paper entitled *Mauritius: An economic Success*, Ali Zafar points out that this success is due to combination of political stability, strong institutional framework, low level of corruption, and favorable regulatory environment. He maintains that these

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<sup>113</sup> Ali Zafar, *Mautitius: An Economic Success Story*, [http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC\\_chpt\\_5.pdf](http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_5.pdf) (accessed on October 5, 2011)

<sup>114</sup> [http://devdata.worldbank.org/AAG/mus\\_aag.pdf](http://devdata.worldbank.org/AAG/mus_aag.pdf) (accessed October 26, 2011)

<sup>115</sup> Ali Zafar, *Mautitius: An Economic Success Story*, 91 [http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC\\_chpt\\_5.pdf](http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_5.pdf) (accessed on October 5, 2011)



have contributed to laying the foundation for economic growth. It is also important to mention that it encourages open trade policies.<sup>116</sup>

As summarized by Zafar, Mauritius's economic growth would not have been possible had it not been for its growth-oriented developmental path and the pursuit of a liberal investment regime that promoted incentives to attract foreign direct investment (FDI). Another major milestone in its economic history is the establishment of the export processing zones (EPZs) to export key manufacturing goods.<sup>117</sup> In this regard Alex E. Fernández Jilberto, and André Mommen, in their book entitled *Liberalization in the Developing World: Institutional and Economic Changes in Latin America, Africa, and Asia*, point out that the country's industrial success story was the result of the establishment of Export Processing Zone which provided a package of incentives (free trade, tax exemption, free repatriation of capital and profits, local financial and infrastructure support) and paved the way to attracted between some 400 foreign firms 1970 and 1985.<sup>118</sup>

According to Zafar, other factors that contribute to its growth are an overall trade and investment policy that embraced of globalization and cultivated market access, prudent fiscal, exchange rate, and monetary policy, receptivity to new ideas and adaptability to changing economic circumstances, and the crafting of public policy to

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<sup>116</sup> Ali Zafar, *Mautitius: An Economic Success Story*, [http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC\\_chpt\\_5.pdf](http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_5.pdf) (accessed on October 5, 2011)

<sup>117</sup> Ibid.

<sup>118</sup> Alex E. Fernández Jilberto, and André Mommen, eds., *Liberalization in the Developing World: Institutional and Economic Changes in Latin America, Africa, and Asia* (New York: Routledge, 1996) 12, *Questia*, Web, 29 Oct. 2011.

adapt to shocks. Mauritius has also used its ethnic pluralism into a tangible economic force. Its most remarkable asset was the he search for consensus amongst its diversified population and the practice of a vibrant democracy, a strong electoral system, and an open media.<sup>119</sup>

In conclusion, key to Mauritius's economic success could be attributed to sound macroeconomic management. According to Ali Azfar these include fiscal discipline during boom times, monetary management that maintains low inflation, low interest rates that encouraged domestic savings, and an exchange-rate policy that promoted competitiveness to support exports. Mauritius possesses a vast networking of trade links, effective institutions, and a strong public-private sector collaboration demonstrated by the setting of EPZs. What differentiates Mauritius from several Sub-Saharan African countries is its democratic practices, political stability, quality of judicial institutions, and rule of law.<sup>120</sup>

### **g) India**

India is the biggest democracy in Asia. With a population of 1 billion, India is predominantly an agrarian nation. The primary, secondary, and tertiary sectors account for 16, 28, and 55 percent respectively. According to The World Bank's 2010 World Development Indicators (WDI), India currently accounts for less than 2.5 percent of the global GDP which amounts to \$1,574,052,204,913. It ranks ninth in GDP terms and is

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<sup>119</sup> Ali Zafar, *Mautitius: An Economic Success Story*, [http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC\\_chpt\\_5.pdf](http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_5.pdf) (accessed on October 5, 2011)

<sup>120</sup> Ibid.

placed below Brazil, and Italy. Its GDP grew by almost 90 percent since 2006. The WDI data place India's per capita income, measured at the market exchange rate, at \$1,477 in 2010.<sup>121</sup> Having grown at the average rate of 6.2 percent during three decades spanning 1980-81 to 2009-10 and at 8.3 percent during the last seven years of this period, India is now a far bigger economy and has lifted more than 200 million people out of abject poverty.<sup>122</sup>

The Indian economy showed stagnancy for over fifty year before independence averaging 0.8 percent a year. India witnessed 3.5 percent growth rate between the 50s through the 80s. For more than three decades, the economic was characterized by monopolistic public sector, overregulated private enterprise with stringent price and production controls which discouraged foreign investment. It was also inward-looking and import-substituting rather than outward-looking and export-promoting.<sup>123</sup> This was the period when India's economic and social policy was grounded in broadly socialist ideology and its foreign policy in non-alignment due to its allegiance to the Soviet Union.<sup>124</sup> The planned economy implied a massive involvement of the government in the regulation of trade and industry and emphasis on attaining self-sufficiency in food.<sup>125</sup>

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<sup>121</sup> World Bank *World Development Indicators* 2010, [http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?order=wbapi\\_data\\_value\\_2010+wbapi\\_data\\_value+wbapi\\_data\\_value-last&sort=asc](http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?order=wbapi_data_value_2010+wbapi_data_value+wbapi_data_value-last&sort=asc) (accessed on November 6, 2011)

<sup>122</sup> Arvind Panagariya, *India: A Global Economic Power? Revisiting the Past and Contemplating the Future*, *Journal of International Affairs* 64.2 (2011), *Questia*, Web, 31 Oct. 2011.

