Role of Government in Promoting Sustained and Accelerated Growth in Africa and Lessons from Asian Experiences

JICA/JBIC International Workshop Report
"Asian Experiences of Economic Development and Their Policy Implications for Africa"
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The stocktaking work, being conducted by JICA (Japan International Cooperation Agency) and JBIC (Japan Bank for International Cooperation), is expected to produce research-based policy recommendations to inform the fourth round of the International Conference on African Development (TICAD IV), to be organized by the Japanese Government in May 2008. It intends to draw lessons, both positive and negative, from Asian experiences of economic growth and development, with a view to serving as a useful reference point for African governments in constructing sustained and accelerated growth strategy in their own countries. The proposed workshop is expected to offer a forum of mutual learning for both African and Asian scholars who are concerned with the Africa-Asia nexus.

Date and Time: February 6, 2008: 10:30 – 17:30
Venue: International Conference Hall at the Institute for International Cooperation, JICA
10-5 Ichigaya-honmura-cho, Shinjuku, Tokyo 162-8433
* no admission fee, simultaneous interpretation provided (English/Japanese)

Program (subject to change)

10:00	**Registration**
10:30-12:30	**Session Ⅰ: Overview and Asian Experiences** (Chair: **HIROSHI KATO**, Director General, Institute for International Cooperation, JICA) - **Opening Address: MASAFUMI KUROKI**, Vice President, JICA - **Presentation:** "Asian Experiences of Economic Development and Their Implications for Africa" **ATSUSHI HANATANI**, Senior Adviser, JICA (Moderator: **JIN SATO**, Associate Professor, Graduate School of Frontier Sciences, The University of Tokyo) - **Presentation:** "Can Africa Afford Not To Be Asia? What Does That Mean?" **AKBAR NOMAN**, Senior Fellow at the Initiative for Policy Dialogue(IPD), Columbia University - **Comment: YONOSUKE HARA**, Professor, National Graduate Institute for Policy Studies - **Presentation:** "Indonesia's Economic Development During and After the Soeharto Era – Achievements and Failings" **THEE KIAN WIE**, Senior Economist, Economic Research Centre, Indonesia Institute of Science（LIPI） - **Comment: SHINJI ASANUMA**, Visiting Professor, School of International and Public Policy, Hitotsubashi University - **Panel Discussion** - **Question and Answer**
12:30-13:30	**Lunch**

Program

13:30-15:10	**Session Ⅱ: Prospect of Developmental States in Africa** (Moderator: **MASUMI SHIMAMURA**, Associate Professor, National Graduate Institute for Policy Studies) - **Presentation:** "Rethinking Africa's Development Path: Building a Democratic Developmental State" **OMANO EDIGHEJI**, Research Director, Human Science and Research Council, South Africa - **Comment: TORU YANAGIHARA**, Professor, Faculty of International Development, Takushoku University - **Presentation:** "From Maladjusted States to Developmental States" **THANDIKA MKANDAWIRE**, Director, United Nation Research Institute for Social Development - **Comment: IZUMI OHNO**, Professor, National Graduate Institute for Policy Studies - **Panel Discussion** - **Question and Answer**
15:10-15:30	**Coffee Break**
15:30-17:30	**Session Ⅲ: Some African Experiences of Industrialization** (Moderator: **SHIGERU OTSUBO**, Professor, Graduate School of International Development, Nagoya University) - **Presentation :** "Implementing the Development State Model in Africa" **WILLIAM KALEMA**, Former Chairman of Uganda Investment Authority - **Comment: KEIJIRO OTSUKA**, Professor, National Graduate Institute for Policy Studies - **Presentation:** "What Africa Can Learn from Asia's Economic Development Experience -The Example of Nigeria's Economic Reforms from 2003 to 2007" **NASIR AHMAD EL-RUFAI**, Former Minister of Federal Capital Territory (FCT) Abuja, Nigeria - **Comment: HIROYUKI HINO**, Senior Adviser, JICA - **Panel Discussion** - **Question and Answer** - **Wrap-up**
17:30	**Reception**

Speaker Profiles

Akbar Noman

Akbar Noman is Senior Fellow at the Initiative for Policy Dialogue and Adjunct Professor at Columbia University. He was at the World Bank for much of the period, 1977-2003, where he held a variety of assignments. These included working on macroeconomic management, country strategies, trade policy, financial and private sector development, international economic trends and prospects, poverty, and labor markets. His regional foci included Africa, Asia and the transition economies in Europe and Central Asia. During 1990-93, he served as Economic Adviser to Pakistan's Ministry of Finance and on the Prime Minister's Committee on Economic Policy. In 1981-82, he worked for the ILO's Asian Regional Team for Employment Promotion based in Bangkok and in 1982-83 as a Visiting Fellow at Oxford University. He was at the IMF during 1974-77. His work experience includes stints at the Institute of Development Studies at Sussex University in 1972-73 and the United Nations Industrial Development Organization in 1973-74.

Thee Kian Wie

Thee Kian Wie is a Senior Economist, Economic Research Centre, Indonesian Institute of Sciences and Chairman, Board of Trustees, and Member of Advisory Board of the SMERU Research Institute, which is now Indonesia’s leading academic think tank for research on poverty and social issues. He was educated at the University of Indonesia and the University of Wisconsin, Madison, from where he obtained a Ph.D. in Economics. He was a Visiting Fellow at the Asian Development Bank Institute (ADBI) in Tokyo. Well known as the author of prize-winning books about the Indonesian economy, He has authored or edited approximately 17 books and monographs, and about 70 book chapters and journal articles. In addition, he is a frequent contributor of opinion pieces in reputed Indonesian press outlets.

Omano Edigheji

Omano Edigheji is a research director in the Policy Analysis Unit, Human Science and Research Council （HSRC）. He holds a B.A (Hons) degree in History from the University of Jos, an M. A in Social Policy from the University of Durban-Westville (now University of KwaZulu Natal) and a PhD in Political Science from the Norwegian University of Science and Technology, with specialisation in comparative political economy. Before joining the HSRC, he was the research manager at the Johannesburg-based policy think-tank, the Centre for Policy Studies (CPS). He was also the co-director of the Globalisation and Governance Project, Graduate School of Public and Development Management, University of the Witwatersrand. He is an external associate of the Centre for the Study of Globalisation and Regionalisation, University of Warwick, UK. His areas of research interest include: globalisation, comparative political economy of developing countries, state and economic transformation, state-society relations, South Africa political economy, including black economic empowerment, governance, democratisation and civil society in Africa.

Thandika Mkandawire

Thandika Mkandawire is Director of the United Nations Research Institute for Social Development (UNRISD), an autonomous UN agency in Geneva engaging in multidisciplinary research on the social dimensions of contemporary problems affecting development. A Swedish national of Malawian origin, he is an economist with many years' experience in the promotion of comparative research on development issues. He studied economics at Ohio State University and the University of Stockholm and has taught at the Universities of Stockholm and Zimbabwe. He holds a Doctorate of Letters from Rhodes University. From 1986 to 1996, he was Executive Secretary of the Council for the Development of Social Science Research in Africa (CODESRIA) at its headquarters in Dakar, Senegal. Prior to taking up his appointment with UNRISD in 1998, he was Senior Research Fellow at the Centre for Development Research in Copenhagen. He has published broadly on the social sciences in Africa and on problems of policy making, adjustment and democratization.

William Kalema

William Kalema has been the lead consultant on a number of assignments related to private sector development, capacity building, and institutional development. Notable examples are the National Capacity Building Assessments for Uganda and Namibia, and design of Uganda’s first Private Sector Competitiveness Project funded by the World Bank. In 2001 he worked on the design of Malawi’s Private Sector Development Program. In 2006 and 2007 he worked on the design of Tanzania’s Private Sector Competitiveness Project. He is former Chairman of the Uganda Manufacturers Association, and of the Uganda Investment Authority [UIA]. He is a Trustee and Chairman of the Board of the Uganda Gatsby Trust, a charitable institution that supports collaborative programs between the faculty of engineering at Makerere University and small and medium enterprises in Uganda. He is Executive Chairman of the Kilimo Trust, funded by the Gatsby Charitable Foundation of UK to support agricultural research and to fund innovative agricultural enterprises in East Africa. He is a Director of several companies including DFCU, a Ugandan financial institution, UAP Insurance Uganda, Multichoice Uganda, and East African Breweries. He is Trustee of the Shell Foundation.

Nasir el-Rufai

Nasir el-Rufai was Minister of Federal Capital Territory (FCT) Abuja and Member of the Presidential Economic Team in charge of Public Service Reform from 16 July 2003 untill 29 May 2007. He is currently a member of the ruling People's Democratic Party (PDP) and a member of National Energy Council. He deliberates with and advises the President on energy matters – oil, gas and power. He holds a Bachelor degree in Quantity Survey from the Ahmadu Bello University, Zaria, Nigeria. He also attended post-graduate programs at Harvard Business School and Georgetown University. From November 1999 to July 2003, he was the Director General of Bureau of Public Enterprises (BPE), the privatization implementation agency of the Federal Government of Nigeria and Member/Secretary of the National Council of Privatization, where he spearheaded the privatization of many government owned companies. He has presented many papers on diverse subjects at seminars, conferences and workshops on issues relating to the development and welfare of Nigeria.

Contents

Session I : Overview and Asian Experience

Opening Address: MASAFUMI KUROKI, Vice President, JICA

H. Kato: Good morning, ladies and gentlemen. I'd like to open the JICA/JBIC joint international workshop on the role of government in promoting sustained and accelerated growth in Africa and lessons from Asian experiences. I am Hiroshi Kato, Director General for the Institute for International Cooperation of JICA, and I will be acting as a general moderator for today's workshop. Before going into the body of the discussion, I'd like to invite Mr. Kuroki, Vice President of JICA, to say a few words of welcome to the participants. Mr. Kuroki, please.

Kuroki: Good morning. My name is Kuroki. I am Vice President of JICA in charge of research activities. First of all, I would like to extend my gratitude to all of the participants who have come today to this workshop despite the very bad weather, because of the climate change, and especially I would like to thank very much those researchers who have come from abroad, particularly from Asia as well as from African countries, so that we may take part in this mutual learning.

First of all, I would like to explain a little about the background of this workshop. JICA and JBIC together have conducted, with the contributions of some Japanese researchers, a study on Asian experiences of economic development and their implications for Africa. I think this draft paper has been distributed to you. The main messages of that JICA/JBIC paper are: 1) the importance of having industrial development strategies for sustained and accelerated growth in Africa, and 2) we are suggesting more policy space for the role of government for industrial development in Africa. We thought that it would be appropriate to get input and comments from African researchers on this paper in order to reflect African perspectives on this JICA/JBIC paper.

Yesterday, we had the first discussions that were mainly focused on the JICA/JBIC paper, and we heard very useful comments and input from African and Asian researchers. Some people talked about the government capacity, especially for a weak government, and weak institutions in African countries. And there were issues such as governance, democracy and economic growth -- if there is any linkage between governance, democracy and economic growth. Also, some people raised the issue of the importance of agriculture and agricultural development, including agrarian reform and a green revolution in Africa. Additionally some people raised the issue of the importance of export markets outside of Africa as well as inside of Africa. And also there were some issues raised concerning how to keep exchange rates competitive in order to promote trade. Finally, there were some issues raised concerning the financial development institutions in African countries. So, we tried to include these comments and input in the JICA and JBIC paper, and today, we hope to have discussions more broadly, probably, but especially on the issues of Asian development experiences, the developmental state, including the role of government for industrial development, as well as industrialization from the Asian and African perspectives.

I think it is quite timely to discuss all of these issues: 1) because African countries are aware of the importance of the accelerating growth that they are achieving recently, and they are more and more interested in learning from the Asian industrial development experiences, and I think that some African countries are already promoting industrial development policies; 2) one of the main themes of TICAD IV -- an international conference on African development that we have organized for this May in Japan -- is growth, and industrial development is a basis for growth; and 3) the main theme of the General Assembly of the African Union this year, which was held in January and February of this year, was industrial development for Africa. So we think that it is very timely to discuss the industrial development and the role of government for African countries at this workshop. I hope that we will have a very interesting and lively discussion for mutual learning between Asian and African perspectives. Thank you.

Presentation: "Asian Experiences of Economic Development and Their Implications for Africa"
ATSUSHI HANATANI, Senior Adviser, JICA

Hanatani: Good morning distinguished participants, ladies and gentlemen. My name is Atsushi Hanatani. As Mr. Kato mentioned, I am a visiting advisor to IFIC-JICA, this institute. I would first like to introduce what we have been doing very, very briefly, because we discussed this internally yesterday, and I would not like to repeat it from the beginning to the end. I would like to cut it very, very short for the benefit of observers who are here with us for the first time.

What we have been doing since last June is to develop and propose policy recommendations both for African governments and the international community, including the government of Japan, based on the existing knowledge of experiences and lessons that have been learned in Asia. The output from this stocktaking work is expected to serve as an input for the future discussion of growth strategy for African countries, and it is also expected to inform the preparation process of TICAD IV. So the background has already been explained by Mr. Kuroki.

Well, the key messages that we are putting forward are the following. In spite of the recent economic growth that many African countries are experiencing, if these figures are compared with those of Asian countries, it becomes very clear that each country in Africa needs not only to sustain its current level of growth, but to accelerate it. So, we use the expression, Sustained Growth Acceleration (SGA). SGA is something that Africa needs to achieve in the coming years.

If you look back on the Asian experiences, we have about 8 countries that achieved high and sustained economic growth over the course of two decades or longer, and the common factor of these countries that achieved such high and long economic growth was export-oriented industrialization. So, if we are to copy something from the Asian experiences, one thing is that export-oriented industrialization may be the way forward.

But Asian countries in the 60s and 70s were not furnished with all of the necessary conditions that are said to be necessary for Africa to grow. There were challenges such as limited institutional capacity, insufficient infrastructure and widespread corruption. What Asian countries exhibited was a self-owned effort to overcome these challenges and deliberate attempts to promote investment, taking account of its own comparative advantages and opportunities in the domestic and international environments. And we figured out that this naturally led to a diversified approach and strategies towards economic growth, and hence, a diversified role of government therein.

For this to happen in Africa, we argue that there should be more policy space for African governments than the one which is believed to be there for them right now, that is, more than maintaining macroeconomic stability and creating an enabling environment. The government, we believe, should interact more closely with the private sector in as transparent a manner as possible, of course, to share the vision and information with the private sector, and discover and encourage new undertakings to grow. We are proposing that this process could be established as an industrialization strategy in African countries.

Let me skip all of these details. You can look at them in your printed version of my slide. What do we mean -- let me turn to what we intend to mean by industrialization strategy. We wish to propose to African countries to come up with an industrialization strategy as a means to materialize sustained growth acceleration, where one finds a diversified role of government inspiring economic development. The strategy we are considering may cover some of, but is not limited to, the following components: identification of long-term vision and desirable economic structure, as well as positioning in the international value-chain system; discovery through public-private dialogue and potential growth-leading industries based on existing and latent potentials; identification of constraints surrounding the industries identified, as well as related necessary investments to support such industries; and finally, to devise measures to remove such constraints, and if possible, support measures according to the level of the institutional capacity of the country.

By mentioning industrialization strategy, there are some cautions that need to be stated. We intend to mean that industry is more than manufacturing. It should include services, agriculture and agro-processing. We should take the industrialization to mean more than manufacturing machines and automobiles. Secondly, in view of the concerns expressed with regard to industrial policy, the process of identification should not mean the sole and arbitrary appointment of sub-sector or particular enterprises by the government. We believe that the issue comes out from the public-private fora or dialogue, and it is crucial to articulate criteria for selection and make them very, very transparent to all those involved. Thirdly, a process of information sharing between the private and public sectors is important. And it should be constituted as a process -- a process of discovering prospective industries, identifying constraints surrounding them and agreeing on measures to remove those constraints. So, by saying industrialization strategy, we do not mean that it's a simple document. We would like to propose to establish it as a process. Fourthly, the promotion measures should be accorded with discipline, and it is always necessary to put businesses under competitive pressure. So, the promotion measures should be provided with a carrot-and-stick approach. And finally, we believe that it is necessary for governments to enact industrial development measures commensurate with the country's institutional capacities. Those countries with a low level of capacity at present can begin by establishing neutral or cross-sector measures, such as maintenance of the environment, including infrastructure, the provision of information to industries, standardization of regulations, and research and development. Those kinds of things are some of the basic measures that countries with a low level of capacity can start with.

In order for African countries to take this course of action, we propose, among others, four points that the international donor community can do to support African countries. First of all, we should allow for more flexibility in applying international standards to Africa by admitting that development paths are unique by nature, and by supporting tailor-made approaches to development for African countries. Secondly, we need to continue providing enhanced market access to African products, and maybe we need to improve it to make it more pro-investment. Special attention should be paid to development of large-scale and regional infrastructures, which may go beyond the capacity of (an) individual country. And efforts to support MDG goals should continue.

And finally, we are trying to propose some policy recommendations for the Japanese government to take, but this is still under discussion. One of the things that we wish to propose is that maybe Japan can support African countries to develop industrialization strategy using its own experiences, and using experiences of Asian countries. There are other inputs that the Japanese government can provide, including product development, marketing capacity development, SMME development, and science and technology education, infrastructure, and agriculture and rural development. These are all supply-side measures. But it is important to maintain policy coherence between aid, trade and investment. So we are proposing that Japan should also join hands with other countries to enhance market access to Japan and Asian countries. And also, there should be more public-private partnership in Japan as well in order to promote Japanese firms' investment in Africa.

So we are proposing that this industrialization strategy could be a matter of willingness rather than a matter of feasibility. But yesterday, we had a lot of discussion about these issues. I'd like to introduce just three of them. One of the things that was expressed by African participants was that it is pertinent to discuss strategy for growth and industrialization at this moment, but there was some discussion about how far we should focus on the growth aspect only. What do we do about the equity and poverty reduction, and the inclusion aspect of development? Right now, we are mostly focusing on the growth aspect. This is number one. Number two; it was also expressed by African participants that discussion on the role of government and policy space should be pertinent at this time, but given the limited capacity of government and the limited capacity of the private sector, consideration needs to be giren to how much of a role African government can play in this paper, and how it can assume the role that we are proposing. So, it's a matter, again, of the feasibility of the proposal that we are putting forward. Lastly, there was a discussion on the institutional settings that are related to the growth strategy. It was argued that as long as basic functions for growth are satisfied, we may not have to have democracy and governance-related institutions as necessary conditions -- different functions for economic growth can be satisfied under different institutional settings. So the question is, how far should we discuss democracy and other governance-related institutions if we are to focus on this growth aspect of development?

Other issues like exchange rates and remittances from diaspora were expressed by Mr. Kuroki already, so I will not touch upon them, but they may come up in today's discussion. But just to give you a sense of what we have been doing as background information, I have presented to you just a brief outline of our activities. Thank you very much.

Presentation: "Can Africa Afford Not To Be Asia? What Does That Mean?"
AKBAR NOMAN, Senior Fellow at the Initiative for Policy Dialogue (IPD), Columbia University

[Moderator: **JIN SATO**, Associate Professor, Graduate School of Frontier Sciences, The University of Tokyo]

Sato: Good morning ladies and gentlemen. I think the snow today is welcoming all the guests from abroad, and I think our heated discussion this morning will melt all the snow around this building. My name is Jin Sato. I am a faculty member at the Graduate School of Frontier Sciences at the University of Tokyo. It is my honor and pleasure to serve as moderator this morning. My role is to speak as little as possible, and trying to keep the time, so I will briefly give you a timeline for this morning. There will be two distinguished speakers and an additional two commentators following those two talks. The speakers will have 20 minutes to speak and the commentators will have 5 minutes. So please keep the time limitation in mind, which often gets ignored.

Let me introduce the first speaker, Professor Akbar Noman. His extensive experience and background is already distributed, so I won't go into the details, but just briefly introduce Professor Noman's background in a short version. He is a Senior Fellow at the Initiative for Policy Dialogue and he is an Adjunct Professor at Columbia University. He was at the World Bank from 1977 to 2003, and he has working experience in macroeconomic management, country strategies, trade policy, financial and private sector development, international economic trends, poverty, labor markets and so on. He had a regional focus on Africa as well as Asia and transition economies. He had additional assignments as an economic advisor to Pakistan's Ministry of Finance and on the Prime Minister's Committee on Economic Policy. And he also worked at ILO and other assignments at Oxford University, Sussex and the United Nations Industrial Development Organization. So with that, I would like to welcome Professor Noman.

Noman: Thank you very much, Mr. Chairman, Kuroki-san, Kato-san, and Hanatani-san for the great pleasure and privilege of the invitation to attend this conference and visit this birthplace of industrial policy, and arguably, the birthplace of modern development strategies -- development pursued in a very conscious and deliberate way by governments. One of the things that strikes one when thinking about the development of thought on development is the contrast between how much influence the Soviet model had and the neglect of the Japanese experience during the 1950s, the founding years of development economics. Planning was widely considered to be the path to development. Most countries adopted some sort of 5-year plan. In fact, aid donors, including the World Bank, and USAID, pretty much required developing countries to adopt a plan in order to receive aid. In contrast to the huge influence of the Soviet success, as perceived in the 50s, it is striking how little Japan's performance influenced thinking and policy advice during that period. And the main reason that I can attribute to this is obviously that this was just after the Second World War, Japan had been defeated and there was little inclination at that point to think of Japan as a success story from which lessons could be learned. It was also, perhaps, a comment on the Western bias in the discipline of economics.

Whilst development economics during its early years did not appear to have been greatly influenced by the experience of Japan, policy making in some East Asian countries, notably Korea and Taiwan, seems to have learned some lessons from Japan. So, I think this exercise on deriving lessons for Africa from the Asian experience, which JICA is undertaking, does in some sense redress a long-standing imbalance. I am very pleased and delighted with the paper that Hanatani-san presented and his excellent summary of the discussions yesterday.

In thinking about the lessons for Africa, I was reminded in that of the remark that my colleague and friend Thandika Mkandawire made at one of the meetings we attended, where he said, in Africa, we wanted to have a revolution and overthrow the capitalist class but forgot that we did not have a capitalist class you had to first create or build. And in doing that there are valuable lessons from Asia for Africa.

Africa has paid an extraordinarily high price for not learning lessons, both from Asia, and I would submit, from Africa's own experiences of both successes and failures. This very heavy price has been reflected in Africa being largely left out of the unprecedented economic growth of the last 50 years. How to correct that was an important part of the motivation at the think tank that I work for at Columbia University, the Initiative for Policy Dialogue (IPD), to establish a task force on Africa. This is of course a very similar motivation to that of this exercise by JICA. It's a very happy coincidence that these things are happening together, and we really think that there can be a lot of synergies between these exercises. Perhaps, this proves yet again that great minds think alike. I am not bragging about myself but pointing out that there are some very distinguished people on the IPD's Africa task force. The task force is co-chaired -- I am not the only one -- it's co-chaired by me along with Professor

Joseph Stiglitz, and Kwesi Botchwey and it includes such great and distinguished minds as Thandika Nkandawire, as well as the Prime Minister of Ethiopia Meles Zenawi who attended our first meeting and is contributing to the work of the task force.

Now, the questions that Hanatani-san just raised about this whole issue -- to what extent and in what way can Africa emulate Asian success -- often runs up against a skepticism about Africa. This includes what one might call "a low-growth expectation trap," the feeling that if Africa can grow at 5% or 6%,which means 2-3% in per capita terms, that's good enough. Challenging that low-growth expectation about Africa is very important. "Miracles" and rapid economic transformations in Asia happened with sustained per capita income growth in the range of 5%-7%. That sort of growth has been achieved not just outside Africa, but of course in Africa itself.

Lessons are learned not just from success but from failures, and nothing fails like failure. This is one of the big lessons. And I think this is very nicely illustrated by what happened in the East Asian financial crisis in the late 1990s. When many people used that crisis to suggest that the whole Asian model was actually fundamentally flawed, it was labeled "crony capitalism." The haste with which some critics moved to discredit that model is an interesting comment on the role of ideology; orthodox economics is extremely uncomfortable with the East Asian and Japanese experience. It just does not fit into neoclassical, let alone neoliberal views on what makes for growth and what makes for development.

Similarly, I think, when Africa ran into crisis around 1980, there emerged this view of wholesale condemnation of Africa, that everything was wrong. Yes, the crisis was obviously deeper and more prolonged than what hit East Asia in the late 90s. But it is worth bearing in mind that when the crisis hit East Asia, even that region was deemed to require a rejection of its past ways, fundamental reforms and lowered expectations of future growth. It is worth bearing this in mind when we think about the prospects and policies for Africa. I am not saying that everything Africa did before was right. In fact, there were many, many things that were wrong. First of all, let me qualify that generalization by noting that Africa is, as I mentioned, extremely diverse. There are more countries in Africa than any other region in the world -- about 50 countries -- and the diversity of experiences is also something which one has to bear in mind, and therefore, their potential and ability and how far they can go in successfully implementing the kind of policies that are being proposed by the paper that has emerged from the JICA exercise. But in some overall stylized sense, one can speak of Africa, just as one can speak of East Asia or Latin America. It is a simplification, but a useful one that has illuminated the debate. The very stylized African story, I would submit was characterized before 1980, by excessive neglect of possibilities of government failure and excessive focus on market failure -- policy makers and advisers forgot that governments can also fail. But then after the 80s, because of the wholesale rejection, we went to the other extreme, where Africa went or, some would say, was made to go to the other extreme: from an excessive faith and reliance on governments, to the other extreme of excessive faith and reliance on markets. And this reflected not learning the fundamental overarching lesson of Asian success, -- striking the right balance between the government and the market. And that right balance is a contextual matter. It depends on many things -- the stage of development, the size of the economy, the abilities and institutions that have emerged and developed. But the issue is, and the lesson is, how do you get the right balance in any particular context, and how to adapt and adjust that balance continuously. This was a very fundamental way in which, I believe, what happened in Africa in the last 25 years or so was based on NOT learning from the Asian experience.

It's now widely recognized that reforms went too far and there was an excess of market fundamentalism in Africa. But the concern with government failure continues to make much of economic policy analysis and advice very wary, very careful about intervention, particularly in Africa. One answer to the question of the role of for government is that it should be confined itself to provision of both physical and institutional infrastructure, with a particular emphasis on property rights.

A different strand of thinking looks at the lessons of East Asia and finds that the role of government has been invariably much more complex, extensive and nuanced-- not just in East Asia but in other places and times, including the historical experience of the developed countries. Variqnts if this view is found, for example, in the writings of Ha-Joon Chang,, Joe Stiglitz, and Dani Rodrik amongst contemprary observers and of Alexander Gerschenkron earlier. Ha-Joon Chang in particular notes that the role of the state has been far more extensive historically in Europe and the US, and there has been a rewriting of history in these developed countries, particularly the of Anglo-Saxon ones which greatly exaggerates the importance of liberalism and free trade in their own development, forgetting that the United States was the world's most protected country throughout the 19th century at the time when it was catching up.

One question that is often asked is, can the capabilities and governance of African countries allow emulation of more interventionist policies? Can they emulate East Asia, because of these factors? I believe, as I think Hanatani-san suggested or implied in his paper, that this is the wrong question to ask. Apart from the fact that there is no monolithic Africa, and indeed, the fastest growing economy in the world in the past 50 years is an African country, Botswana. There are other success stories of course in Africa, both of particular types and phases, and times, and periods, aside from the continuing long-term successes of Botswana and Mauritius. But I think more importantly, the right question is, not whether the African governments are capable or not -- the question often posed – but the right question is, what lessons are relevant and how to translate them in specific country contexts. And this question comes down to one of what is the right balance between the state and the market in specific contexts.

Putting it another way: supposing there is -- and there are many -- a serious committed developmental government, and one is asked to make a presentation, of say half-an-hour, to a cabinet meeting on what are the policy options available, what would one say? I think that is the way to pose the question. What are the policy options for such serious committed governments in Africa? And what are the trade-offs involved in making those policy choices?

Now, let's take probably the most controversial case of all, which is an industrial polic. I note that the paper itself avoids using the phrase, "industrial policy", presumably for the good reason, that it produces a certain kind of strong knee-jerk reaction which gets in the way of a discussion because it has acquired such a charged image and reputation. But what we are really talking about as the paper by JICA illustrates is really this business of how the state can intervene effectively, and industrial policies also refer to agriculture and services -- it's not just industry. Now, this is the most controversial aspect of East Asian experience. This is the one that makes orthodox economics most uncomfortable. And people have gone to great lengths to try and prove that even in Asia industrial policy did not work, that Asian success happened despite industrial policies. That would seem to imply that if there weren't industrial policies those East Asian economies that grew in the vicinity of 10%, would have grown even faster by a substantial margin!

I think there is much to be said for trade reforms, and you can go horribly wrong with bad trade and industrial policies. And they can be very risky. But the point I think is, that like with any economic decision or any policy choice, it's a matter of the right balance between risks and rewards. There are high risks, but it's also highly rewarding. And all policies have risk. Yes, there are lots of failed industrialization attempts and industrial policy experiments, but also lots of failed stabilization programs many failed financial liberalization programs, all sorts of failures, but it doesn't mean you give up. The implication of many failed stabilization programs is not that one gives up on stabilization It's a question of getting it right. And again it's a contextual issue -- how you get it right.

Now, one argument that's been made is that not having industrial policy can also carry risks and costs -- that what happened in Africa was that reforms often took away bad incentives for investment but made things worse by replacing them with nothing, and this really led to a diversion of rents away, from those associated with productive activities to more growth-unfriendly forms like just kickbacks on contracts and so forth. There are always rents -- there's no society that has been entirely free of, corruption, and no economy has been free of rents. The question I think is, how rents are utilized, what kind of rents there are, and what are the incentives for using those rents, including notably whether they end up in capital flight or domestic investment.
This point to an aspect of industrial policy that I think is particularly relevant to Africa-- socializing or reducing risks of investment. This is one very important function that I think policies in East Asia performed in the successful cases as emphasized by the World Bank's study of the East Asian Miracle. In Africa, often policies have exacerbated risks of investment for private sector rather than helping to reduce or ameliorate the risks.

Another argument which I believe is of particularly importance for Africa is the role that government policy or interventions can play in creating and nurturing a class of capitalists and entrepreneurs I think there are some very good and interesting Asian examples on this count.

Let's just look at some of the things that went wrong with some of the liberalizing reforms -- just liberalizing agricultural prices or just liberalizing interest rates or just making exchange rates market determined is not enough. It is worth bearing in mind that the green revolution in South Asian agriculture is unlikely to have happened without interventionism and these are countries with a much more messy developmentalism than that of the idealized East Asian state. India, Pakistan, Bangladesh are no Japan, they are no Korea, they are no Taiwan, in terms of the capabilities of the state and the degree to which they pursued the kind of classical stylized East Asian policies. Nonetheless, the green revolution could not have happened without some kind of, what one might call industrial policies for agriculture. There were support prices for agriculture, there were subsidies for fertilizer, subsidies for irrigation, especially electrification, which led to the tube well boom. None of the things could have happened. The policies were not perfect, they could be improved but they were arguably crucial for the green revolution.

Similarly with respect to the financial sector, just liberalizing interest rates, making them market determined obviously doesn't get you very far. The question is how can you provide access to credit at reasonable interest rates, particularly to term credit for investment? One of outcomes of financial reforms in Africa was that one often ended up with very high real interest rates-- 10% to 15% -- and at short term. Can one expect any industrial investment or any investment other than in trading or in speculative activities where you have quick turn-over at those real interest rates? There is little point in trying to liberalize and improve the business environment, if it's part of the same package of reforms that ends up with taking away any access to credit. I am not saying the answer to this is easy. It's a very difficult question to answer -- how do you ensure this -- because the issue of state-provided direct credits through developmental banks has also being a failure, particularly I think in many African countries earlier. It's not an easy problem, and it's one we have to struggle with. But we have to at least recognize the problem. If we don't even recognize it, we're not going to get anywhere at all. So I think those are the kind of things one means about focusing on the right issues in trying to learn lessons of success.

I would like to now talk about this issue of governance that has become so prominent. One aspect pertains to governmental capacity: whether the African state, whatever that is, is capable of intervening effectively. The other is, whether governance which is often used as a code word for corruption, a polite way of talking about corruption, is the real problem. Now, one dimension of this governance concern is perfectly understandable and legitimate and essential, which is the aid donos concern that their aid monies are used properly – the fiduciary concern -- and they have to respond to and be responsible to parliaments, be responsible to the taxpayers. But the set of issues under the governance umbrella at times becomes a confused jumble in the way the governance agenda has evolved and developed, particularly in Africa. Some of the standards set for governance are impossible to meet: no country has ever met them. And if the kind of absence of corruption that these governance standards imply was a necessary condition for development, there would be no developed countries in the world today. So, I think setting impossibly high standards, making the best in some sense, some idealized version of the best, the enemy of the good, is one of the dangers of a particular way in which governance agenda is pursued, at times. Indeed, there is some research which shows that if you take away the developed countries out of the statistical relationship been governance --as measured by the standard indicators-- and growth there really is no meaningful statistical relationship left between governance as measured by these standard indicators and growth. This is not to say, fighting corruption is not highly desirable. Corruption can be very detrimental and destructive of development. But the question then becomes, what is it that countries need to do in order to grow faster ultimately? And if there are issues of governance which get in the way of growth and development, those are the ones that need to be prioritized and addressed, rather than having some all-encompassing agenda which mixes up many different issues, sets impossibly high standards, and in the end, leads to failure.

Now, I wanted say a few words just on this whole debate on the role of geography in Africa. Again, I think this is a bit of a red herring in the sense that, it's also one of those issues which can distract attention away from questions of what are the policies that are needed. Now, obviously, geography is important. It determines what natural resources you have, disease burden irrigation potential, et cetera. One can't deny the importance of geography. But what one can quibble about it been invoked in Africa sometimes in a manner that says that geography is really such a dominant explanation that you forget both about past policy failures and about what needs to be done in terms of policy options in the future. I don't have time to elaborate on that, but I did want to leave that message.