<sup>123</sup> Gurcharan Das, *Foreign Affairs*, Volume 85, NO. 4 (July – August, 2006), 2-16 <http://www.jstor.org/pss/20032037> (accessed on November 1, 2011)

<sup>124</sup> Pamela Shurmer-Smith, *Globalization and Change Globalization and Change* (London: Arnold, 2000) null15, *Questia*, Web, 1 November. 2011.

<sup>125</sup> *Ibid.* 20.

India witnessed a change in the governments' attitude towards the private sector during 80s and the liberal reforms introduced thereafter contributed to an annual growth rate of 5.6 per cent.<sup>126</sup>

The Gulf War of 1991 caused a rise in oil prices and temporarily stopped valuable remittances from expatriate workers in the region. This resulted in a balance of payments crisis.<sup>127</sup> This was a blessing in disguise for India. The crisis triggered the critical reforms of 1991 which finally allowed India's integration into the global economy and laid the groundwork for the high growth of today. The chief architect of those reforms was the finance minister, Manmohan Singh, who is now the Prime Minister of the nation. He was instrumental in lowering tariffs and other trade barriers, doing away with industrial licensing, lowering down tax rates, devaluing the rupee, opening India wide to foreign investment, and rolling back currency controls. Many of these measures were slow and gradual, but they were a pointer to a decisive break with India's government-controlled centrally planned economic past. As a result of this policy, India started witnessing economic growth, a decrease in inflation, and the shooting up of exports and currency.<sup>128</sup>

In *India: A Global Economic Power? Revisiting the Past and Contemplating the Future*, Arvind Panagariya points out three factors that were instrumental to the change towards economic liberalization. He states that the government was increasingly under

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<sup>126</sup> Gurcharan Das, *Foreign Affairs*, Volume 85, No. 4 (July – August, 2006), 2-16  
<http://www.jstor.org/pss/20032037> (accessed on November 1, 2011)

<sup>127</sup> Pamela Shurmer-Smith, *Globalization and Change* (London: Arnold, 2000) 21, *Questia*, Web, 1 November. 2011.

<sup>128</sup> Gurcharan Das, *Foreign Affairs*, Volume 85, No. 4 (July – August, 2006), 2-16  
<http://www.jstor.org/pss/20032037> (accessed on November 1, 2011)

pressure by local businessmen that the centrally planned economy that India pursued since independence was slowing down economic progress. The second factor was the collapse of the Soviet Union; a nation that was an inspiration to India's economic policy. China's economic take off following liberalization was the third factor.<sup>129</sup>

Gurcharan Das's article entitled *The India Model* summarizes the progress in India's economy as follows:

Although the world has just discovered it, India's economic success is far from new. After three post-independence decades of meager progress, the country's economy grew at 6 percent a year from 1980 to 2002 and at 7.5 percent a year from 2002 to 2006 -- making it one of the world's best-performing economies for a quarter century. In the past two decades, the size of the middle class has quadrupled (to almost 250 million people), and 1 percent of the country's poor have crossed the poverty line every year. At the same time, population growth has slowed from the historic rate of 2.2 percent a year to 1.7 percent today -- meaning that growth has brought large per capita income gains, from \$1,178 to \$3,051 (in terms of purchasing-power parity) since 1980. India is now the world's fourth-largest economy. Soon it will surpass Japan to become the third-largest. The notable thing about India's rise is not that it is new, but that its path has been unique. Rather than adopting the classic Asian strategy -- exporting labor-intensive, low-priced manufactured goods to the West -- India has relied on its domestic market more than exports, consumption more than investment, services more than industry, and high-tech more than low-skilled manufacturing. This approach has meant that the Indian economy has been mostly insulated from global downturns, showing a degree of stability that is as impressive

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<sup>129</sup> Arvind Panagariya, *India: A Global Economic Power? Revisiting the Past and Contemplating the Future*, *Journal of International Affairs* 64.2 (2011), *Questia*, Web, 31 Oct. 2011.

as the rate of its expansion. The consumption-driven model is also more people-friendly than other development strategies. As a result, inequality has increased much less in India than in other developing nations. (Its Gini index, a measure of income inequality on a scale of zero to 100, is 33, compared to 41 for the United States, 45 for China, and 59 for Brazil.) Moreover, 30 to 40 percent of GDP growth is due to rising productivity -- a true sign of an economy's health and progress -- rather than to increases in the amount of capital or labor.<sup>130</sup>

India has also made efforts towards the democratization of the society and instituting good governance despite the heterogeneous nature of its society, its vast population, and physical size. At times differences between some groups are highly polarized.

In *Dancing with Giants: China, India, and the Global Economy*, L. Alan Winters and Shahid Yusuf point out that India is bestowed with credible institutions that practice checks and balances. They believe that these bodies enable smooth governance practices even in the face of economic shocks and political instability. They also indicate that a program of decentralization is widely being experimented and implemented in the country. This process is making local elections possible and is putting more revenue and public responsibilities in the hand of local governments. Another policy that is being securely implemented is bringing the disadvantaged communities including women and members of the lower caste into mainstream local politics.<sup>131</sup> The empowering of these strata of the society is yielding positive results.

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<sup>130</sup> Gurcharan Das, *Foreign Affairs*, Volume 85, NO. 4 (July – August, 2006), 2-16  
<http://www.jstor.org/pss/20032037> (accessed on November 1, 2011)

<sup>131</sup> L. Alan Winters, and Shahid Yusuf, eds., *Dancing with Giants: China, India, and the Global Economy* (Washington, DC: World Bank, 2007) 241, *Questia*, Web, 3 Nov. 2011.

India with its vast and educated human resource both in country and abroad is expected to consolidate the growth that it has so far attained.