Finally, let me say that one very important issue for Africa, and especially one where lessons should be learned, is related to the resource curse. There are two related issues. One stems from the lesson of Asia about the importance of competitive exchange rates. All successful Asian countries maintained competitive -- some would say undervalued -- exchange rates. The question is how to do it, especially if you have natural resources? It's not easy. The Chinese are doing it today by running up huge surpluses. That is to say, they are providing their savings for the rest of the world. That's not an option one wants Africa to have because Africa needs to absorb resources rather than finance the consumption of the United States through its surpluses. The question is how do you intervene? What kind of exchange rate policy do you need? And my view is, that's one of the more difficult and tricky questions, because exchange rate intervention also has inflationary consequences -- there is an effect on money supply and so on, and how to manage that. And to study and draw lessons on that count from examples of countries like Malaysia and Indonesia would be very useful for many African countries..

Finally, let me conclude by speaking of what Prime Minister Meles Zenawi, --who has written of very interesting paper -- it's actually a monograph, book length study, large chunks of it which was presented at one of the meeting of IPD's Africa task force – has called an for argument of neo-liberal reform that said to African countries, there is no alternative (TINA) to the kind of liberalizing reforms imposed in Africa. I think the argument can be turned on its head: is there any alternative now for Africa to, in some sense, pursue the kind of policies that Asia did? How else is it possible to reverse deindustrialization, generate employment, and reduce poverty and achieve sustained growth? And the question therefore is, not whether, but how does a particular country do it.. Sub-Saharan Africa is large, it's diverse, it has different political economies, different types of government. How you do it depends on the country, on the country context, on the choices that society makes. The point for academics and technocrats is to illuminate the paths open to a country and the trade-offs between different options. That is how I interpret the task that JICA has embarked upon and asked us to participate in. I think it's a very worthy task and it's a task which is being done extremely well. So, I commend and thank you very much for this opportunity. Thank you.

Comment: YONOSUKE HARA, Professor, National Graduate Institute for Policy Studies

Sato: Thank you, Professor Noman. I would like to introduce our distinguished commentator, Professor Yonosuke Hara, who used to be one of my dissertation advisors, so I cannot say bad things about him. He is the main challenger against the neoclassical dominance, and he has spent much time in trying to combine the discipline of economics and area studies, and he is one of the most distinguished Asianists. So please welcome Professor Hara.

Hara: Thank you very much. But first of all, I should be frank. Several months ago, the JICA and JBIC people asked me to participate in this study group to discuss the lessons of the Asian experience to African development, and at that time, I refused. The reason why I refused is that I have never been in Africa. But finally, I couldn't refuse. By the way, I will try my best.

Let me begin my comments by mentioning the very excellent presentation given by Professor Akbar. Basically, I'd like to say that I completely agree with what he said in your paper, because as Sato-kun mentioned, I am a little bit against the neoclassical, neoliberalism in development thought. But my time allotment is only five minutes, therefore, I would like to restrict my comments to only two points, but if I have time, I'd like to go a third point.

The first point is that which Akbar-san mentioned about the importance of geography as a determinant of the economic growth potentials. The second one is the so-called developmental state argument. Yesterday, we discussed this one. But by the way, let me first start with the geography as the determinant of the growth potentials in Africa or something like that. As Akbar-san's paper mentions, some cases of the so-called landlocked countries in Africa, but during the last several years, JICA -- I have been heavily involved in one research project supported by JICA in one landlocked country in Southeast Asia. That is the Lao PDR, People's Democratic Republic. And I think, as you know, all the JICA papers indicate the ongoing project of the so-called Greater Mekong sub-region and it is a big project, and it is mainly led by the Asian Development Bank for financing big infrastructure projects like bridges, railroads or roads. But by the way, I think, of course, as you mentioned, or Akbar-san mentioned in your paper, that this kind of infrastructure investment is essential or necessary for development. But my point is that this is not sufficient.

And then I'd like to pick up some cases of -- I'd like to introduce the case of Lao PDR for this occasion. I think yesterday we discussed that in Africa, the private sector is weak, and also we discussed that government is weak. I found in Lao PDR the same situation. The private sector is weak, and also maybe the capacity of the government might be very weak, especially as compared with neighboring countries like Vietnam and Thailand. Then, in our study in Lao PDR, we discussed this matter rather seriously. And then regarding the method to promote the private sector, we recommended, together with the Lao researchers, that the Lao government should adopt the so-called bottom-up approach. That means to utilize the unique characteristics of the Lao economy. The JICA paper indicates the case of the One Village One Product type of development in Thailand. Of course, Lao PDR is a neighbor of Thailand. I think that the Lao government would like to introduce this type of development scheme in their own country. Of course, we discussed this matter. But I do not have enough time to go into this further.

The one point that is very important is that, for example, the Lao PDR lags for behind due to its being a landlocked country. And then, for example, if you look at the agricultural production in Lao PDR, they are not using chemical fertilizers, for example. The Lao people say, oh, this is very natural agriculture. But what happened is that the products of Lao PDR that do not use pesticides are sold in the Thai market, especially in Chang Mai or the big cities in Thailand, at higher prices. The reason why is that the Thai people are now becoming very, very nervous about the quality of products, especially the safety of products. Based upon these findings, we discussed the situation with government officials of Lao PDR, and mentioned that one way to find out about the sectors that could have a comparative advantage in the present day of the world, maybe you could make some policies for promoting these kinds of nature-friendly products or something similar. Last week I met some government officials in Tokyo and they told me that Lao government had already established the so-called, I mean, the central government, local government and village consultative group that will discuss about as a kind of information. Anyhow, my point is that, of course, the landlocked countries, as Akbar-san mentioned, they have very, very strong disadvantages. But comparative advantage is not the fix. That is my point. If the regional or global economic situation is changing, maybe that which was once a disadvantage, a disadvantage could become a comparative advantage in changing circumstances. I think this kind of experience might be relevant to African development.

For my second point I should stop within one minute. And also yesterday we discussed about the so-called developmental state in East Asia. But my point is very simple. I think the stylized or overly simplified version of the developmental state is rather misleading. That is my point. Of course, for example, before joining the GRIPS, I was a professor at the University of Tokyo, and at that time I attended one big conference or research group organized by the Social Science Research Institute at the University of Tokyo regarding the developmental state's argument. Of course, we agreed that developmental states as yesterday we mentioned, the common characteristics between Japan, Korea, Taiwan and Thailand is the long-term vision of development. Every country might share this one. But real characteristics have diversified too much. Therefore, I think in order to, maybe this afternoon, we can focus on this kind of discussion. I think, once again, I'd like to say that an overly simplified version of the developmental state is rather badly misleading. Thank you very much. I should stop.

Presentation: "Indonesia's Economic Development During and After the Soeharto Era – Achievements and Failings"
THEE KIAN WIE, Senior Economist, Economic Research Centre, Indonesia Institute of Science（LIPI）

Sato: Thank you Professor Hara. I would like to ask Professor Noman to respond to his points later in the discussion time since in the interest of time we should move on. So thank you, Professor Noman and Professor Hara.

Can I move on to introduce the next speaker, Dr. Thee Kian Wie? His extensive background has already been distributed, and again, I won't be going over his career. But just to briefly introduce him, Dr. Thee Kian Wie is a senior economist at the Economic Research Centre, Indonesian Institute of Sciences, and a member of the Advisory Board of the SMERU Research Institute, which is now Indonesia's leading academic think tank for research on poverty and social issues. He was educated at the University of Indonesia, and the University of Wisconsin, Madison from where he obtained a Ph.D. in economics. He was a Visiting Fellow at the International Centre for the Study of East Asian Development, Kitakyushu, in late 2001 and at the Asian Development Bank Institute in Tokyo in the second half of 2005 , and he is a well-known scholar as the author of prize-winning books about the Indonesian economy, and he has authored and edited approximately 17 books and monographs and about 70 book chapters and journal articles. He is a frequent contributor of opinion pieces in reputed Indonesian press outlets. So with that, please welcome Dr. Thee Kian Wie.

Thee: Thank you, Professor Sato. I would first of all like to express my great appreciation and heartfelt thanks to JICA for inviting me to this very important conference, because participating in a conference is a great learning process. And from the very first day, from the very first dinner when I listened to the discussions and all the comments of our African participants, I learned a great deal, and I am still learning. That's the advantage I am gaining from participating in this Conference.

I am going to talk about Indonesia, and I was a little bit hesitant, frankly speaking, because Indonesia is only one part of the 10 member ASEAN countries. So what have we learned? And we are not really one of the prime members. Maybe 30 years ago, we were a good performer, but then we declined. So, I would describe the past four decades from crisis to miracle, and then to crisis again, and now we are trying to scramble upwards. So, my account is mostly a brief, short economic history of modern Indonesia since the advent of the Suharto era, which, we referred to as the New Order era. This term sounds fascist, since the New Order era was a little bit fascist.

Well, first of all, I would like to discuss the achievements of the New Order state. You have to take into account, for those who remember, that during the last years of the Sukarno government, the Indonesian economy was very rapidly sliding into collapse, because President Sukarno, who was an engineer, was only concerned with what he called 'completing the national revolution', that is liberating Dutch-occupied West Irian (West New Guinea) from Dutch colonial rule, because Indonesia considered itself to be the rightful inheritor of the Netherlands Indies. When the Netherlands, under pressure of the US, transferred West Irian to Indonesia, Sukarno, being subsequently obsessed with the Western imperialists, launched the "Crush Malaysia" campaign, which he saw as an attempt to sukarno undermined Indonesia's hegemony in Southeast Asia. Sukarno often said 'economics bores me'. So, he launched the Guided Democracy and Guided Economy in 1959 and proclaimed the introduction of so-called "socialism a la Indonesia" -- socialism Indonesian style', with the result that Indonesia, since the early 1960s, experienced a rapidly declining economy and spiraling hyperinflation that reached 600% by 1965, which was caused by the fact that government expenditures on armaments and on all kinds of white elephant projects far exceeded the rapidly declining government revenues. This problem was solved by the Bank of Indonesia just printing money that. By 1965 Indonesia was bankrupt. It had a foreign debt of $2.3 billion, which was very high in 1965 -- 60% of it was owed to the Soviet Union, because we bought warships and planes to liberate West Irian and to 'crush Malaysia'.

Then under circumstances which are still being debated right now, particularly after the fall of Suharto, whether Suharto was reacting to a coup or was implicated in the coup, but anyway, he grabbed power in a brilliant way, and then launched Indonesia with the help of economic advisors on a path of rapid and sustained growth for three decades that on the average reached 7%.

In spite of the fact that Indonesia was largely a Muslim country -- 90% of the population is Muslim -- he was able to persuade the Muslim leaders to agree to the family planning program, and he was able to implement a successful and generally not coercive family planning program, unlike in China. As a result, population growth declined from 2.4% in 1965 to 1.8% in 1980-96. Consequently, the average annual population growth was 4.7% -- one of the highest among the emerging economies at that time. GNP per capita rose from $100 in the mid-1960s to $1,000 in the early 1990s, enabling Indonesia to graduate from the low income to the lower middle income countries. After the Asian economic crisis in 1997/1998, Indonesia became a low income country again.

One of Indonesia's impressive achievements was not only rapid and sustained growth, but also a steady decline in the poverty rate from 40% in 1976 to 11% in 1996. I use 1976-96, because the most comprehensive data from the Central Agency of Statistics are not from the 1960s, when Indonesia was in chaos, but only from the 1970s. This rapid growth was accompanied not by a severe deterioration in income distribution. So our Gini coefficients have roughly remained 0.30 --,0.35. This relatively constant Gini coefficient has been criticized by some researchers.

Rapid economic growth was also accompanied by rapid social development reflected by among others -- you can read it in the various references I've given at the end my paper -- rising net primary enrollment rates close to 100% for boys and girls, declining infant mortality rates, and rising numbers of people having access to safe water and higher life expecantancy at birth. from 47 in 1965 to 67 in 1996. So I am enjoying a bonus of 5 years.

Rapid economic growth was also accompanied by rapid structural transformation due to double digit growth of the manufacturing sector, while agriculture and services grew at a single digit rate. You can see it on page 3, where you see this rapid structural transformation, which shows that the share of Indonesia's gross manufacturing value added in 1965 was only 8%. By 1996, it was already 25%. And after the end of the oil boom in 1982 Indonesia through successive deregulation measures, including successive series of trade reforms, which reduced the anti-export bias of the trade regime, Indonesia experienced a surge of manufactured exports, which rose from 4% of total exports in 1965 to 51% in 1996. I should point out that unlike the resource poor northeast Asian countries such as Korea, Taiwan, Indonesia is a resource rich country. Although our natural resources, particularly timber, are rapidly dwindling, the proportion of resource intensive manufactured products is quite high compared to the resource-poor Northeast Asian countries..

Unfortunately by 1997, only two months after the World Bank report on the Indonesian economy predicted that the Indonesian economy would continue to grow by 7.7% until 2000, the Indonesian economy was hit by the Asian economic crisis. At that time, many of Indonesia's policymakers stated that unlike Thailand and Malaysia, our macroeconomic fundamentals were strong. Indonesia's current account deficit, while rising, was still only half of Thailand and Malaysia. In Thailand and Malaysia, the current account deficit was about 8%, and in Indonesia, although it had risen from 2% to 4%, it was still only half of that of Malaysia and Thailand. Indonesia also had a fiscal surplus, and our foreign exchange reserves were sufficient for six months of imports.

There was nothing to worry about. But then, through a process of contagion, Indonesia was hit, and we never realized; only in hindsight -- economists are very good in hindsight at ex- post analysis, that the ratio of short-term foreign debt to available foreign exchange reserves was very high. Moreover, much of these short-term loans, which was mostly unhedged, had been invested in long-term projects. The ratio of short-term debt to foreign exchange reserves was the second highest after Korea The Indonesian economy contracted by an unprecedented - 13% in 1998, much higher than the - 3% which we experienced in the mid-60s during the late Sukarno period.

However, thereafter a slow and steady economic recovery followed. In 1999, we again experienced, like Thailand and Korea, the two other worst affected countries, a positive growth, but it was only 0.8%. But then, as table 6 of my paper shows, , you can see that the economy has been growing again Last year it was 6.5%, almost as high as the last pre-crisis year. And in line with economic recovery, poverty rates have also declined to 16.6% in 2007 after reaching a peak of 23.5% in 1999. I should point out that these poverty rates, if you compare this data with the data in table 2, may be a little bit contradictory. The reason is that after the crisis, our Central Bureau of Statistics re-estimated the poverty rates. Instead of 11%, it was 17% in 1996.. But nevertheless, it's down again to 16.6% in 2007. But the number in absolute terms, the number of poor, because of population growth -- 37 million -- was more than the last pre-crisis boom year, which was 34.5 million. Moreover, millions more people still live precariously above the poverty line. Referred to as the near poor…

The question is, was the New Order state a developmental state? There are many definitions, but I just quote from Chalmers Johnson's book, his famous book on 'MITI and the Japanese Miracle' a state is developmental when it establishes as its principal of legitimacy its ability to promote and sustain development, understanding by development, the combination of steady high rates of economic growth and structural change in the productive system. I think in that respect, the New Order state certainly during its two first decades was a developmental state. In his memoirs (written about 15 years ago and quoted in the political biography written by Professor Robert Elson from Griffith University, Australia, Suharto stated that all the deterioration experienced before 1996 had its origins in the neglect of economic development. So he realized that, unlike Sukarno and Hatta who had proclaimed Indonesia's independence on the 17th of August 1945, he didn't have the revolutionary credentials. He was just one of many generals, a junior general at that. So, because of the economic misery experienced by the Indonesian people, he realised that his political legitimacy could only be achieved by economic development, by raising the standard of living, in which he, as I've said earlier, succeeded brilliantly.

In designing the economic policies, Suharto relied on five able economists from the University of Indonesia.. They were able to push a law on a balanced budget, which implied that no deficit financing would be allowed. Suharto also allowed the re-integration of Indonesia with the World Economy, by rejoining the United Nations, the World Bank and the IMF, which Sukarno had left in early 1965., stating to the US, go to hell with your aid. An international aid consortium, the Inter-Governmental Group on Indonesia (IGGI) was formed in 1967 and chaired by the Netherlands. Liberal foreign and domestic investment policies were pursued. As a result, new domestic and foreign investment flows were invested in agricultural, mining and manufacturing projects which enabled Indonesia to achieve rapid double-digit industrial development..

Now, I talk about the failings of the New Order state, and in this respect, I distributed to some of my colleagues who were very critical of my conclusions. They said you are unfair to Suharto. I called it the decline from developmental state into a predatory state, and I give here all kinds of examples. Despite the initial successes of the New Order government, shortcomings of the regime soon became apparent -- increasing corruption by generals close to Suharto, and in state-owned enterprises, Suharto was reluctant to act against his political supporters, and over time, particularly during the last decade of Suharto's rule, corruption, collusion, and nepotism; what we call in Indonesia, KKN, became synonymous with the New Order.

Blatant corruption at all level of government facilitated by cumbersome and opaque licensing systems, which gave, of course, opportunity for rent-seeking activities. Collusive relationships between political power holders, particularly, or including President's six greedy children and their business cronies, many of them Chinese Indonesians, proliferated which also created other problems. And the proliferation of policy-generated barriers to domestic competition and trade, issued by the central and regional governments, and by officially sanctioned trade and industry associations, opened wide opportunities for unproductive, rent-seeking activities.

Other manifestations of the New Order's predatory state, include the wide opportunities for rent-seeking activities for generals and their business cronies; and the waning influence of the economic technocrats. The first generation of economic technocrats, referred to as the Berkeley Mafia, had retired, and they were replaced by younger, equally, competent who unfortunately didn't have the rapport with Suharto which he had with the older technocrats. Their waning influence was reflected in lower fiscal and financial discipline as indicated by rising off-budget expenditures, thus not under the control of the Department of Finance, to help ailing, inefficient state-owned enterprises, ambitious development projects, the companies of the President's children -- that particularly became a serious problem -- and what they called the state-owned strategic industries including the aircraft industry by the then powerful Minister of State for Research and Technology, Habibie, who later became the third president. There was increasing concern among economists that without taking account of resource constraints, these ambitious projects would become "devouring tape worms" as diagnosed by Professor Anwar Nasution, who is well-know in Japan -- without financial accountability.

Post-crisis developments. After Suharto's fall, the authoritarian, oppressive, and highly centralized New Order state overnight was transformed into a democratic state. Indonesia is now the third largest democracy after India and the United States. But we have a very messy democracy and highly de-centralized state with executive authority devolved to the districts, sub-provincial governments -- 400 plus districts. Despite political upheavals in post-Suharto Indonesia, Indonesia's economy has steadily grown faster, but it has not led to a commensurate decrease in unemployment and poverty. Economic recovery and subsequent faster growth was underpinned by strict adherence to sound macroeconomic policy. So this is the legacy from the New Order. For forty years, sound macroeconomics has become an imperative for Indonesian economic policymakers. Despite improved macroeconomic indicators, the present SBY government has not succeeded in stimulating faster growth in the real sector, meaning in manufacturing, agriculture, and mining, which would have increased employment and reduced poverty significantly. SBY is the abbreviation of Susilo Bambang Yudhoyono. But in Indonesia, he's the most decent president we have had so far. He is nice. He is kind. He is a general who has not blood on his hands. But President SBY is often criticised as being indecisve.

Growth of the real sector is hampered by slow investment growth caused by Indonesia's poor investment climate, one of the worst in East Asia. We rate very high in corruption in East Asia, and are number three in producing carbons after the U.S. and China. So hence, improving governance is imperative, but it takes a long time. Thank you

Comment: SHINJI ASANUMA, Visiting Professor, School of International and Public Policy, Hitotsubashi University

Sato: Thank you, Dr. Thee. Now I would like to introduce the distinguished commentator, Professor Shinji Asanuma. He has worked at the World Bank for over 20 years, and he is now a visiting professor of Asian public policy program at Hitotsubashi University. He is a specialist in international development finance, development economics and project analysis. He is chairing various important committees related to foreign aid distributed by Japan, and I think he is one of the most influential persons in regard to Japanese foreign aid policy. So with that, Professor Asanuma.

Asanuma: Thank you very much. I am in complete agreement with the way Dr. Thee retold the process of Indonesia's economic development in the past 40 years or so. But reading Dr. Thee's paper prompted me to ponder what are the points, what are the aspects that we have observed in Indonesia's economic development that might be of relevance when we consider Sub-Saharan Africa's development. These are the points, probably not straightforward lessons. I think we have to consider them more in-depth before we can turn them into policy lessons for Africa. Since this is a 40-year history of Indonesia's economic development, there are many aspects and many points, and I am quite sure different people have different views.

Now, here is my choice, my pickings. Firstly, I am quite sure that whatever the definition of a developmental state may be, President Suharto, after inheriting this bankrupt economy from President Sukarno, tried to establish a developmental state. Not only President Suharto, but also other political leadership around him, including technocrats, tried to establish a developmental state. Actually, one of the early successes in bringing his vision of development to a reality was the Green Revolution, a Green Revolution that happened at least on the island of Java. Many people, of course, appreciate various effects of the Green Revolution, but the point that I would like to emphasize is the productivity increase in agriculture that led to income enhancement of the rural population, of the farming societies. I think that was the basis, on the basis of which Indonesian economic development took place afterwards, keeping, as Dr. Thee mentioned, the income distribution pretty even throughout the period. Even today, actually, throughout this 40-year period, the income distribution didn't change much.

The second point that I would like to make is the fact that Indonesia managed during this period, the Natural Resource Curse pretty well. This period included the period of oil and gas booms, and on top of that, Indonesia developed all kinds of natural resources pretty well -- in addition to gas and oil, rubber, palm oil, copper, coal, and tin. Indonesia is really a big producer of all these commodities. And Indonesia developed these primary commodities through its own SOEs together with multi-national corporations. To be objective, Indonesia was almost afflicted by this natural resource curse once, and that was soon after the first oil shock, when Indonesia's state oil company, Pertamina, tried to establish a petrochemical industry and all kinds of engineering industries around that. And that actually led to an enormous loss of resources, and also led to a balance of payment crisis, fiscal crisis, all kind of crises at that time. That crisis was gotten over actually by the technocratic group taking over the basic management of Pertamina, and by changing Indonesia's policy of external debt management quite radically. I think that was a great success. So, natural resource curse was contained in that way.

The third point which I'd like to pick out is this fact that Indonesia succeeded in building up a quite sizable manufacturing sector, and that success was not due to the kind of old style industrial policy as such. Indonesia tried, I think, the kind of industrial policy three times. Firstly, as I said at the time of the Pertamina crisis which was in the mid-70s. Secondly, in the 1980s by -- Dr. Thee mentioned -- Minister Habibie, who became President later, he tried to establish high-tech industries. And then thirdly, I don't know whether this was the result of the policy or not, but presidential cronies tried to establish industries in the 90s. All three episodes of industrial policy ended up in utter failures, really miserable failures.

And it was more the structural reforms, as Dr. Thee mentioned -- trade sector reform, fiscal reform, and all others -- and competitive exchange rate(you know, there were two deep devaluations in the 80s)--, which led to this development of manufacturing industry.

Let me just mention one last point which is related to the Asian financial crisis. The Asian financial crisis hit Indonesia the hardest, but actually that crisis was caused by three factors: the number one was the Asian financial crisis, the second was the El Nino, and rice harvest was very, very poor, which gave rise to social unrest in the rural society, and then thirdly, the Suharto regime was coming to an end. It was not the issue of if, it was the issue of when, to many people. So many people were sort of playing the endgame to Suharto's period, which caused this enormous crisis for Indonesia. As I said at the outset, I agree with Dr. Thee's story, and as he told, it was not a linear development. There were many crises of varying magnitudes and many setbacks, and this experience offers quite rich pickings when we consider the African development. Thank you.

Panel Discussion and Question & Answer

Sato: Thank you Professor Asanuma. According to the secret timetable, which the secretariat gave me, we should have started our discussion half-an-hour ago, which means that it's quite natural to have a gap between the blueprint plan and the reality, even in managing a meeting. I would like to start the general discussion by asking Professor Noman and Dr. Thee to briefly respond to some of the points that have been raised by the commentators, and then I would like to open the floor for general discussion and comments. So Professor Noman, please.

Noman: I'll be very, very brief given that we are already running late. I just wanted to make a couple of very quick points. Thank you very much, Professor Hara, for your very good comments, and I would like to discuss them with you separately, of course. I just want to make a point on this issue of pro-poor growth and of democracy. The point I think is that, I think the issue of -- well, one is clear is that growth is necessary for development; that if you don't grow fast, and you try all sorts of targeted poverty alleviation, it doesn't help in the sense that poverty ultimately can't be done away with without growth. This issue of making growth pr-poor is most relevant to natural resource rich countries in Africa. For those whose growth is not based on natural resources, you can't have rapid growth without growth in the small and medium manufacturing enterprises and in agriculture, which are very employment intensive and this is what makes growth pro-poor. The issue arises, I think, for natural resource rich countries where we have to worry about how widely shared the benefits of growth are.

I do want to pick up one of the points also made by Professor Asanuma, which is really the very great importance for Africa of learning lessons from managing natural resources well, and re-emphasize the point, which Professor Hara also made about the importance of appropriate exchange rates. I think I will just stop right now because I'd much rather allow more time for discussion and comments rather than take up more of your time. Thank you very much.

Sato: Thank you Professor Noman. Dr. Thee, would you like to ...

Thee: I would like to express my heartfelt thanks to Professor Asanuma for his very good comments. I'd just like to raise two points. First of all, about the first oil boom, 1974, the windfal oil revenues were dissipated because of the Pertamina crisis.

Pertamina was a state-within-a-state. It was headed by General Ibnu Sutowo, a general superior in rank to Suharto, who indulged in all kinds of ambitious and expensive projects, a floating fertilizer plant, a steel plant, and so on, and because this was the only state-owned enterprise which was not under the control of the technocrats. In order to prevent him from indulging in all his projects, they introduced a rule that Pertamina would not be allowed to accept long-term or medium-term loans from foreign banks. So Ibnu Sutowo tried to circumvent this by obtaining short-term loans. And in early 1975, he couldn't repay a loan of only $160 million to an obscure bank in Dallas, Texas. And that led them to a whole series of other loan defaults. In order to restore Indonesia's credibility, the government had to bail out Pertamina, which required that $10.5 billion from its oil revenues has to be used to bail out this enterprise. This experience was an expensive first lesson for Indonesia. .Only after this crisis were the technocrats able to exert full control over Pertamina .

Secondly, with regard to the Asian economic crisis, I would also add, Professor Asanuma, that we had, in addition to the currency and financial crisis, also the El Nino crisis which led to a drought, which adversely affected the rice harvest, and thirdly, the price of oil also declined. Hence, in 1998 Indonesia was hit simultaneously by three crises. . Unlike Korea and Thailand, the two other worst-affected countries by the crisis, the governments were replaced -- Thailand had a new prime minister, and Korea had Kim Dae Jung replacing President Kim Young Sam, Suharto remained in power. Suharto was reluctant to implement the IMF agreement, particularly the structural reforms, which meant actually the dissolution of his children's companies. Because Suharto couldn't contain the economic crisis, it resulted in a full-blown political crisis which led to his inglorious downfall. He ended his rule in similar disgrace like Indonesia’s first president Sukarno. Suharto's tragedy was Indonesia's tragedy. Thank you.

Sato: Thank you very much. At this moment, I would like to invite, especially those who are in the inner circle, to raise some questions and comments, and then, after that, we will invite all the participants from the floor. It looks like there are many. So we will go from Professor Hayashi. Please try to be brief so that we can have enough time for everyone.

Hayashi: I am Kaoru Hayashi, ex-JBIC staff. Since there are some gentlemen who were supposed to come from JBIC that are not present now, I'll speak on behalf of them. We came back from Brisbane -- the Global Development Conference -- together with

Hanatani-san, and we had there a workshop on the same issue, and we had more than 30 to 40 participants from Africa and other continents. I will just report to you the three points that our conference unanimously supported. Number one is the trade regime of the developed country matters. That is the key to the African development. Number two; yes, all of the participants supported the policy space issues, especially on the agriculture sector, agricultural cooperatives, and research, and extension activities supported by government, may be definitely required, when we talk about a new variety of rice like NERICA. And thirdly, capacity development, of course. Capacity development should be developed in parallel with the role of the states. I think these points are very important. Because time is limited, I just wanted to report to you what we discussed in Brisbane last week. Thank you very much.

Sato: Thank you very much. Professor Otsuka.

Otsuka: Thank you very much. I appreciate Professor Noman's presentation very much, which began with a discussion about market failures and government failures, and the right balance between markets and government. These issues are essential, most important issues, when we think about industrialization strategy, mainly because many economists do not support industrialization policy. Industrialization policy is very notorious, including I think industrialization strategy. The reason is that many economists believe that markets are working. In my understanding, the right balance between markets and government is achieved when government intervenes where markets fail. That's the right balance, I think. In this connection, there is no difference between neoclassical economists like myself and non-neoclassical economists like Professor Hara. So, in order to make the main message of this conference widely acceptable all over the world, or make the message influential, we really have to discuss about market failures -- where markets fail, and what these governments in Asia did. These are the essential lessons we should learn from the Asian experience for the sake of development of African nations. Thank you.

Sato: Thank you very much. Professor Ohno.

Ohno: Thank you very much. I have a question to Professor Akbar Noman. I completely agree in the way that you talked about the importance of not trying to stylize various issues -- Asian model and its application to Africa -- and I think that [I] share the consensus of that. You also talked about the importance of paying greater attention to the country in specific context in application of particular policies. So my question is what are methodological implications, or operational implications, for the international communities to work on that direction? In terms of general discussions, the World Bank has already been talking about country-led development and emphasizing country ownership. Are there any specific issues that need further improvement in the way that we work? For example, regarding Japan's aid, we can identify major efforts made by researchers such as Professor Hara, Professor Asanuma, and emeritus Professor Ishikawa, who have worked on Laos, Indonesia and Vietnam respectively, from a very long-term development perspective, building on trustful relationship with partner countries respecting mutual learning. So, I would like to know what kinds of operational or methodological implications can be drawn when the international community really wishes to do something to make a difference for the sake of supporting African development.

Sato: Professor Yanagihara.

Yanagihara: Thank you. First of all, to Professor Noman. Two-thirds down his paper, he presents the conceptual distinction between governmental capacity and governance, and that certainly is an important distinction. We all know that both aspects are important, but we are not quite sure how those two aspects can be discussed, and in policy domain, can be designed in a combined, integrated manner. So I believe this is one of the central questions whatever developmental issues you intend to address. But in the same paragraph, Professor Noman also talks about policy space, policy options, and regimes and leaders, and I am not quite sure how those other aspects he intends to discuss in relation to the government capacity and governance question.

To Dr. Thee, as an observer of Indonesia, I've learned so much over the years from him, and I have just one modest question to pose. Toward the end of his discussion in his paper -- not in his presentation, only in his paper -- he mentions a persistent urban bias in Indonesia's development. But we sort of see Indonesia as the exemplar case where urban bias has been minimized in terms of international comparative perspective. He cites the difference in poverty incidence across urban and rural areas. But to me, the presence of that difference doesn't necessarily indicate the existence of urban bias in the ex-ante policy scheme. I would like to have clarification from him to be able to learn the right lesson from Indonesia. Thank you.

Sato: Thank you very much. Since there are questions being raised, I would like to ask Professor Noman and Dr. Thee to respond briefly, and then we will open the floor.

Noman: Very briefly. Thank you for the question. On the issue of country operational implications or country specificity for the international community; first implication is, you know that, stop imposing too many conditions on Africa and allow them some space to try different policies in different country contexts. The other is very much the exercise that JICA is engaged in -- lay out and help elaborate what the policy options are, and what the trade-offs are, and leave it to the country. I mean, the job of technocrats has been to lay out the options and the trade offs and let the government choose or societies choose within broad parameters. I think there are some others very specifically: investment in infrastructure, aid for infrastructure, is very important. Aid for trade, assistance in facilitating trade, assistance of the kind that JICA and others are engaged in already, I believe in Africa, but I think there is a need to do more of that, which is provided specific technical assistance to governments in various fields and areas which require pursuit of industrialization policies.

I think on the distinction between government capacity and governance, how to distinguish it in practical terms and policy terms; what I was referring to here is, you see, the governance agenda has become an extremely ambitious and confused agenda in my view -- overloaded, too many things there. So I what I was arguing here for is, let's be practical and let's focus on the priorities. Where does governance capacity or governance issues, impact on the government's capacity to pursue right policies rather than make it into a holistic overambitious grand agenda. That is the point. Obviously, there is a relationship, you are quite right, between governance and governmental capacity. My argument really is that we should be focusing on that relationship rather than thinking of governance as an independent agenda, separate from the capacity agenda. So in fact, I completely agree with your point, which I think is very important. That's what, if I had perhaps more than 20 minutes, I might have made clear. But I'm very glad you raised that, and gave me the opportunity to clarify it. Thank you.

Sato: Thank you. Dr. Thee.

Thee: Thank you, Professor Yanagihara. Actually, back in 1976, the first time I read about the urban bias in Indonesia's development was in a World Bank report on Indonesia, which already observed several characteristics of Indonesian development, including a pronounced urban bias. More recently, Professor Anne Booth from the School of Oriental and African Studies, University of London, who has done a lot of studies on poverty and income distribution noted that, per capita, GDP levels in the urban areas as compared to the rural areas in the mid-1990s was on the average twice as high in the urban areas. There was also a pronounced capital city bias since Jakarta's per capita GDP was on the average three times as high as the per capita GDP in the rural areas. Some economists, notably monetary economists, have estimated that about 65% of the total money in circulation in Indonesia, a country of 230 million, is circulating in Jakarta, a city of more than 12 million. And you can see it. You have been to Indonesia several times. You go to Jakarta, 2008, and you see all these very opulent supermalls. You have nothing in Japan like that. Even so, your per capita is almost 30 times as high, since per capita GDP in Japan is about $30,000, while we have only a little more than $1000. I think our supermalls are even better than America's. That's why I don't believe in what the CBS says that Gini ratios have remained equal. Thank you.

Sato: Thank you very much. Since our regional focus today is on Africa, I would particularly like to encourage African participants to give your views, comments and questions, if any? Yes.