### ***h) Botswana***

Botswana has won international recognition for consistently attaining high rates of economic growth.<sup>132</sup> Botswana has a small population (about 2 million) but occupies an enormous geographical area. It boasts a per capita income of over US\$3000 which is higher than that of South Africa, and more than five times greater than Zimbabwe. It ranks seventh amongst fifty African countries according to UNDP's Human Development Index.<sup>133</sup> Botswana is a land-locked country, it relies on a primary mineral export, and its economy is not diversified. Notwithstanding these variables, it has prospered.<sup>134</sup> In *Globalization, Marginalization, and Development*, Mansoob Murshed attributes this discovery of diamonds, its judicious economic and political management style, and the practice of democratic forms of governance. The author claims that between 1966 and 1980, the country's GDP grew at a rate of 14.5 per cent, industrial production at 18 per cent and manufacturing at 23 per cent per year. Per capita GDP increases by 500% in the last two decades.<sup>135</sup> Many developing countries are endowed with similar mineral bonanzas. Why was Botswana able to escape poverty and embark on the path to substantial economic progress?

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<sup>132</sup> <http://www.bertelsmann-transformation-index.de/61.0.html?L=1> (accessed on November 3, 2011)

<sup>133</sup> S. Mansoob Murshed, ed., *Globalization, Marginalization, and Development* (London: Routledge, 2002) 234, *Questia*, Web, 29 Oct. 2011

<sup>134</sup> *Ibid.*

<sup>135</sup> *Ibid.*

For many such countries, income flows are affected by declines in export prices of their windfalls or weak domestic policies, or endemic corruption. In Botswana's case, the IMF notes that the authorities made use of mineral revenues by investing part of them abroad and investing in domestic infrastructure and social services, such as education and health.<sup>136</sup> Salkin, J.S., et al, in *Aspects of the Botswana Economy: Selected Papers*, attribute this to factor such as commitment to market forces, liberalization and an outward-looking policy framework; good macroeconomic management reflected in stable and neutral fundamentals; commitment to democracy and good governance; judicious government spending and intervention in spite of a relatively large and growing public sector; the strong influence of rural exporters on economic policy; the presence of an open trade environment in the form of the Southern African Customs Union, hence the absence of an administered trade regime; low levels of corruption; an early demographic transition that has reduced the dependency ratio; and well developed human resources.<sup>137</sup> Botswana became successful because it built strong and accountable state institutions.<sup>138</sup>

Botswana can serve as a model for a stable African democratic state. The institutions the governments set up capture the essence of its culture and history in tune with contemporary democratic practices which are manifested by free and fair elections, a bicameral parliament, an executive president, and an independent judiciary. Botswana's

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<sup>136</sup> IMF (International Monetary Fund) (1999) *Botswana: Selected Issues and Statistical Appendix*, IMF Country Report No. 99/132, Washington, DC: IMF. (accessed Oct. 27, 2011)

<sup>137</sup> Salkin, J.S., Mabanga, D., Cowan, D., Selwe, J., and Wright, M. (eds) (1997) *Aspects of the Botswana Economy: Selected Papers*, Gaborone: Lentswe la Lesedi Publishers and Oxford: James Currey Publishers (accessed Oct. 27, 2011)

<sup>138</sup> Robinson, J., (2009). Botswana as a Role Model for Country Success. World Institute for Development Economics Research, United Nations University, Jun 2009, 17 pgs.



strength lies in rational use of its resources and as a result it is enjoying one of the world's highest economic growth rates. Corruption is minimal. Furthermore, it has used its revenues to boost education, infrastructure, and human capital. Botswana finds itself well positioned in internationally and in Africa. Being solely dependent of revenues generated by diamond puts her in a weak position during global market changes. As such it might need to diversify its economy to cope with some unforeseeable market fluctuation. Narrowing the gap between the wealthy and the poor is another challenge.<sup>139</sup> Botswana is also currently faced with one of the world's highest HIV/AIDS infections rates, which greatly impacts the size and productivity of the country's labor market.<sup>140</sup>

#### **4) Ten lessons learned**

The most developed countries are going through a tough economic period these days. The United States' debt had reached \$14.97 trillion.<sup>141</sup> Unemployment has hit a record of 9 per cent.<sup>142</sup> About 67.1 percent of workers had employer-based health insurance in 2010.<sup>143</sup> The remaining 22.9 per cent do not. The total percentage of the poor

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<sup>139</sup> Mitchell A. Orenstein, *Botswana Comparative National Systems*, 2009  
[http://mitchellorenstein.com/Mitchell\\_Orenstein/SAIS\\_Guide\\_files/Botswana.pdf](http://mitchellorenstein.com/Mitchell_Orenstein/SAIS_Guide_files/Botswana.pdf)

<sup>140</sup> Econsult. (March 2007). *The Economic Impact of HIV/AIDS in Botswana - Executive Summary*. Presented to National AIDS Co-ordinating Agency (NACA) and United Nations Development Program (UNDP). (accessed on November 6, 2011)

<sup>141</sup> <http://abcnews.go.com/blogs/politics/2011/11/u-s-approaches-15-trillion-debt-limit/> (accessed on November 4, 2011)

<sup>142</sup> <http://www.bls.gov/news.release/pdf/empst.pdf> (accessed on November 5, 2011)

<sup>143</sup> <http://www.census.gov/prod/2011pubs/acsbr10-11.pdf> (accessed on November 1, 2011)

is increasing. In the United States, the gap between the rich and the poor is far wider than in most other developed democracies, and it is getting wider.<sup>144</sup>

Europe is also in crisis. Greece's economy is on the verge of collapse. Germany, France, and other members of the European Union are making a last ditch effort to rescue it from an economic debacle. Spain and Portugal are next. Iceland was bailed out in 2008 when its banks collapsed. Japan's economy has also shrunk.