Mkandawire: ... in particular the African problem. But I think a larger issue is market failure argument. Just as life is not simply the absence of death, I don't think we should look at market failure as simply the absence of good -- I mean, the state is not a reflection of the absence of efficient markets. I think the state has a certain autonomy of existence. And we should also realize that the market has no social intention. It may have social outcomes, but it has no social intentions. Therefore, we must think of -- development is a willed thing. Countries want to catch up. It's not the market that wants to catch up. Societies want to do something. So, to judge the activity of states by simply deducing from the market failure argument, I think misses the fact that this is a pursuit of an autonomous social intention. You're simply correcting a market. You are actually doing something deliberately to catch up. And it's got all kinds of implications that might involve using the market, or not using the market. It's not a residual. A state action is not a residual factor. This is my view about this market failure debate between the two economists here. I think economists limit the role of state by looking at it simply as a corrective of market failure.

Sato: Interesting point. Other comments, questions? From the floor. Yes.

Ohno: My name is Kenichi Ohno from GRIPS. I just want to follow up this market failure thing. Market failure and government failure is a very important point in any country, but I think in development economics and the actual development scene, this issue has been discussed for a long time. Furthremore now in the 1990s, we -- "we" means the people in Japan -- started to discuss not the market failure, but the underdeveloped markets, or non-existence of markets. In other words, the market doesn't fail; it doesn't exist. So, I think that kind of scope is necessary.

Another thing I would like to say is that we are currently working with a British economist who says that the World Bank's governance is too broad, as Professor Akbar says. So what we need is growth-enhancing narrower governance. Particularly Professor Khan of SOAS says that bribery, rent-seeking, and corruption will not be eliminated in developing countries. If you eliminate them, the economy will stop ticking. So, the point is not to eliminate them, but to manage them so as to do three things: to increase investment rather than reduce them; to improve technology rather than not improve them; and thirdly to maintain social and political stability. I think these arguments are quite different from the argument that the lack of corruption is a good thing. This new view says that let the bribery and corruption and all these things take place, but the state should manage them to increase the investment. In that sense, I think the story from Suharto's latter years is that these are mismanaged to reduce the investment, reduce the technology and then create the social rift. That's just another viewpoint. Thank you.

Sato: Thank you. Yes.

Hirashima: I'm Hirashima from JICA. Let me point out briefly two points. One; the objective of this gathering is to learn a lesson from the Asian experience while focusing on the African experience, but we do not have sufficient knowledge about Africa. The setting up should be the other way around. I hope JICA will undertake a second meeting articulating the most important crucial development issues that African countries face today, and that they will try to review the Asian experience; not the other way around. That is comment one briefly.

The second. I think under the globalization process, the employment elasticity -- not only in Asia, but also in African countries -- has been going down in spite of the increasing growth rate in general. It means that employment-led growth is more important, relevant both in Asian developing countries as well as in Africa. Now, if you talk about employment-led growth, then the role to be played by the government is inevitable. From that point of view, the focus should be more attention, not directly as poverty alleviation, but on how the growth accompanies employment generation, which has been decreasing since 1970. Thank you.

Sato: Thank you. Other questions or comments from the floor? Or responses to any of the things that have been said? Yes.

H. Kato: I'd like to respond to one of the questions raised by Professor Hirashima just a moment ago. He said that we need to go to the process where the African problems and needs should be clarified. In fact, that is what we are going to do. When we started this exercise, the study members deliberately discussed this question. And in the past, we have tended to think of the Asian experience as a successful experience, and we tend to say, think that there must be some useful hints for Africans to learn from. But that's a very big mistake, and we should not repeat that kind of mistake. What we started with, the idea with which we started this exercise is that, since the economic condition, climate, in Africa is changing, and maybe the leaders and the private sector in Africa are starting to think about what kind of strategies they are going to take. And in that exercise maybe some of the lessons learned in Asia can be of some relevance to Africa. And we are not saying that here are a set of good examples of Asian economic development for the Africans to learn from. That is not the intention of this exercise. Thank you.

Sato: Thank you. Yes.

Miyaji: My name is Miyaji. I am now with the JICA staff but my base was the private sector. My one question is about protectionism. I understand, as Professor Noman said, the Anglo-Saxon started liberalism and globalization, free markets, and all were adopted by the advanced countries. But I don't think African countries, even South Africa, can take such a policy, because protectionism is one of the ways that a poor country or a small country will develop, because a hundred years ago, America did, Europe did, Japan did it after the World War II, and even now, partially, the USA is still doing it, and Europe is still doing it for agricultural products. That is one of the reasons why African agricultural products are not competitive enough. Every country has to take the protectionist way to some extent. That we have to support. Otherwise, I don't think poor countries will raise up. In other words, as an understanding, every country, everybody is trying to protect their industries if it is necessary. Even now, in the States, if they have the more imports from Japan, maybe ten years ago, twenty years ago, and now from China, they do it. They do protect their industries. That is done by the advanced countries. Then we mustn't say that Africa must not do it. That is my view, and I would like to hear your comments. Thank you.

Sato: Thank you. Professor Noman, would you like to?

Noman: Actually I agree with you. That's what I was arguing a little bit, in fact. But you know, you have to be careful -- like with all things, -- how to do it right. And that is why I think this notion of learning from successes and failures is very important. There have been a lot of cases of success with protectionist policies, also failures. Getting it right is the trick. And this is what in some sense the exercises that we are engaged in tries to throw a light on: how to strike that balance right, how to get it right. One of many important things is protectionism has often being accompanied by highly overvalued exchange rates. Now, that is one thing which is often not done well. It's gone wrong. And what in East Asia we learned was it's very important to get competitive exchange rates, and a whole lot of other things need to be done. It's all a question of phases and stages again. I mean, it's a context specific thing.

I'll give you one little story if I may have a minute, Mr. Chairman. I don't want to take up too much time. When I was talking a little bit about this importance of the "infant capitalist argument" as I call it, infant entrepreneurial argument, and how to use rents and allocate rents properly; around 1950, for example, Pakistan really had no industrial or capitalist class to speak of. What happened was you created a capitalist class by aligning rents with setting up industry. And at that point a highly overvalued exchange rate actually turned out to be quite useful. And then you introduced multiple exchange rates -- I don't advocate multiple exchange rates; they are a very complicated and messy. But the point was that what you did was, if you want to get rents, you have to set up industry. And you've got import permits and licenses to import inputs and to import capital goods, but not to just import consumer goods and sell them at highly overvalued exchange rate, which is what classically happened in Nigeria -- over-valued exchange rate was used merely to extract rents from importing. …. And then, the other thing with protectionism that is very important is that at the same time, encourage competition not just create monopolies. Again, it depends on the industry. In some industries it's much more important than others.

So managing a protectionist regime well is, I think, an important lesson to learn from Asian experiences, and indeed of development experience everywhere in the world.

It was after all, first treasury secretary of the US who invented this notion of infant industry protection, Alexander Hamilton, who was also, by the way, a former student at Columbia University. And the US put this notion into practice very well.

Sato: Otsubo-san.

Otsubo: About employment generation. This is something that I insisted on in the working group meeting. This is something that I insisted on yesterday. I am very glad that the floor also raised this point. Now, we were talking about growth, but we are also talking about growth with capacity building in terms of the market -- like, if the market does not exist, how to create the market. Now, in terms of the functions of the government, the capacity building, the government as the institution of coordination to coordinate that development, right? In that respect, the discussion of developmentalist, or developmental government or state is very interesting. Growth also with social inclusion, social development -- that comes from employment generation. If you talk about the other pillar of this TICAD IV meeting, it is human security. Employment is a first step for human security. As Professor Amartya Sen says, this is not just income generation, it is social inclusion. If you lose your job, even your family members will not talk to you. So this is the first point -- that we have to relate these growth-oriented strategies to social aspects of African development.

Now, in terms of employment generation, if you look back at the Asian experience, from the 1960s to 1970s, in only a ten-year period, one decade, the macro level, the gross savings rate, increased by 10% as you remember well. This is also the time that the population dividend was very strong. The population dependency ratio declined a lot. That was possible because Asia could produce employment continuously for the younger generation to come on board in the labor market. Recently, I visited Egypt to look at the Egyptian development planning. They have used Malaysia as a case study. Malaysia's savings rate increased to over 30% in ten years too. The Egyptian savings rate is 13, 14% at the moment, and in the IMF Article 4 document, it says it could go up to 20%. But UNDP Human Development Report says it has to go up to 30% to create the jobs to accommodate the younger generation coming into the labor market to provide employment to make growth human development. Therefore, I really wish that this working group will try to extend a little bit to talk about the employment impact, and to that extent, the combination of something like a JBIC project, an infrastructure project and how JICA technical assistance can be well orchestrated.

Let me give you just one more example. When we talk about infrastructure, when we talk about growth, we are not basically ignoring the social dimensions. When I did the survey of the impact of one of the big bridges that was built by JBIC in Bangladesh, when I visited the villages on the other side of the bridge, the village now enjoys things like bus services, public transportation. And at the bus terminal, there are small shops, pawn shops, which are supported by microfinance. Those village people come to those bus terminals to sell products. After a couple of years, their connection with the capital increased. Basically people do move around between relatives and friends, between city and rural area, right? In the end, many of the households decide to send their kids to an urban school for higher education. So, there is a profound social impact of only one bridge in the infrastructure. This is the kind of thing we have to sell as a Japanese aid strategy. Therefore, please do consider this in our last strategy draft. Thank you.

Sato: Thank you. I think everyone here is hungry now, so we should finish here and continue our discussion in the afternoon. I think there are many points, and I don't intend to summarize the whole morning. I just noticed two items. I would like to highlight two points. One is that context matters. And we are interested in the kind of a context that allows a productive combination of endowed factors, including geography and institutions. And also we are interested in how that can also be combined with external interventions like foreign aid. The second point was raised to me by Mr. Kato of JICA that we are not interested in exporting a Japan model or Asian model, but trying to use the Asian experience as a reference point. And again, what are the principles to highlight the important dimension of the Asian experience is something that we should continue discussing in the afternoon. So I would like to thank you all for your participation.

Session II : Prospect of Developmental States in Africa

Presentation: "Rethinking Africa's Development Path: Building a Democratic Developmental State"
OMANO EDIGHEJI, Research Director, Human Science and Research Council, South Africa

[Moderator: **MASUMI SHIMAMURA**, Associate Professor, National Graduate Institute for Policy Studies]

Shimamura: My name is Masumi Shimamura. I am an associate professor at the National Graduate Institute of Policy Studies. It is my great honor to be a moderator of this session in this very important international workshop. I hope you all had enjoyed lunch. Since we are all relaxed and refreshed, we would like to continue our session in a good atmosphere. There is one announcement regarding the procedure of this session. There is going to be a slight change from the morning session. We will invite distinguished Professor Edigheji first for his presentation, followed by Professor Toru Yanagihara's comments. And after that, we will take about 10 minutes to accept questions or comments from the floor before we move on to the next presentation. So now we would like to proceed with our discussion.

Let me first introduce distinguished and honorable first presenter, Dr. Omano Edigheji. Dr. Edigheji is a research director in Policy Analysis Unit, Human Science and Research Council. He was also a research manager at the Johannesburg-based policy think tank, the Centre for Policy Studies. He was a co-director of the Globalization and Governance Project, Graduate School of Public and Development Management, University of Witwatersrand. His areas of research interest include globalization, comparative policy, economy of developing countries, state and economic transformation, state-society relations, and South Africa political economy. Now we would like to welcome Dr. Edigheji for presentation.

Edigheji: Thank you colleagues. I want to thank JICA again for inviting us to share our thoughts on what possible lessons Africa can learn from the Asian experience. Thank you for giving us the honor. Also perhaps I should say that I feel very intimidated that I have to do this, to make this presentation, because my mentor, Thandika Mkandawire is here. His work has inspired me over the years, and he is presence here, and while I feel very honored that he is here, I am also very intimidated, because if I misquote him, he will correct me immediately. So, I don't have that privilege of misquoting him.

As you can see, my presentation is basically titled, “Rethinking African Development Path; building a democratic developmental state.” Basically this is the outline of my presentation. I'll make a brief introduction. Following the introduction, you will have a background that basically sets out the African developmental challenges. I will basically run through that very quickly. Then from there, I will go to the developmental state; a panacea for Africa’s socio-economic crisis -- it's a question that I am posing. Then, I will proceed to see what lessons can be drawn from the Asian experience. Then there will be some conclusions drawn.

I am going to give you these two quotes to focus our minds because that will be the gist of my argument. “The first examples of the developmental state were authoritarian. The new ones will have to be democratic.” I am quoting Mkandawire. Did I get that wrong? Then, this will be also a central thrust of my argument, that “every successful developmental state introduces its own innovation in the economic and social organization of the country and cannot simply afford to live on imitations.” In other words, replication is basically impossible, but we can learn lessons.

What is the African developmental challenge? I think we can talk about the socio-economic crisis of the continent, some of which have been alluded to so I am not going to go into that. But we also have, some of the crises that we have on the continent are what one can refer to as the governance deficit and the retrenchment of the African state. And as part of the structural adjustment program that was imposed on the continent from the 80s, even institutional arrangements that had some developmental officials -- it could be a planning agency or planning ministries -- were disbanded and a number of state enterprises were privatized. And I think what also was the worst was that ministries that were responsible for social delivery were mostly obviously affected by the structural adjustment program, and to quote Thandika again, they were dubbed “spending” ministries by the World Bank, and thus consequently, they relegated to the background. But this was also coupled, this was also in the context of one-party military dictatorship across the African continent, so that contributed to exacerbating the governance crisis that we experienced on the continent. From the 80s, a major misfortune for Africa and I think also for Latin America is that the dominant paradigm reduced economic development to economic growth. And closely associated with that was a false dichotomy that was created between economic policy and social policy. These synergy and complementarities that exists between economic policies and social policies were basically ignored and dichotomized. And I think along this paradigm, this social dimension of development was basically ignored or relegated to the background. And in general, basically the Washington Consensus did not really give much attention to the social dimension of development.

I think as part of the crisis that the continent had was that the immediate post-independent rulers basically saw what monopolized the development agenda, and they play a very active role, but they see themselves as the only agenda that can actually effect development in the process. Other social groups and social forces were considerably marginalized from the policy process. And in some cases, you had repression accompanied by this -- if you were to say anything, it was followed by repressive measures. However, it's part of the developmental crisis that we have experienced on the continent in the post-independent period.

At the turn of this century we have witnessed some changes. I think these are minimal, and I think they are sustainable in the long run if we continue along the path that we have been on. We have experienced some growth. We have experienced democratization. We have experienced some reduction of strife. Unfortunately, as we went about celebrating this, we have Kenya and Chad in our face. So, when I talked about the sustainability of the path that we are currently on, I think this also points to it. Also around the growth dimension is the fact that the current growth that we have, if you hold the commodity boom constant, I don't know whether Africa is actually experiencing any meaningful growth. Tragically for the continent, the democratization that I think we should welcome in its own right, unfortunately it has not resulted in the qualitative improvement of the material condition of a majority of the African people.

The developmental state in the African context; is it a panacea to our crisis? What I will do in this section is basically attempt to conceptualize what is the developmental state, what do we mean by this animal called a developmental state, and I will briefly respond to those that think that a developmental state is impossible in Africa. I will briefly respond to that. Basically there are three major strands of literature on the developmental state, what they mean by the developmental state. The first strand is the strand that emphasizes the ideological disposition of the political elite. And the argument is that the political elite have to have an agenda of developmentalism. To quote a famous Japanese academic, to quote Murakami -- I hope I pronounced that correctly -- he defines developmentalism, it means that the state, it tends to achieve industrialization through active industrial policy while simultaneously implementing policies to reduce income inequality, and at the same time, it tries to improve the material conditions of the people. I'm paraphrasing him. Unfortunately however, in the dominant discussion of the developmental state, the social dimension is ignored by those that emphasize the ideological orientation of the political elite. The industrialization part is what they emphasize. And a classical example in this regard is Manuel Castells, my colleague from Indonesia who highlighted that definition. The process of industrialization, our competitiveness in the global economy, is basically what is emphasized in that frame of mind.

The next strand of literature on the developmental state basically emphasizes the organizational or the institutional attributes of the developmental state. And I think the work of Peter Evans, in his most famous book, "Embedded Autonomy", basically captured this strand. So, there are basically three attributes. The one for autonomy that basically talks about embeddedness, but I think embeddedness has a major limitation, which I will highlight briefly. Consequently, I think they want synergy, that the state should have a synergistic relation, and it would be more appropriate, because embeddedness, if you look at the literature, embeddedness is basically the ties between the state and the business elite in the process of industrialization. In the process as was experienced in Asia, other social segments were basically marginalized. And also with that embeddedness, the focus was on growth, at least by the literature, not what happened in Asia, but that is how the literature seems to have characterized embeddedness.

Briefly, by autonomy, autonomy implies the presence of a high degree of state coherence that is able to formulate and implement developmental goals. Put differently, autonomy means the ability of the state to behave as a coherent collective entity, and is able to identify and implement its developmental goals. This is best exemplified in the literature, the focus on a competent bureaucratic elite, and that the bureaucratic elite have the defining characteristics of meritocratic recruitment and career paths for civil servants. But from the Asian experience, this was also complemented by the fact that the core bureaucratic elite were congregated in what [...] would call pilot ministries, or as some would refer to as a super-ministry. And the centrality of having a coordinating ministry or a super-ministry is that it enabled the state to coordinate it activities and synchronize policy across various departments.

Basically, that is what embeddedness is. But I think both of those conceptions of the developmental state are useful. I think the articulation by Thandika is the most useful one. And this is how Mkandawire defined the developmental state. The developmental state is one whose ideological underpinnings are developmental, and one that seriously attempts to construct and deploy its administrative and political resources to the task of economic development. I find this more useful than the one that focuses primarily on either the organizational attributes of the state or the ideological orientation of the developmental state.

There are people who argue that the developmental state is impossible,that Africa cannot have a developmental state. And they give a number of reasons. And I want to also refer to Thandika's work that for these number of reasons, they argued that Africa cannot have a developmental state. But for a number of reasons, there are problems with such assumptions. One of the problems is that some of those arguments are part of the ideological disposition of the proponent and they cannot in any way be empirically supported and to a large degree, they were part of also the neoliberal attack on the African state.

Secondly, people say that because of corruption, Africa cannot develop. I don't agree. I don't think that argument can be supported if we draw on the Asian experience. As we know, some in the West dubbed the Asian experience as crony capitalism. But the same Asian experience that they dubbed crony capitalism also achieved remarkable successes. So, if Africa is to learn from the Asian experience, you can develop in spite of rent-seeking. And there is a major consensus in the literature that says rent-seeking can be development enhancing. For on elaboration of this, please look at the paper.

Then secondly, the way some of the arguments about Africa not being able to construct a developmental state, they tend to assume that the developmental state was created by God, it is ordained, and maybe there is something genetically wrong with Africans that they cannot construct a developmental state. But as I pointed out yesterday, a developmental state is a product of hard political contestation among various contending groups, and if we have political contestation in Africa, it might be possible to have a developmental state.

Then, I think that for those that make the argument that Africa cannot have a developmental state, one of the things that they miss is that the first generations of African leaders were actually developmentalists in their orientation. And if you also look at the records of the continent at the time between 1960 and 1975, there were remarkable successes, and they established what I will refer to as an embryonic institution of the developmental state, but they were tragically dismantled in the [...]. So, that is a brief response.

So, what lesson can Africa learn from the Asian experience? The first lesson I will argue is that institutions matter. The way you recruit your bureaucrats, the kind of incentive you have for them and the degree of coordination matters. Basically, this is just to show a simple regression analysis that shows the positive relationship between state autonomy and economic growth. The data for the autonomy is the data by Peter

Evans, which is on his web site, and it's for the period between 1970 and 1990. Some people might argue that the period is too long. But we all know that institutions are highly inelastic. Then there is the growth period between 1991 and 2001, and basically I was just trying to use it to show , to talk about causation.

You can make the same argument that state autonomy also has a similar impact on growth. We can see the Asian experience, where they are. In the graph, you can see that the higher the degree of autonomy, the more equitable they are. So, one lesson that we can learn from the Asian experience is institutions matter. And as Japan wants to reflect on this subject, there is a need to focus on institutions.

During the Asian experience, I will argue that manufacturing was the main sector. It contributed the highest share to GDP, and it absorbed more labor. But in the 21st century, that is not the case. If that is not the case, a lesson that Africa might want to learn is to focus -- if they want to compete in the 21st century, they may have to focus to a large extent on enhancing the human capability of their people. It is one area where there should be a considerable amount of focus.

Then the other point I want to make is that in the 21st century, I think in the African context, there are a number of reasons why the state cannot only be developmental, but it has to be democratic. First, some people are wary of the developmental state in Africa because they said it was autocratic or authoritarian, and that accounted for Asian development. I have not seen any empirical work that shows the relationship between authoritarianism and development. And if authoritarianism accounts for development, then Africa would have been one of the most developed regions in the world. So, perhaps we may have to look at other variables. But I also want to argue that authoritarian developmental states are not sustainable in the long run. We saw that in Asia. Korea is a good demonstration of that. In the 90s, we saw people protesting in the streets. We saw what happened in Indonesia. So, in the long run, if you really want to sustain, to have sustained accelerated growth, you will have to ensure that you focus on, that you democratize the state.

Then, a point that is generally missed in the literature on the Asian experience -- and it is not because of what Asia did, it is because scholars seem to have ignored the social policy component of the Asian experience. Just to give one or two illustrations, in Singapore, about 80% of the houses today are built by the state. Those are a part of the social policy component. And also to just focus on the welfare aspect might be missing the point, because there were a range of mechanisms that the Asian states used, that were a part of the social policy, and all of those contributed to the development.

I am going to skip this to conclude because my time is up, but I think those are some of the things that we may have to learn from the Asian experience.

So, what is the central thrust of my argument? That Africa will have to do two things. One, as we talk about an industrial policy, it has to be complemented by a social policy. And secondly, also given our history, given the dehumanization of the African people starting from the colonial period and in the post-colonial period, by one party dictatorship, a military regime that dehumanized the African people, it would be intolerable and unacceptable for us to have a developmental state that is repressive. Consequently, you will need a developmental state that would be able to carry the African people along. Thank you.

Comment: TORU YANAGIHARA, Professor, Faculty of International Development, Takushoku University

Shimamura: Thank you very much, Dr. Edigheji. I am very sorry for the limited time, but we still have time duirng the discussion session, so please make some of the supplementary explanation and presentation during the discussion session.

Now, I would like to welcome a distinguished commentator, Professor Toru Yanagihara. He is a professor at the Faculty of International Development at Takushoku University. So please.

Yanagihara: Thank you very much. Let me start by expressing my gratitude to the organizers for inviting me to this worthy joint venture, and it's a distinct honor to be able to be assigned as the commentator to Dr. Edigheji's paper and presentation.

This paper addresses big issues, and we need to continue to grapple with the propositions Dr. Edigheji has presented and shared with us. Let me start with the biggest of the big issues, that is, a democratic developmental state. First of all, is the premise that in Africa by now, most of the countries are democratic? That is, when you speak of democratic developmental state, democratic part has already been achieved, or it has to be achieved concurrently with the task of becoming developmental? That's one question for clarification in a big scale. And related to this, I have a couple of additional questions. One; does democracy or democratic competition could work favorably for the formation of a developmental state? That's a general theoretical question, but in terms of empirics, you have mentioned number of cases from Africa where you already see democratic developmental states, and that is Botswana, that is Mauritius, that is South Africa. And in those episodes, is it the case where democratic states have become democratic developmental states? And if so, in what way? The fact that they were democratic was a factor, a positive factor in having themselves turned into a developmental state. Sort of corollary to that is the understanding of the nature of government mostly in terms of the executive branch, and the broad picture is that after the independence, there were initial periods at least in some countries, of embryonic developmentalism, which was not democratic. But whatever there was of developmentalism in terms of idea, in terms of institutions, were wiped out during the two decades of structural adjustment; 80s and 90s. And that episode needs to be re-examined. Can you restate, rephrase that episode of 80s and 90s in terms of the decisions of the executives, or decisions of the political elites? And now, in the new millennium, new century, what are different about those policymakers, those executives, who decided to go along with neoclassical stabilization cum adjustment, why could they now be persuaded to become developmentalists? So, those are my questions. Thank you.

Panel Discussion and Question & Answer

Shimamura: Thank you very much, Professor Yanagihara. Before I get back to Dr. Edigheji, I would like to ask for a couple of comments from the inner circle panels or from the floor so that Dr. Edigheji can answer some of the questions that were raised by Dr. Yanagihara and other people from the floor. Do you have any comments or questions? Yes, please.

Noman: This is really this notion of the developmental state and industrial policy have to be complemented by social policies. I am not quite sure exactly what that means, and are you in the risk of overburdening the agenda? Thank you.

Shimamura: Thank you very much. Any other questions or comments from the floor? Now, let me get back to Dr. Edigheji for some of the responses from the commentator and the panel.

Edigheji: Thank you to both the discussant and Professor Noman. Let me start with the last item. We have to find a way to distinguish the developmental state from the Washington Consensus. And if you look at the policy orientation of the Asian experience, you will see -- let's take Malaysia as an example. Malaysia was one of the few countries that explicitly committed itself to reducing poverty and to also addressing the question of inequality, racial inequality. They put a number of measures in place to be able to address that. The Washington Consensus wanted to ignore those social dimensions. The argument that I am making is that we have to have a correct reading of the Asian experience. And if there is one lesson that we can learn from them, that is, one lesson that we can learn from them is that there was a strong social dimension to their developmentalism. And I am sure the work by Linda Weiss points to that. Also the work of Root and Campos that talked about shared growth. The importance of also a shared growth, which is the argument that they make in that book, which was also true, was that, making ordinary people to have, it made ordinary people have a stake in the developmental agenda. If you just want to have growth, growth, growth, growth, you are going to have maybe a country like Argentina in your hand one day. So, in the long run, the sustainability of your industrialization will considerably be dependent on, I will argue, will considerably be dependent on how you made every person in the streets to have a stake in that. And they are not just going to have a stake as spectators. There must be something in their belly. So, you need the social policy dimension. I am sure Thandika will also in his presentation touch on some of those issues.

The responder; you asked me a number of questions. I'll see how effectively I can address them, but let me try. I think the first one was, democracy; has it been achieved, or does it have to be achieved along with developmentalism? This is one area where I don't believe in sequencing -- that you should sequence between development and democracy, or you should have a tradeoff. As I pointed out here yesterday, me having the right to just come to this place, [...], in a military regime, seizing my passport because of what they think I'm going to say, or throw me in jail when I get back to Nigeria is something good in its own right. So, democracy is good in its own right, I will argue. But I am not limiting myself -- if you've seen my writing on this subject -- I am not limiting myself to a literal democracy alone. It also requires substantive democracy. As we have this discussion, we should also not limit ourselves to the Asian experience when we talk about a democratic developmental state. The Nordic countries are a good example of countries that promote, that simultaneously promote democracy and development. There were no trade-offs. And we all know the impact today. So, I think for me that would be the way I would address that. There are lessons that we can learn from the Nordic countries. You can do both at the same time, and they are not necessarily contradictory.

If it was about two years ago that I was here, I would have been more confident about the statement I am about to make, that I think there is a new generation of African leaders, and the discourse in the continent seems to be changing. But I don't know whether I can go too far given what I am seeing in Kenya. But besides that, I think that for the average African, we have learned a number of lessons. So, what is happening in Kenya is a demonstration of the fact that we are not prepared. Africans are not prepared to accept such behavior. A similar thing also happened in South Africa recently where the ordinary members of the ANC thought that Thabo Mbeki centralized so much power around himself, and that the government was becoming an elite government. And he wanted a third term. The ordinary members of the ANC said, it's enough, you are not going to get it. So in effect, it is not just persuading the African leaders. It is about what the electorates are demanding. And it is in that context that a democratic developmental state cannot be reduced to elite packing. It will also have to be accompanied by the empowerment of ordinary people. So as we talk about capacity development, which should not just focus on the state and the private sector, but the civil society component, the sustainability of any developmental agenda, I think in the long run, would be dependent. If not, you are going to have

Kenya on your hands.

I don't know whether that is the way I can attempt to address some of the questions that were addressed to me. But I think you've focused on an important point, which is that the focus of the discussion of the developmental state is limited to the executive arm of government. I am guilty of that, and I think most of the literature that I'm aware of, they are guilty of that too. The other branches of government seem to be ignored, although to a degree Chalmers Johnson in his work on Japan somewhat touched on the legislative arm. But the dominant literature focuses on the executive arm. But perhaps we have to pose the question -- it's something that you might want to explore -- what should be the role of the legislative arm? What should be the role of the judiciary? I have not thought that through myself, so I don't know.

Presentation: "From Maladjusted States to Developmental States"
THANDIKA MKANDAWIRE, Director, United Nation Research Institute for Social Development

Shimamura: Thank you very much, Dr. Edigheji. We would like to continue our discussion after the next presentation is over. Thank you very much.

Now I would like to welcome Dr. Thandika Mkandawire. Dr. Mkandawire is Director of United Nations Research Institute for Social Development, an autonomous UN agency in Geneva engaging in multidisciplinary research on the social dimensions of contemporary problems affecting development. He is an economist with many years of experience in promotion of comparative research on development issues. From 1986 to 1996, he was Executive Secretary of the Council for the Development of Social Science Research in Africa at its headquarters in Dakar, Senegal. He was also a senior research fellow at the Centre for Development Research in Copenhagen. He has published broadly on social sciences in Africa, and on problems of policymaking, adjustments, and democratization. So, now I would like to welcome a distinguished speaker, Dr. Mkandawire.

Mkandawire: I have no PowerPoints primarily because I believe, I've been made to understand that absolute power corrupts, and PowerPoint corrupts absolutely, so I'm not using PowerPoint. Let me say at first that, like my African colleagues, I would like to thank the organizers, for instance JICA, for organizing this event. I hope it is a part of a long-term effort for interaction between Africa and Japan.

Japan has historically been very important to African thinking, perhaps more than we realize. When Japan defeated the Russians in 1905, the early nationalist movements in Africa were very aware of the event, and there were expressions by Africans of solidarity with the Japanese people, because this was the first time they saw a non-white country was defeating a white one. So we have always been aware of the Japanese event. I think also it's very important that this passed a message to a fellow African, that we ought to find ways of directly reading and learning from the Japanese themselves, because what we are doing now we can do through Europe. We learn -- things are filtered for us through Europe and to Africa. We do not have institutes of Asian studies in Africa, where people actually on the own study Asia, and I think we ought to think about, and that maybe one thing we can persuade some foundation or some institution in Japan is to be interested in having that facility.

My topic is something called maladjusted states to developmental states, and let me just preface that with a general statement. In the last five years or so, there has been a whole literature of mea culpas where different people explain what they have done wrong in Africa. I can just give you a list. For instance, it's now admitted by almost all of the donors that it was wrong to take over policy in Africa. So, now they talk about giving back policy to the Africans; ownership as they call it. Also, that it was wrong not to invest in infrastructure. That it was wrong not to invest in higher education. That it was wrong to liberalize accounts before you organize, say, your fiscal state is in order. It was wrong to liberalize before regulatory capacity. There's a list of wrongs. And I would argue that those wrongs, if you put them together, they create an economy, an economy that is severely maladjusted. It's very much like having surgeons who make a mistake on your face. I mean, they operate on you and after 10 years, they say, okay, we were all wrong. I think they will have produced a very strange face after those mistakes. And I think this is where, as we try to move forward, we have to be aware of our initial conditions now, and these are initial conditions that are an accumulation of mistakes, which are now extensively accepted by the donor community -- and I can document that if you wanted me to -- and that those mistakes, I would suggest, create an economy, which in many cases behaves very funny. In some cases, we realize, for instance, economies are not even able to respond to favorable conditions, because a number of things have happened. Maybe roads have collapsed, so if you raise prices for peasants, there's no response because there are no roads, and so forth. So, I think it's very important to... So, I'm taking only one part of that maladjustment, in this case, the state, and I will be arguing pretty much that for us to think ahead, we have to realize what kinds of maladjustment have taken place why they've taken place and how we can go forward.

The first round of maladjusting the African state occurred immediately in the early 80s, when the idea of getting prices right became the core part of structural adjustment. The story then was that if you reduced the size of the state, or you rein in the state, and let the market function, you will have what was called accelerated development. I saw this expression in JICA, which was accelerated and sustained development. Africa has been promised before by the Berg Report by the World Bank in 1981 an agenda for accelerated development. We didn't get it, but anyway, the point is we have been there before a little bit. And the immediate effect of that understanding was a reduction of the state. So, there was a drastic reduction of state services in many countries. The civil service was reduced, and so forth. And according to a World Bank study in 1996 by Schiavo-Campo, one of the effects of that was that Africa became the least governed part on earth. There was in Africa at that time, there were 1.5 civil servants per 100 citizens as compared to about 3 civil servants per 100 citizens in Asia, and more significantly, as compared to 5.5 and 5.8 in Mauritius and Botswana respectively. That is, the fastest growing economies in Africa had the largest number of civil servants per citizens than the rest of Africa. The World Bank admits that was a mistake and says, I quote, “sometimes the Africans tended to overshoot the mark”; that we were so excited about cutting down the civil servants, we went too far.

The second part of that of the same phenomenon was the collapse of public investment. The argument at that time was that public investment was crowding out the private sector, and there was a drastic fall in public investment. And more significantly, it fell in two important sectors, infrastructure and human capital. Again I can cite 20 years on, explanations by, this time by the Blair Commission, or Africa Commission by Blair, on what went wrong, and there they talk about, they say, serious policy mistakes driven by the international community have undermined growth prospects and generated a substantial backlog of investment.

On human capital, there was what I have called somewhere a voodoo economics, mathematics, which proved that the rate of return for primary education was higher than higher education, and therefore in 1986, a document was issued that led to many donors to pull out of funding higher education, including foundations. They all left because of that analysis. And later on, the Bank discovered that actually to have primary school education, you need teachers, and that requires secondary schools, and that requires universities. And they also found out that the new agenda on good governance requires universities, and so forth. So again, in 1997 there was a report by the World Bank called *Revitalizing Universities*. This was after ten years of destruction. We were told this was a new thing.

But towards the end of the 1980s, there was a realization that although many countries in Africa had begun to adjust, or had adjusted quite substantially actually, in terms of following through with liberalization, and although some of them had reduced their public expenditures and had reduced government deficits, economic growth was not taking place. So, another round of studies came out. In 1989, there was a study produced by the World Bank that was very important because it was the first time the World Bank mentions the word “governance”, “good governance.” The argument there was that the reason why this adjustment had not worked was because governance was missing. And so governance became a major issue in policymaking.