On the other hand, Brazil, Russia, India, and China (BRIC) are emerging as big economies and there are speculations that the existing world economic order led by the West might not be the same in the future.

Economists have started questioning the status quo. Is growth - a never ending growth - a solution to worldly problems? Can the ecosystem support this? Should GDP per capita be seen as a primary measurement of growth? Why growth if the majority of the population is not benefiting from it? What is the benefit of growth if the gap between the rich and the poor is widening? Why growth if it is the *raison d'être* for the pauperization of the *99 percent*? Why growth if the ecosystem is not being replenished so that the coming generation could benefit from it? Why has over-consumption become the order of the day these days in the West when billions of people are leaving below poverty line in the developing world? Why do many people cannot afford one meal per day? Why are tens of millions of people perishing due to endemics like malaria, HIV AIDs and other curable diseases? Can we expect world stability if fundamental poverty issues are not being addressed? Is it not high time to change the rules of engagement? What type of

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<sup>144</sup> Elizabeth Gudrais, Unequal America: Causes and consequences of the wide—and growing—gap between rich and poor, Harvard Magazine, 2008, <http://harvardmagazine.com/2008/07/unequal-america.html> (accessed on November 2, 2011)

approach to development should we pursue? Can the international fora such as the World Economic Forum (and its underlying principles) pave the way to framing a new approach to development? Is the market economy the only solution? Can governments make substantial interventions to address the issue of poverty? Can an inclusive and broad-based development strategy be the solution? These and other similar pertinent issues have become topics for debate nowadays.

We have seen ten countries that pursued and went through different economic approaches. Some have succeeded, for some success is yet to be proven, some have terribly failed. What are the take home lessons?

### **a) *Ensure sound governance practices***

Good governance is a critical ingredient of economic growth. In *Introduction to Sustainable Development*, Peter Rogers and co-authors indicate that poor governance is a hindrance to development, distorts the process of development, and has a disproportionately negative impact on the poor. They argue that adherence to good governance requires accountability, participation and decentralization, predictability, and transparency.<sup>145</sup> Accountability involves holding officials accountable to their behaviors; decentralization enhances the manageability of participation by involving all the stakeholders in the decision making process; strict adherence to sound policies, laws, and regulations ensures predictability; and citizens have to be informed on all government

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<sup>145</sup> Peter P Rogers, Kazi F Jalal, and John A Boyd, *An Introduction to Sustainable Development* (London: Earthscan, 2009), 62.

actions and policies in order for a system of governance to claim to be transparent.<sup>146</sup> Several Africa countries are famous for their notorious governance structures mostly characterized by one-man rule, nepotism, corruption, lack of transparency and accountability, financial mismanagement, abuse of human rights, and lack of effective method to combat corruption.

Effective policies and institutions, the rule of law, the consolidation of the family structure, respect and appreciation of societal culture and religion, and education enhance political stability which in turn promote Africa's economic growth. But more than stability, the degree of checks and balances, transparency, adequate, and properly enforced laws, efficient fiscal management and resource allocation, and the reduction of corruption are all essential to stable economic growth.<sup>147</sup> Mauritius, Iceland, and South Korea have strong and efficient institutions. In Zimbabwe, lack of good governance is manifests itself in power abuse, the collapse of government institutions, and the abolition of the rule of law.

***b) Promote programs that support the poor and the underserved***

Development needs should be based on broadly owned strategy that had the sole aim of empowering the poor. Community-driven development projects usually deliver

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<sup>146</sup> Peter P Rogers, Kazi F Jalal, and John A Boyd, *An Introduction to Sustainable Development* (London: Earthscan, 2009), 63.

<sup>147</sup> CIDA, *Stimulating Sustainable Economic Growth*, [http://acdi-cida.gc.ca/INET/IMAGES.NSF/vLUIImages/EconomicGrowth/\\$file/Sustainable-Economic-Growth-e.pdf](http://acdi-cida.gc.ca/INET/IMAGES.NSF/vLUIImages/EconomicGrowth/$file/Sustainable-Economic-Growth-e.pdf) (accessed on October 10, 2011)

public investments to poor people, faster, cheaper and better.<sup>148</sup> Fouad Abdelmoumni, Executive Director of Association Al Amana, a leading microfinance institution (MFI) in Morocco, says that the formal financial sectors today exclude the vast majority of the population.<sup>149</sup> Contrary to the needs and capabilities of the poor, the formal financial institutions are not also designed to cater for the needs of those who do not already have financial assets.<sup>150</sup> This is more visible in developing countries where financial services serve a small minority of the population despite the ever expanding of the financial sector. In these countries only a small minority has saving accounts and insurance policy, the majority does not have access to credit from the formal financial sector, and a few people receive payments through financial firms.<sup>151</sup>

Developing an inclusive financial sector has proven to be an effective tool of poverty alleviation and development. Creating an environment where the poor can access the financial system is economically and socially empowering. This paves the way to economic integration of the poor and enables them to make a contribution to their well being and protect themselves against economic shocks. The African Development Bank (ADB) suggests that some standard guidelines for poverty reduction that comprise investing in social infrastructure, health education, water supply, and sanitation are not

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<sup>148</sup> Louise Fox - editor, Robert Liebenthal – editor, *Attacking Africa's Poverty: Experience from the Ground. Contributors:* (Washington: World Bank, 2006) 29, *Questia*, Web, 29 Oct. 2011