One very important thing, and I've written a very small article on this, was that the governance agenda actually came from Africans. This is the paradox of the situation. The World Bank in 1988, I was at that time in Dakar, came to ask my institute why were African scholars against adjustment, and we recommended names of people they should talk to. So they asked African scholars, people like Claude Ake, Mazrui and so forth to write what they thought was wrong in Africa. Actually, the World Bank published the papers in a two-volume paper as an attachment, sort of as the background papers to the report in 1989. And the Bank states in its introduction, thanks the Africans, for pointing out the issue of governance. What the Africans meant, and this was common knowledge in African intellectual circles, was that the state-society relationship in Africa was wrong. It was not the price, getting the prices right. It was getting the state-society relationship right, and hence the need for accountability. Unfortunately, what we thought was accountability was translated as accounting, which is not exactly the same thing. But what was interesting, however, and within the Bank itself, the economists were not very happy with the report, because the report was shifting away from the price agenda to the governance agenda. Although it was talked about, it was actually ignored until 1994, until much later, when the Bank then took on institutions in the language of the new institutionalists by people like Douglas North, where institutions became important to answer a very important question of structural adjustment, which was, why was investment, private investment, not responding despite favorable conditions in terms of liberalization. The answer was because we have no institutions to guarantee property and to ensure predictability. So, the debate then became about institutions. Hence, from the mid-90s, the big question became good institutions. Central banks were made autonomous, stock markets were introduced in most countries in Africa, property laws were rewritten, there was a lot of funding by the World Bank, judicial reforms came in, and so forth. And we made those reforms. In many countries, reforms were made. And if you look at the indicators of Africa on governance, in many cases we outperformed a large number of Asian countries in terms of property rights, democracy indicators, you name it.

However, things didn't work out very well either. We have done institutional reform. Still there was no massive response by the private sector, and much of the investment was still going into mining, and [...] was going into manufacturing. So, a new debate started, why, what went wrong with institutional reforms. One group said it was geography -- the Jeffrey Sachs group -- that geography; the mosquitoes, and the soils are bad, and so forth. And Jeffrey Sachs has written quite extensively now talking about infrastructure and mosquito nets and so forth. Others said it was our culture. Others said ethnic diversity is complicating our lives; there were too many of us, too many ethnic groups, and so forth.

My own argument was that actually what went wrong was not that we need institutions. We know now, or at least we have always known, except perhaps neoclassical economists, that you need institutions. The excitement about institutions in neoclassical circles is a mystery to me because since I studied economics, I always thought you needed institutions. But anyway, what was wrong was not the fact that there was concern with institutions, what went wrong was the type of institutions that were introduced. And I would argue a number of factors about why we ended up with bad institutions.

One was we continued, despite the talk about ownership, we continued with the idea of foreign control and disembedding the institutions from society. There was a view that if you create institutions that are isolated in some sense, that are insulated from rent-seekers and political actors, you will have good institutions. And so we have our institutions -- a number of them now, and increasingly so -- that are being ring fenced. They are supposed to be autonomous, but they are only autonomous with respect to local actors, but not with external actors. A number of our central governors go to Washington with their CVs in their pockets so they can get a job in the IMF. But the point I'm trying to make is that autonomy is not in respect to outsiders, but in respect to their own internal activities. I think we know now from the literature on the developmental state that embeddedness is very important, that your institutions, they must be, in some sense, socially embedded if you are going to function. Otherwise, they sit like islands with all the best pronouncements and no impact on society at large.

The second problem was what Evans has called monocropping, where the same institutions are introduced across the world. And the institutions that were chosen in our case were largely so-called Anglo-Saxon institutions, because they were supposed to answer the question of, why is there no investment. And the idea was property rights and credibility, and it was argued that the best institutions for that were the Anglo-Saxon institutions. And so we've had that kind of reform of the introduction of monocropping. We also have learned from the Asian experience that there is no such thing as standard institutions. Each country must devise institutions according to its history, according to its context.

The third argument, the third thing wrong about institutions was what I have called monotasking. By monotasking, I mean, insisting that particular institutions only have one task. And in this case, the attempt has been to make major key institutions to evolve around answering the questions about property rights and investment. So for instance, the funding of reforms of the judiciary is more about property rights or commercial law, and it has been much less about justice, about fairness, and so forth. We have, of course, the classic example, or the worst example, I think, of the independence of the central bank, where central banks are now reduced to do only one thing -- to fight for inflation -- when in fact, historically, central banks have played many tasks. We even have cases of democracy where people argue for democracy, not because it involves representation, but because it's claimed now, which is quite strange, that democracy is good for property rights. So what we are seeing are institutions that normally perform many tasks being forced to perform one task. And this has had consequences for poor countries. The monotasking has produced institutions that are wrong in the sense that they are not institutions that you find in any country that we know of as a developed country. That is why in the literature on institutions, you get this very strange thing that they call the China Paradox, because China violates all of the debates about new institutions, and is doing well. So, we've created a funny paradox for ourselves, because we define things silly, and then we wonder why China is working.

We also have had what I call institutional instability. There has been so much experimentation on institutions in Africa. Almost every government comes up with its own institutions and experiments for Africa. One function that we know about institutions is that they are supposed to provide a sense of stability. So, if they are unstable themselves, how do you expect them to perform that role of stability?

The third thing about our institutions that's happened to them is that the institutions, because of the way the governance agenda has been advanced, partly to restrain so-called local rent-seekers, and so forth, it has tended to be more restraining institutions rather than transforming institutions. A developmental state does not only restrain, it transforms, it facilitates, it encourages. It's more than just restraining. So, what we have now is a bunch of institutions that are supposed to be restraining institutions, not developmental institutions.

From there on, I think the answer to our future, of which I think this debate is very important, is of course to think about a developmental state, and that requires, I think, once again, regaining initiative and regaining sovereignty. And I would advise in the discussion in Japan to rethink very much the notion of technical assistance, and how to make a difference. Some years ago, Dudley Seers wrote an article that was called "Why do visiting economists fail?" I think ten years on, Streeten wrote an article that was called "Why do failed economists visit?" The point is that we have to learn that capacity building cannot be forever. Africans have been hearing this word capacity building since the 60s. Somewhere along the line it must stop. I mean, you can't go on forever like that. And I think that if the Japanese are going to be involved in this, they should think deliberately right from the beginning of an exit strategy, about how to get out of the process, and not building a mechanism that makes it eternal, which is the problem we have today. And I think also finally, the idea of the -- which was brought up -- I think I shouldn't say very much about that -- to rethink the relationship between the private sector and the public sector in Africa. We've now learned that being pro-market is not the same thing as being pro-business. What the Bank told us in the 80s was that if you are pro-market, you'll have business. We have learned that it's not true. You have to have very clear policies that decide which businesses you want to promote, to do what, and that's very different from simply being pro-market.

I couldn't avoid touching on two things, and I will very, very quickly. One is the social policy issue, because my institution works a lot on that. All late industrializers have either explicitly or implicitly a social policy that backs up its project, whether it starts from Bismarck on, you just have to. For many reasons. One; social policy is a major instrument for transformation. It educates your people, maintains their health, houses the workers, and so forth. Secondly, it's a major source for mobilizing savings. Some of the largest savings in these poor countries are pension funds, and those pension funds have been used in, kind of like Finland -- Finland was electrified using pension funds. Thirdly, to manage conflicts, you need social policy. Rapid change is extremely volatile socially. If you don't manage it, you get what we call the Kenya problem. And my pet project; democracy and development. I actually believe that Africans are condemned to be governed democratically or fall into chaos. I think that Africans are difficult to govern any other way other than democratically for many reasons, and I won't go into that. But as Omano says, I personally value that in its own right. I think we've learned now that the great trade-off between democracy and development is not true. Historically it was contingency factors that made it appear as if it was a universal good. But we do know now that democracies have done very well. So, there is no iron law about democracy and development. And I think we just have find out either if certain things that authoritarian regimes did were important and inherent to their rule, we have to find things that are functionally equivalent, that do the same thing, but that are compatible with democracy. And the human mind must be creative enough to find as much of that as possible.

Prospects for Africa. Africa has very rich resources that we have yet to tap intelligently. We also have, I think, today an improved human resource base. Many countries like Zambia became independent with 44 university graduates. Today, there are a much larger number of people [...]. Thirdly, I think Omano said, and I fully agree with him, that there is a much greater sense of change in the leadership in Africa of accountability, of, for many reasons. Some of shame. I mean African leaders are ashamed going around as beggars. No head of state enjoys being a beggar. So, there is a debate about dignity within Africa. And finally, there is a debate about accountability. Last week's conference of African heads of state, which was very important to us [...], the main issue was industrialization. That was the main topic. So, I think the Japanese interest comes at a perfect time. That is a big concern in Africa. We do not nowadays see meetings of African heads of state where leaders are competing on how many medals you can have on your lapel. You know, we used to have the days when Idi Amin had twenty, and Bokassa forty. That's over now. We have much more intelligent leaders. And then of course there are new global players in the world, which has changed the dynamics, with the China factor, the India factor, the Japan factor, of course again. So, I am much more optimistic than perhaps most people are. And I think the lesson of Asia is the importance of originality. There is no written textbook on how to develop. You can learn. And since we are the last, last, the late, late industrializers, we have more opportunities of jumping many stages. And that means learning how to jump faster than your previous... And finally, thank you once again for this opportunity to be here. And thank you kind chairman for giving me three minutes longer than I should have.

Comment: IZUMI OHNO, Professor, National Graduate Institute for Policy Studies

Shimamura: Thank you very much, Dr. Mkandawire, and apologies for the rush. I really appreciate your insightful presentation. Now I would like to continue, and welcome comments from Professor Izumi Ohno. She is a professor at the National Graduate Institute for Policy Studies. So please.

Ohno: Thank you very much. I really enjoyed listening to your presentation as well as reading your fascinating paper. Despite a lot of discussions on East Asian developmental states, so far those discussions are largely confined to closed circles—either the researchers and policymakers in East Asia or those in the West. So, I think it is very important and quite welcome that those issues are brought up from the African side. Also, this is very timely in a sense that growth interest in Africa is back on the hot agenda. You have provided not only a critical but also a convincing view of the past debates on how economic policies and governance agenda have been formulated, largely driven by the Washington Consensus, or you said Anglo-Saxon way of thinking. These may be donor-driven models. And I really agreed on your message that Africa must try to think about how to introduce a developmental state, taking account of originality of Africa and the African context. This is so particular because you have rich national resource endowments; and you have a cadre of good educated human resources. Moreover, you need to consider today's globalization and the democratization context. In this context, I think Dr. Omano Edigheji's presentation on democratic developmental state is very fascinating. So, I fully support what you have said. Nevertheless, for the sake of wider discussions, I wish to raise three sets of issues.

The first issue is that despite your convincing presentation, not a few people remain pessimistic about replicability of introducing developmental states in Africa. Today, among ourselves, we have discussed a lot about developmental states. But those people who are cautious about developmental states, for example, researchers including Nicolas Van de Walle warns that under the existence of neo-patrimonial states , how can we make sure that kinds of right policies be implemented in a right way,. Some also note differences between Asia and Africa, for example, the historical formation of states since the notion of the nation state is very thin yet in Africa, or the sparsely populated country, which makes Africa quite different from the way Asian states and population have worked together, etc. So, I would very much appreciate your additional arguments, if possible, how we can convince those people who are pessimistic.

The second issue is the need for the in-depth discussions on governance. Like you, I am optimist on the debate of developmental states, and I think that the developmental states can be introduced in Africa, adjusted to country-specific, original context. But, we also need to go into much more specifics, beyond the conceptual level -- so, how to built effective states for promoting growth with equity consideration. As far as I understand, in recent years, several interesting arguments and approach have been presented by researchers and policymakers, and I want to get your views on that. Maybe there are about three approaches. One is good *enough* governance, not good governance. Good *enough* governance, according to Prof. Grindle, is about the minimum conditions to kick off growth. What are good *enough* governance is? For example, Professor Mushtaq Khan of SOAS suggests why don't we focus on selected elements of governance, i.e., growth-enhancing capabilities, instead of asking developing countries to realize whole sets of comprehensive ambitious governance. This point was also mentioned by Professor Akbar Noman. Prof. Khan says that there are several capabilities critically important for growth promotion and that these include state capabilities of transferring the rents to the productive investment, creating new rents through technology learning etc., and sustaining the political and social stability. These are kind of hints suggested by several scholars, and I would like to know your views on desirability of focusing on growth-enhancing governance capabilities when you talk about governance and capabilities that developmental states should possess.

On this point, another approach would be to identify some of the informal or indigenous factors embedded in the existing systems and to try to utilize those systems so as to work for developmental purposes. One of our study group members, Professor Yasutami Shimomura, Hosei University—although he is not present today—emphasizes this point. Professor Noman also talked about why don't we think about how to socialize the risks involved. So, we may wish to pay attention to this kind of approach, too.

The third issue is the argument for the need to pay greater attention to the actors or human agents, rather than structural and institutional elements. This is because human agents are critically important, driving drive changes and adapting the situation to the actual realities.

I understand that Professor Leftwich in York University has been trying to look into the role of leadership, as well as the coalition between leaders and elites, because those are the people who, with the understanding of the country context, try to work with various stakeholders to make the country developmental. Professor Leftwich suggests that we try to look into the role of key actors, not just talking about the institutional framework or structure, So, this might be another approach. I would really appreciate your comments on such views.

Lastly, let me mention a few words on democratic developmental states. I think it is a very fascinating topic, but I am still struggling with how those can be compatible. Again, Professor Adrian Leftwich says that although he appreciate the value of democracy, sometimes development and democracy work in a very different way, because development needs the accumulation and concentrated management of resources and changes. But, democracy may not facilitate the accumulation of resources and also make it difficult for radical changes to happen—since, you need to get consensus from various stakeholders and it may take long time for decisions to be made. So, he poses a question whether and how democracy and development are compatible. With this understanding, my question is that how the ideas on democratic developmental states can address Professor Leftwich's points. One of the possibilities could be to try to loosen some of the democracy criteria. Of course, you don't want to go back to the time of military oppression. That's important. And of course, we need to respect the electoral process to provide the contestability and the accountability to the administration. But for example, if we have good leaders, is it not bad ideas to let them assume the position for longer—maybe second or third terms—through electoral process for example. Or we may wish to discuss the appropriate speed of decentralization. We do not have to deny all elements of democracy, but is there any possibility of making democracy compatible with developmental, so that the country can have a national vision and accumulate and mobilize resources. This is kind of issues which I want to raise. Let me reiterate my sincrere thanks for the wonderful provoking, inspiring presentation.

Panel Discussion and Question & Answer

Shimamura: Thank you very much, Professor Ohno for very stimulating and passionate comments and questions. Now, I would like to ask Dr. Mkandawire first to give brief response, and then, turn to Dr. Edigheji for comments as well.

Mkandawire: Well, it was a very good question, and really at the heart of the matter. One of the things that we have to, again I say this to lots of my African colleagues, some Roman once said there's always something new coming from Africa. If this has never been done before, if there has never been a democratic developmental state anywhere, we will have to do it first, if there has never been one. We just have to. And there are many reasons why we have to do it. I cannot go into why. But I think we have, as I said, we can give Botswana and Mauritius as good examples in Africa. But more importantly, the question about the possibility of developmental states, well that's, it's a very -- when I first wrote an article on this subject for the Cambridge Journal of Economics, I wrote "Thinking About Developmental States," -- actually it was first presented here in Japan, deliberately so. It was at a conference that took place before the TICAD meeting, so I presented a paper, and it was eventually published in the Cambridge Journal of Economics. And one of the moderators asked that I prove my point by putting tables on growth rates, because I said that between 1960 and 1979, there were many African countries growing very fast. It was an unbelievable story according to this man. So, there was a table that I produced there, and there are twenty countries, the fastest growing countries of the developing countries. Of the twenty, nine were African. And of the nine, only three were oil producing countries. Just to prove that high growth is not alien to Africa. It's not like it's some strange miraculous thing that never happened. And recently, there's been a study by Dani Rodrik and Hausmann at Harvard, where they looked at the so-called growth episodes, and there are as many countries in the 60s and 70s, high growth countries in Africa, as there were in Asia. So, Africa has been seen too much along through the crisis years as the norm. Why we are thought the crisis as the norm, I don't understand that. I mean, crises come and go. We had a crisis, and I think it will go away.

About culture, one of the arguments used is about culture. When I went to school, the first book I read on economic development was by Benjamin Higgins. We were told at that time that Asians will never make it because they have a very strange culture. And Africans, because we were close to Europe, we speak English and French, we are going to do better, you know. And I think the Asians proved that the culture story is a myth, because the same -- and we saw it 1997 during the Asian crisis -- the same culture that had been said to promote the state being close to society, and business, and embeddedness was now called cronyism. Now it was, once again, Asian values have led to the crisis. So I take culture with a… The thing about culture that is very important, why culture is interesting, is that all cultures have a huge register of possibilities from within the same culture, with evil and good, laziness and hard work. Which of these dominates at any particular time; it depends. So you cannot... There is no culture. I've never run into a culture that has only evil, or only hard working people, or only lazy people. It depends. It all changes and depends on which of these things you register and which you play on, it depends on conjunction. So as I said, I don't take the cultural argument very seriously.