<sup>149</sup> United Nations Capital Fund Development, *Building Inclusive Financial Sectors for Development*, United Nations, New York, USA, 2006, 7

<sup>150</sup> <http://www.kiva.org/about/microfinance> (accessed on Sept. 30, 2010)

<sup>151</sup> United Nations Capital Fund Development, *Building Inclusive Financial Sectors for Development*, United Nations, New York, USA, 2006, 1

simply enough. It recommends the setting up of special schemes such microfinance savings and lending to reduce the total reliance of the poor on the natural resource base. IDB maintains that this can enhance the physical linkages between rural communities and market centers enabling the poor to benefit from the market.<sup>152</sup>

Research has shown microfinance has led to increased use of family labor, has enabled enterprises to survive in crises, protected and promoted income, and empowered people. It has also revealed that empowerment outcomes for women are significant as a result of microfinance intervention. Also, other studies have shown that when credit services are combined with health education or nutrition education services to groups, they do result in improvements to health, nutrition, and education.<sup>153</sup>

Other initiatives that could bootstrap the poor from poverty are for governments to make education, healthcare, and other social services (transportation, market information, and other rural development services) accessible to the poor. Rural development can likely succeed if pro-poor policy, healthcare improvements, and education expansion which are interdependent are handled in a holistic manner. Only by making progress on all fronts simultaneously will successful integrated development become a reality.<sup>154</sup>

At a macro level, all the above necessitate a feasible poverty reduction strategy that promotes the interest of the poor. It calls for the institutionalization of an inclusive

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<sup>152</sup> Peter P Rogers, Kazi F Jalal, and John A Boyd, *An Introduction to Sustainable Development*, (London: Earthscan, 2009), 226.

<sup>153</sup> Joanna Ledgerwood, *Microfinance Handbook: an Institutional and Financial Perspective*, (Washington DC: The World Bank, 2010) ,48-49.

<sup>154</sup> Department of Economic and Social Affairs - Office For Ecosoc Support and Coordination, *An Integrated Approach to Rural Development: Dialogues at the Economic and Social Council* (New York: United Nations, 2004) 153, *Questia*, Web, 6 Nov. 2011.

financial sector that enables the poor and the underserved strata of the population to access the financial sector take advantage of it.

Development should be particularly geared towards alleviating the plight of women as they make half of the society and possess the potential to play a critical role in societal transformation. In *Achieving Broad-Based Sustainable Development: Governance, Environment, and Growth with Equity*, James H. Weaver et al point out that studies have repeatedly shown that increased income and education for women result in improved health and nutritional status for themselves, their children, and other members of their families. Furthermore, women that go through their secondary education and beyond, tend to generate more income which in turn results in more economic productivity and low fertility. The studies have also demonstrated that women are more inclined to save and invest which in turn makes them good candidates for micro-credit. The Grameen Bank in Bangladesh has shown that loans to groups of women enable the women to significantly increase their households' productivity and improve their standards of living.<sup>155</sup> Developing and implementing strategies that promote youth employment is another area that merits adequate attention.

### **c) Protection of the environment**

The goal of efficient allocation necessitates the use of the market as an instrument. Scale calls for restraint in the exploitation of resources to keep it within the absorptive and regenerative capacity of the ecosystem, and fair distribution demands

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<sup>155</sup> James H. Weaver, Michael T. Rock, and Kenneth Kusterer, *Achieving Broad-Based Sustainable Development: Governance, Environment, and Growth with Equity* (West Hartford, CT: Kumarian Press, 1997) 204, *Questia*, Web, 6 Nov. 2011.

some limited range of inequality imposed on the market. To make this happen one needs to opt for policies that control throughput. Hence, there should be restrictions to pollution and excessive depletion of the ecosystem. Another way to limiting throughput is raising price through taxation to reduce demand or introducing quotas and letting prices adjust themselves. Revisiting property right (individuals, communities, state, and the global community) is something that needs to be looked into too.

The widely used type of environmental policy has to do with enforcing certain regulations in the interest of preserving the environment. Banning of very harmful products such as persistent organic pollutants (POP) is an example. Regulations can also pursue the notion of best available control technology (BACT) to limit pollution. Limiting the fishing season may be a good way of averting overexploitation of the ocean in the fishing trade. Imposing tax equal to the marginal external cost could also force the economic agent to account for all economic costs thereby creating equilibrium between marginal social costs and marginal social benefits (Pigouvian taxes). Subsidies could also be applied to firms that introduce a technology to enable them reduce environmental costs. Another cost-effective way to reducing environmental damage is to introduce the notion of tradable permits or a quota set by society.<sup>156</sup>

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<sup>156</sup> Herman E. Daly and Joshua Farley, *Ecological Economics: Principles and Applications*, (Washington DC: Island Press, 2009), 359-380



**d) Sound economic policies that promote inclusive and broad-based growth**

Sustainable growth requires stable and sound economic fundamentals at all level, including sound climate for investment and entrepreneurship in all sectors. This entails the development of national poverty reduction strategy that focuses on national dialogues geared towards the fulfillment of this strategy.<sup>157</sup> It requires the formulation of appropriate macro-economic policy (including sound fiscal and monetary policy) that promotes entrepreneurship, encourages savings and investment, enhances exports, understands the need for strong trade relationship with neighbors and the outside world in general, and promotes regional cooperation.

When governments allow private competition in the domestic market, investment has helped African countries scale up access to services, providing more flexible and innovative approaches than public sector monopolies.<sup>158</sup> Mauritius has achieved international recognition for its exemplary private-public sector relationship. Kenya is often mentioned for its horticulture exports. Over a 30-year period horticulture exports have grown to be become the country's second largest foreign exchange earner.<sup>159</sup>

The community driven development approach should be promoted as communities are in a much better situation to know what their needs are and how to

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<sup>157</sup> Louise Fox - editor, Robert Liebenthal – editor, *Attacking Africa's Poverty: Experience from the Ground. Contributors:* (Washington: World Bank, 2006) 26, *Questia*, Web, 29 Oct. 2011

<sup>158</sup> *Ibid.*27.

<sup>159</sup> *Ibid.*

achieve them. Sustainability of these initiatives requires institutional change though. Governments should thus need to find ways to support public institutions to enhance accountability. This involves an effective decentralization of administration, resources, and political power backed by an accountability mechanism.<sup>160</sup> India and Mauritius from amongst the developing nations are good examples of this approach.

Diversification of the economy usually helps nations to not be dependent of one source of income. It prepares them to absorb economic shocks. Mauritius has come a long way from a nation whose economy was based on the production of sugar to a more diversified and export oriented economy. To the contrary, despite good economic performance, there are concerns that Botswana's economy might fall prey to fluctuations in the global diamond market. Argentina's economic failure is also attributed to lack of diversification of its economy. It is therefore recommended that diversification is seriously considered as a development strategy.

### ***e) Utilizing culture as a means towards enhancing development***

The relationship between development on the one hand and culture and religion on the other has been complex. Parvati Raghuram, *in Religion and Development*, argues that development has brought people of different culture and religions together and created an enabling environment for exchange of ideas. The same author also believes that religion and culture have defined development in their own right by way of embedding certain

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<sup>160</sup> Ibid. 30-31.

ethical standards in the development process. Confucianism's belief in *status-orientation* and Protestantism's *individualism and profit* are cases at hand.<sup>161</sup> The installation of an Islamic State in Iran has also led to the rethinking of the relationship between governance and religion.<sup>162</sup> Liberation Theology challenged inequality in Latin America.<sup>163</sup> These and several other trend that put culture as a factor in the development process all suggest that culture is moving into the mainstream of debates about development.<sup>164</sup>

Culture can slow down or enhance political development. The fanatic Pariwar group in India that advocates Hindu religious supremacy over Muslims and Sikhs for example can threaten the stability of India thereby adversely impacting economic growth. To the contrary Mauritius is witnessing rapid sustainable economic growth as a result of its policy of consensus building amongst its different religious and cultural groups.<sup>165</sup> In *Beyond Economic Growth: An Introduction to Sustainable Development*, Tatyana P. Soubbotina argues that cultural development is a way to strengthen social capital and thus one of the essential factors to successful development. She also state that it can serve as

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<sup>161</sup> Parvati Raghura, "Religion and Development," in *Culture and Global Change*, ed. Tracey Skelton and Tim Allen, (Routledge, New York, 2000), 234-235.

<sup>162</sup> Ibid. 233.

<sup>163</sup> Ibid, 237.

<sup>164</sup> Peter Worsley, "Culture and Development Theory," in *Culture and Global Change*, ed. Tracey Skelton and Tim Allen, (Routledge, New York, 2000), 41.

<sup>165</sup> Ali Zafar, *Mautitius: An Economic Success Story*,  
[http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC\\_chpt\\_5.pdf](http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_5.pdf)

strong force when other authorities are being weakened by war or other rapid social changes.<sup>166</sup>

It is thus advisable for governments to consider cultural factors when formulating development strategies. Again there is no *one size fits all* solution. The more development is grounded on cultural premises the more palatable it is to the societies in question and the more sustainable it is.

### **f) *Ensure security and political stability***

Conflict has taken an increasing toll on many countries' development prospects reversing years of economic and social progress. In addition, it disrupts public services, infrastructure, public institutions, and social capital. Restoring security and a functioning economy are enormous challenges.<sup>167</sup> Somalia, Liberia, Cote d'Ivoire, Sierra Leon, the coup in Guinea, Afghanistan, Yugoslavia, Kosovo are all cases in point.

Although the Cold War has ended, there is still tension between the great powers to protect their spheres of influence. The involvement of Russia in Georgia to support movements that opt for secession, Russia's economic threat to Ukraine, USA's invasion of Afghanistan and Iraq could be additional examples.

Political instability always curtails progress towards sustainable development as resources are diverted towards war and destruction as opposed to development programs.

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<sup>166</sup> Tatyana P. Soubbotina, *Beyond Economic Growth: An Introduction to Sustainable Development*, 2nd ed. (Washington, DC: World Bank, 2004) 129, *Questia*, Web, 6 Nov. 2011.

<sup>167</sup> Louise Fox - editor, Robert Liebenthal – editor, *Attacking Africa's Poverty: Experience from the Ground. Contributors*: (Washington: World Bank, 2006) 27, *Questia*, Web, 32 Oct. 2011

Political stability is thus a requisite for development. However, more than political stability people crave for economic and social security. People should have access to modest income, social services, and opportunities for a better life. Food, water, healthcare, and other basic services should be accessible to the majority of the population. People should be able to live in dignity and self-respect. They should feel part of the development process. They should perceive themselves as agents of change. Furthermore, governments should create and encourage people to expand their social safety nets to ensure social security. All traditional means towards ensuring this should be explored. Governments should thus formulate and implement policies whose tenets and aims are the attainment of these lofty objectives. Mauritius could serve a good example of political stability despite the diversity of its population groups.

***g) Focus on rural development rural development***

Despite the fact that most of the developing countries' economy is agrarian and 75 percent of the poor inhabit the rural areas, investment to alleviate the situation has not been that encouraging. The purpose of rural development is to improve the livelihood of the poor.

If the poor are to be reached, the fundamental philosophy of rural development should be to engage the stakeholders in the formulation of their strategy. This becomes more pertinent when development is dealing with the poorest of the poor - female-headed households and other marginalized groups - of the society. Getting them out of poverty

often requires access to land and the diversification of their income.<sup>168</sup> But this has to be accompanied by an enabling environment that promotes a competitive market, infrastructure, institutions, inclusive financial sector, and policies.<sup>169</sup>

This approach emphasizes decentralization, participation and collective action, payment for environmental and social services, and the reconstruction of rural institutions. The only sustainable way of reducing rural poverty is to allow the rural poor to be agents of their own change.<sup>170</sup> The government should, in consultation with rural communities, implement social programs that benefit the poor. Education and healthcare services should readily be available. It should provide access to the market by extending transport services and communication facilities. It should enable the poor to benefit from micro-credit. South Korea's rural development policy has been exemplary as stated above.

### ***h) Sound Human Resource Development Policy***

Knowledge, values and skill empower individuals, communities and societies to enhance economic development. Educated people are more productive and contribute more to the economy. Investment in education yields relatively large returns in terms of individual earnings. Literacy and numeracy can increase economic growth by helping

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<sup>168</sup> Department of Economic and Social Affairs - Office for Economic and Social Support and Coordination, *An Integrated Approach to Rural Development: Dialogues at the Economic and Social Council* (New York: United Nations, 2004) 12, *Questia*, Web, 7 Nov. 2011.

<sup>169</sup> *Ibid.*

<sup>170</sup> *Ibid.* 27.

societies improve the quality of the work force. Education is a key factor in raising the standard of living and lifting people out of poverty.

Education is key economic growth. Economic growth and development require high labor productivity if the standard of living is to improve. This can only happen if there is change in the quality of labor. Education and training are the only means to attaining these ends.<sup>171</sup> However, the quality of education provided by certain countries leaves much to be desired. This is especially true for developing countries. Education should come out of rote learning and be able to encourage critical thinking and respond to the ever changing labor market needs (relevance). Hence, improving the quality of education should be the first priority. In *Education for Sustainable Development Toolkit*, Rosalyn McKeown points out that education should focus on skills, values, and perspectives that encourage and support public participation and community decision making. She argues that education should be universal, inclusive enough to attract the cross-section of a society.<sup>172</sup> One OECD study indicated that HRD factors in four main elements. These are educational attainment, workforce skills, population health, and employment policies that connect people to the labor market and provide opportunities and to quickly adapt to new challenges structure.<sup>173</sup>

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<sup>171</sup> James M. Cypher, and James L. Dietz, *The Process of Economic Development* (New York: Routledge, 2004) 362, *Questia*, Web, 6 Nov. 2011.

<sup>172</sup> Rosalyn McKeown, *Education for Sustainable Development Toolkit*. 13. [http://www.esdtoolkit.org/esd\\_toolkit\\_v2.pdf](http://www.esdtoolkit.org/esd_toolkit_v2.pdf) (accessed on November 7,2011)

<sup>173</sup> OECD, *A Policy Framework for Investment: Human Resource Development Policy*, 25-27 October 2005, Rio de Janeiro, Brazil <http://www.oecd.org/dataoecd/11/36/35518811.pdf> (accessed on November 2, 2011)

Studies have demonstrated that increased application of human capital and knowledge to production enhances the economy.<sup>174</sup> Government should thus invest in people via education, on-the-job training, nutrition, health care, sanitation to increase the quality of the employed labor force.<sup>175</sup> Hence a sound human resource development policy is a requisite for development. As stated above, South Korea is one of the countries that succeeded in demonstrating rapid growth by investing a lot on the human capital.

### ***i) Ensure fair distribution of national wealth***

Stability of a country is at risk if the gap between the poor and rich is wide. There is every reason for the poor to be disillusioned and hence call for changes and sometimes in a violent way if they do not benefit from a country's wealth. While governments encourage and safeguard market competition to boost economic growth, they are equally responsible to make sure that wealth accumulated through this process serves all strata of the society through different means in the interest of equity.<sup>176</sup>

There are several mean and ways through which this can be implemented. Caps on income and wealth by introducing highly progressive income tax as is practiced in several European countries thereby establishing a legal ratio between the highest and lowest income. Introducing high inheritance tax could also narrow down the gap between

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<sup>174</sup> James M. Cypher, and James L. Dietz, *The Process of Economic Development* (New York: Routledge, 2004) 19, *Questia*, Web, 6 Nov. 2011.

<sup>175</sup> *Ibid.* 362.

<sup>176</sup> Tatyana P. Soubbotina, *Beyond Economic Growth: An Introduction to Sustainable Development*, 2nd ed. (Washington, DC: World Bank, 2004) 129, *Questia*, Web, 6 Nov. 2011.



the reach and the poor. Instituting policies that guarantee minimum income supported by welfare program, equal opportunity in education, job access and advancement is another. Introduction of unemployment insurance and negative income taxes for the employed could also alleviate the conditions of the poor segment of the society.<sup>177</sup>

Iceland and other Nordic countries have demonstrated the advantages of these policies and have become the envy of many societies. These countries while still maintaining the market economy have been made big strides towards narrowing down the gap between the poor and the wealthy. They have at the same time been able to maintain high standard of living.

Redistribution of land through appropriate land reform schemes is another strategy. Had it not been for this policy, South Korea would not have been where it is now.

### ***j) Regional and international cooperation***

Regional cooperation and integration is a slow and arduous process as it has to grapple with individual countries' national interests and to finding a common ground for working out a strategy to work together. Once these are fleshed out, there is a lot that regional cooperation could offer to individual countries. This could at times lead to regional integration following the steps of the European Union. On the flip side, the lack of regional integration suggests that a large and sparsely populated continent like Africa could not make the desired progress in achieving economies of scale. Africa, for

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<sup>177</sup> Herman E. Daly and Joshua Farley, *Ecological Economics: Principles and Applications*, (Washington DC: Island Press, 2009), 389-404.

example, requires regional water management practices to avert drought or over flooding. Lack of road connectivity impedes cross-border trade resulting in poor productivity of labor and capital. It is also a common knowledge that investments are more profitable when they are executed on a regional basis.<sup>178</sup>

The need for international cooperation cannot be over-emphasized if issues of development are to be addressed. The international community has made strides towards this end. The declaration of the Millennium Development Goals is an important milestone. The goals have instituted themselves as critical factors in contemporary development practice.<sup>179</sup> In article entitled *Building a global partnership for development*, Peter Clarke summarized the essence of the Millennium Development Goal as a global partnership for development which represents increased emphasis on partnership, a movement towards a more open, rule-based, predictable and non-discriminatory trading and financial system, and a commitment to good governance and increased levels of development assistance. He also points out the necessity to take measures that address the debt problems, the sharing of new technologies, and specific attention to the needs of young people.<sup>180</sup> Subsequent deliberations have generated awareness on the part of the international community to address a variety of developmental issues of concern to human development.

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<sup>178</sup> Louise Fox - editor, Robert Liebenthal – editor, *Attacking Africa's Poverty: Experience from the Ground. Contributors:* (Washington: World Bank, 2006) 28-29, *Questia*, Web, 29 Oct. 2011

<sup>179</sup> Richard Black, and Howard White, eds., *Targeting Development: Critical Perspectives on the Millennium Development Goals* (New York: Routledge, 2003) 1, *Questia*, Web, 10 June 2011

<sup>180</sup> Peter Clarke, Building a global partnership for development, in *Targeting Development: Critical Perspectives on the Millennium Development Goals*, ed. Richard Black, and Howard White, (New York: Routledge, 2003), 307, *Questia*, Web, 10 June 2011

Traditional global powers' interests and their roles in world economic development should be challenged in favor of a more inclusive international development agenda. This calls for a new context for global cooperation. This presupposes that all stakeholders perceive themselves not as the only players but as member of this global setting. These include nongovernmental organizations, the business community, business civil societies, religious institutions, individual champions of peace, development, and philanthropy, renowned leaders in the area of art and music, the academia and research institutions. It necessitates the formulation of a holistic, more systematic and coordinated approach.<sup>181</sup> This new approach should be driven by issues, should underscore the need for multi-dimensional approach, and be based on seeking sustainable global responses to global problems.<sup>182</sup> The World Economic Forum encapsulates elements of this approach.

In *The World Economic Forum A Partner in Shaping History The First 40 Years 1971 – 2010*, WEF publication declares that the objective is to stimulate an unparalleled inter-civilizational and interdisciplinary thought process among business, government, academic, civil society, scientific and media leaders aimed at developing a blueprint to guide the adaptation of global economic institutions and arrangements to contemporary conditions.<sup>183</sup> The World Economic Forum has witnessed a transformation process over the last four decades. It has become a driving force of change and partnership. Its initiatives have multiplied and become interdisciplinary and more and more diversified.

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<sup>181</sup> World Economic Forum, *The World Economic Forum A Partner in Shaping History The First 40 Years 1971 – 2010*, World Economic Forum, Geneva, Switzerland, 2009, 259 - 263

<sup>182</sup> Ibid. 259.

<sup>183</sup> Ibid.

They cover food security, diseases such as HIV AIDS, technology, the environment, debt, inter-states conflicts, public-private partnerships, humanitarian relief, education, corruption, international financial architecture, water access and quality, international trade to name some. The forum has established a reputation as an independent entity that can provide a flexible and neutral platform for promoting global collaboration and partnership.<sup>184</sup> This could be considered as a paradigm shift in the way international cooperation was perceived by many. This is what the international community needs. It created an environment where people can learn from each other's successes and failures. By doing this they minimize the risks of uncertainty.<sup>185</sup>

Greece's choice to join the EU is believed to be a right choice. However, not being able to make optimum use of it to support its development agenda is something that need to be looked into. There should be a take home lesson from this. To the contrary, Botswana's and Mauritius could serve as exemplary regional and international players. Also of importance is that government (and government entitlements) must remain relatively small relative to total GDP and employment.

## **5) Conclusion**

Development as opposed to growth puts sustainability and equity at the core of the concept. It is measured by the quality of life societies enjoy as against growth in GDP or per capita GDP for that matter. It sees welfare of humanity as its primary goal.

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<sup>184</sup> Ibid.

<sup>185</sup> Tatyana P. Soubbotina, *Beyond Economic Growth: An Introduction to Sustainable Development*, 2nd ed. (Washington, DC: World Bank, 2004) 129, *Questia*, Web, 6 Nov. 2011.

Development is a dynamic process that seeks appropriate solutions in diverse environments and there is no *one size fits all solution*. However, there are certain factors that cut across different circumstances in view of creating an enabling environment for development to occur. Good governance that supports free market economy, highly developed institutions imbued with ethical standards, macro-economic policy that promotes equity, sustainability, and human welfare on the one hand and prudent fiscal and monetary policies on the other, focus on creating a critical mass of educated population could be considered as the most critical ones.

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