The argument by people like Khan is valid in only one sense. He argues that the rich countries are asking poor countries to adopt policies and measures that they themselves did not do at an earlier stage. And people like Ha-Joon Chang have made the same argument. I disagree with that argument on one level. It is that they themselves are also accepting a linear view of history, which says if you had bad governance when you were poor, we also have must have bad governance when we were poor. To me, that's a linear view of history. We know now that in fact, take the case of social policy. The welfare state starts not in England, the pioneer of industrialization, but in the late industrializers. So, that the late industrializers, they can actually jump, you can jump stages. So Khan in a way, they are getting trapped in a linear view of history by saying, since you had slavery, we also have to do the same thing. We don't have to do the same thing. We can skip that stage. We have learned the limits of that. And I do not see why if we can have good governance, what's wrong with the good governance agenda is what I have been explaining here. It’s wrong in the sense that it’s aimed at doing one thing only, which is to promote investment. It's not promoting the larger good of society.

Informal culture is very important. I think the big debate today in Africa about institutions has this package that is the best practice view, which is completely cut off from the larger forms of informality. We've just published a book, my institute published a book that just came out on Asia or East Asia and institutions in Asia. It's edited by Meredith Woo-Cumings, and we asked three American lawyers to comment. This book was published after the Asian crisis. We organized a conference to deal with this issue of institutions and the Asian crisis. And we brought in people including American lawyers, and it was interesting that the American lawyers were showing, they were arguing, that the Washington model of good institutions, which is drawn from the Chicago view of law, has nothing to do with American society. The American laws, 90% of the conflicts among enterprises are resolved outside the court system. So, it's these large informal arrangements that make capitalism work. If the American system were to follow the system that they are recommending for us, it wouldn't move, you know. It just wouldn't move, because you would remove all of these informal negotiation channels that make societies move. Anyway, the book just came out two months ago. I think that you would like it if you read it.

I fully agree with you idea of the agency of [...] structure. And I think this was, Omano was talking about the whole idea of ideology, and that's why I was earlier on saying that this debate about market failure, that what matters is society wanting to develop, and they can want it for many reasons. It can be militarism, nationalism -- I don't know -- your whole reason for wanting to catch up. It can be shame, that people are ashamed of the way they are and they want to do something. Anyway, it's human agency that makes people want to develop.

You know, the developmental democratic state, one of the arguments for authoritarian states was that they can impose savings. People always forget that's the major argument for them -- that they can postpone consumption. You can force society to postpone consumption, and that is what they are so good at, because people are shortsighted, and they want to consume immediately. In a democracy, the politicians will promise high consumption. That is one of the strongest arguments for an authoritarian regime. Now the question is, is it true that democracies have lower savings? Can democracies raise savings higher than -- and it turns out that a central aspect of democracies that were developmental, say like in Nordic developmental states which are democratic, is social pacts, pacts where key actors agree. The capitalists agree to invest, and labor agrees to postpone its wage demands. And they have worked. I mean, you can create pacts like that where you agree as citizens within a democratic framework to make arrangements where you say, okay, if you invest, we will postpone our demands for consumption. If you take the money out of the country, we will ask for higher wages. So, I think we have to identify which things dictatorship was good for, and can we find things that are functionally equivalent in a democracy. A dictatorship can postpone consumption by force. A democracy can do it by voting, or by social pacts. So, we just have to find these ways that are creative enough to be able to do that.

As for believing, this optimism, there was one thing called Afro-pessimism, which is a disease that is found everywhere except Africa. We don't have it in Africa. We don't have Afro-pessimism in Africa. So I remain optimistic, not just subjective, but I think there are good reasons, you see. And we are seeing a turnaround now, and I think you can see it from that [...] presentation -- turnaround where, you know, governments are changing. There is pressure on them to change. And the new generation of leaders are behaving differently.

Shimamura: Thank you very much, Dr. Mkanadawire. Could you briefly respond, Dr. Edigheji? Please.

Edigheji: Okay, thank you Professor Ohno. Let me just say set up some criteria that perhaps we have to look at. Democracy actually requires a consensus. That is why one is arguing that you have to go beyond the state/business relationship. You have to have an inclusive approach to public policymaking. And secondly, if you do that, then it has to be predicated, it has to be programmatic rather than being based on patronage. Let the relationship between the state and citizens be based on programs or concrete programs, not as a patron-client relationship. That has been done. You know, a section of Italy, the work of Putnam for example, really demonstrated that fact. And in those places where you actually have the programmatic relationship, it has a number of advantages. It will generate consensus. It will help you to create a stable political system. But I think another factor that we may want to reflect on is that you have to pose the question, is the political system inclusive of a range of actors? This concept of defining democracy in terms of multi-party democracy, it is a recent development. So, for example, if you follow that frame, Japan and Botswana would not qualify as democracies, because people will argue that one party has dominated in Japan, and one party has dominated in Botswana. But in my view the question, my argument, this is my premise, is that inclusiveness does not mean you have a billion parties. You can have a few parties that aggregate all sectors of society, and that the state does not hinder people from forming parties or not forming parties. If you meet that condition, people argue that in South Africa the ANC is a dominant party, and that is a problem. So I said, yes, [...] let's extend it further. The ANC should weaken itself in order for the other parties to be strengthened, or the ANC should dissolve itself. If the opposition is unable to aggregate broader views, if they don't have the votes, I don't think the ANC should dissolve itself. I think the key point is that the ANC and the dominant party in Japan are not aware that they have used their position to stop [...] from forming political parties. So as long as you have that, in the Scandinavian countries, we don't have a hundred parties. In Nigeria, some of us are saying that we have billions of parties. But some of those parties are make up of just one person. I know of a friend of mine who formed a political party, and then sold it. So is that more democracy? So, as long as the party regime that you have is inclusive, as long as the process of policymaking is also inclusive, and it is programmatic rather than based on patron/client privileges, I think the compatibility of democracy and development will actually be enhanced.

Then I think one of the things that we also forget in this debate, and there is work that has been done in this area that tends to show the inequality growth measures, that political instability undermines growth. So if you have a political regime that is not inclusive, that is not programmatic, then you are going to have what you see in Kenya. We saw it in Argentina. We saw it in Indonesia. And to a degree, we saw a similar thing in Korea.

Shimamura: Thank you very much, Dr. Edigheji. Now, I would like to open up for discussions from the floor. Okay, please go ahead.

Elumba: Dr. Thandika, thank you very much for your eloquent presentation. We wish that a lot of Africans of your caliber would visit countries like Japan to present the African view as forcefully and clearly as you've done. The general perception of African intellectuals in Africa, a non-economist's assessment is that, Africa's institutions are being undermined by the international community. Now, the international community -- I think most of us know which countries we are talking about. We've been under the same circumstances as those of Malaysia and Indonesia and all the independence, colonization, and all. However, they have managed to overcome or to minimize the effect of the international community undermining their systems. What can we learn from what they have done, because this is very important? We'd appreciate if you can enlighten us on that. Thank you.

Shimamura: Thank you. So, Professor Otsuka, please.

Otsuka: Thank you very much. I am a very simple minded, micro, very micro-economist, more micro than ordinary micro-economists in the sense that I have been conducting very small scale micro level enterprise industry surveys. Altogether, we completed twenty cases; four in China, a few in Vietnam, one in India, two in Kenya, two in Ethiopia and another in Ghana. I've seldom thought about the big picture like the developmental state, but judging from what I have learned, I would like to raise some questions for you.

I have conducted a lot of case studies. Now, of course, some industries have been growing very successfully. Others did not; they remained stagnant. What are the common elements facilitating the continuous growth of some industries, and what are the factors What are missing in stagnant industries? The answer is the successful transfer of knowledge, technological knowledge, management know-how, marketing ability and so on from other countries. If you go to China and if you can visit the enterprises that have been growing very fast, without any exception, they have learned so much from Taiwan, from Korea, and most importantly from Japan. And we have one interesting case in Ethiopia, which is about a shoe industry in Addis Ababa, that is growing very fast. And the manner in which the industry has been growing there is so similar to the pattern of the development of shoe industries and other industries in China a few decades ago. The reason is that the Ethiopians learned so much from Italy. Again what matters is the transfer of technology. So, at least one of the important elements of the development state is the mechanism, capacity or institution that facilitates the successful appropriate knowledge from other countries. I think if African nations are successful in transferring, absorbing or simulating knowledge,the right knowledge, from developed countries, there is a greater opportunity to grow successfully. Thank you.

Shimamura: Thank you very much. Yes, Professor Asanuma, please.

Asanuma: I think in a majoritarian electoral democracy, you have to deal with the electorates who are often times very short-sighted, and who often times, once again, seek instant gratification, and therefore, the government policies tend to become also populist, short-sighted -- the opposite of developmental orientation. And I think one of the important antidotes for that is to have very strong planning functions in the government. And yet, when we look around, even in Asia, planning functions in Indonesia, Thailand, the Philippines and Vietnam have all declined or are declining. And in Sri Lanka, in Mongolia, the planning functions have died already. It is only in China and in Malaysia where planning functions are somehow surviving. So, in case of Africa, what do you think is the cause or the causes of the decline of planning functions? It cannot be just because people from Washington D.C. told you, okay, you better remove all these planning functions and give an opportunity for the Ministry of Finance to ascend in their power.

Shimamura: Thank you very much, Professor Asanuma. Let me turn to Dr. Mkandawire.

Mkandawire: ... on the last question, [...] Washington actually did. They told us to stop the planning. I think it is sometimes very difficult to explain to people how crude the donors act in Africa. Things that they wouldn't do anywhere else they will do in Africa. I once saw a documentary on Uganda. The World Bank allowed a team to film a negotiation between the World Bank and Ugandan officials. It was just amazing. There was one scene, which was a funny scene, when there was an argument between an official from the Ugandan government, and the IMF was saying that the government should lower the export taxes -- it was something to do with the export taxes and the effects on the export of coffee -- and the Ugandan official was saying, well, actually there is no effect at all, and there was a big argument. So finally, the Ugandan had to say, look, my parents import coffee from across the border. I know what's happening. It has nothing to do with the taxes. The argument between this official who lives in Uganda and this man who went there for a day about what's happening in Uganda -- it was just amazing. And they allowed this film to... Anyway, I think Africa is very special in the minds of the North, and they behave in a way in which they would not do in Asia, I think. They wouldn't do it in Asia, and they wouldn't do it in Latin America.

Part of the other reason why the planning collapsed -- now that's the external one. The internal one. What happens when you have the structural adjustment? There is also a shift of ministries of the power. At independence, the most powerful ministry was usually planning ministry -- sometimes it was under the president's office itself was. The discourse in the 80s was to label these as so-called spending ministries in a negative sense. So we had the Ministry of Finance; that was good. The spending ministry is bad. Now, the spending ministries are the developmental ministries; education, health and infrastructure. Now, if you call them bad, they lose in the balance of... The third was that much of the planning in Africa was a myth. It was such a myth that once there was a book published written by Stolper that was called *Planning without Facts*. Now, how do you plan without facts? It was ultimately at best confined to public sector expenditure. It has very little to do with influencing the…

But anyway, what can we learn from Asia? A lot. And I hope that those who are here, the missions here, spend half their time learning about this for the rest of us. I think we can learn that you can learn from others. The Asian countries learned a lot from others. Someone once told me a story about some Japanese traveling to Europe to a factory, I think an American factory, and they were not allowed to bring cameras into the factories. And they would agree that, they would collectively agree that when they go into the factory, each one was to remember one part of what they saw. And then they went to the hotel, and they re-drew this structure. The lesson from the Asian countries; one, is that you can learn from others, two, it's not free. Knowledge is not free. Those who have it will try to cheat you, to sell it, block it, and we see it now in the international community, the debates on intellectual property rights, where those who have -- I think there's a very good book by Ha-Joon Chang called *Lifting the Ladder*, where he shows how the developed countries, once they get developed, like say the US, when it was underdeveloped compared to England, was against patent rights and violated all the rights, and there was a big task. When they became industrialized, they began to talk about patent rights. Japan did the same thing. And Europe did the same thing. We Africans, I see Africans coming to Geneva to learn how to impose the intellectual property rights. Now, I think our task should be the other way around; to learn how to go around property rights, and to really specialize on how do you get around this system. Unfortunately, we get technical assistance to help us to obey European and American demands with respect to property rights. I think we can learn from the Asians in that sense, that you make it difficult to impose certain… Now, the Japanese are also beginning to worry about patent rights and so forth. So, while you are here please learn how to circumvent the Japanese patent rights too.

The point about [micro-] is valid, that is the, and I think, in a way I agree with the point I made earlier on, that the reforms we have in Africa abut institutions are mostly about constraining institutions, not about facilitating them. The state has a very important role in the transfer of knowledge. But knowledge is a common good, and it's a public good, and public goods are often underprovided unless somebody else carries a risk. And we do not have linkages today yet, effective linkages between the state helping people getting, violating. You find a state in Malawi, telling small enterprises that the American Embassy has received a phone call from New York that you are violating their patent rights. The government should try to protect that person by making it complicated for the American to prosecute this guy. So, the state has a right to make this transfer to the small-scale industry. But I think one of the interesting things that you probably would have, I think in the case of Africa with these small enterprises, is that the link between the small enterprises and large enterprises is very weak. In many of the developed countries, there were some laws that insisted on procurement, you know, that the big companies buy from the small companies, and there are all kinds of laws that sometimes work on the basis of the argument for employment. In the case of Africa, we do not have those laws. Nowadays, especially under structural adjustment, we have no laws that insist that people procure things locally and transfer knowledge to the […]

Finally, I think the populism and democracy and development thing is a very complicated story. When Pinochet became the big man in Chile and introduced structural adjustment, it was said that this proves that you need authoritarian regimes in order to introduce structural adjustment. And also we had our own cases, Musaveni in Uganda, and Rollings in Ghana, and they were given as examples of why you need strong military regimes to introduce structural adjustment. It turned out later on, when democracies introduced structural adjustment in Latin America first and later on in Africa, that actually there was no evidence that democracies cannot do it. That in fact, democracies can introduce very, very tough measures. So we have, now, in fact, the bizarre situation now is why did democracies introduce unpopular measures? Anyway, I think the last ten years have proved that democracies can introduce very tough measures when need be, and they have done it. We saw it in Latin America. We saw it in, you know, I mean... The end of inflation in Latin America was not done by the military, it was done by democracies; in Brazil, and so on. So, I think that with democracies, what we need to worry about a lot is institutions that, which I think was a very important point -- this is perhaps a very important lesson I learned from your question here, and I really want to think more about it -- the link between strong planning institutions and democracy. I think that's really the missing link. I think when people have credible public institutions that are guided by democratic regimes, people are much more likely to obey them than if they are just haphazardly organized by planning commissions that are unreliable. I think this is a very important lesson, that how do you...? And the more I thought about this -- because I lived in Scandinavia for a long time -- I realized that that was one of their strong points, that they had these functions at the state level that were credible to all parties and that could implement decisions that were agreed upon. The worst thing is having a democracy, what I've called choiceless democracies were the Ministry of Finance tells you the budget is not approved in Washington, you cannot discuss it in parliament, or where the parliament votes one way and the president doesn't care, and then of course you have a big problem. But I think this is a very important lesson for new democracies -- how do you strengthen the planning functions to make the democracies function?

I know that as a UN official I should not be talking about stealing patents, but I think it is very important that you are finding ways of…

One other lesson from Asia I think that I found quite fascinating is that -- again, maybe it's a little bit idealized -- this trial and error, you know, that you try and try again until it works. I once asked a Chinese to explain to me this new miracle of Chinese performance. And he says to me, oh, we've been trying for 70 years to get it right. They have been trying for 70 years to get the growth right. This is how long, he said they've been doing it. And they saw all this, including the Great Leap Forward disaster as part of the trial-and-error to get where they are. And I think we should learn to do that. Right now, we don't do that. One week, some expert comes up, you stop, another one comes up, so you stop, and there's no trial-and-error. Thank you.

Shimamura: Thank you very much. I can take just one more comment from the floor. Any comment or question? Yes, Mr. Miyaji.

Miyaji: I also agree with you, Dr. Mkandawire. Democracy and economic development, I don't think they should be linked directly. Do you think that there is democracy in Russia? Do you think that there is democracy in China? No, not at all. Communist parties dominate, and democracy does not exist there yet. And most important for the country is how the country is controlled by the governor and the people around to be able to make economic policy, and to be able to perform the things , and whether it is a democracy or not a democracy isn’t directly related to the economic development. That is my view. Sorry, it's not a question.

For example, in the South African case, as you mentioned, Professor Edigheji, ANC's top has now changed to Mr. Zuma, and it is a kind of the democracy, it has come from democracy. However, I don't think President Thabo Mbeki made a mistake from the economic development point of view. In other words, he has done it his way from the long-term point of view, that what is most important in South Africa at this moment is to develop the economy but not let people get more money at this moment. In other words, his priority is not to the people yet. A more central economy. That was the reason why he lost in the polls. And Mr. Zuma tried to be more popular saying that if I became the top, I will give more money to you, to the lower level of the people. But it came from just a popularity, but I wonder if this will be done by Mr. Zuma or not. I worry a little bit about that. However, I never ever think that South Africa will have a different policy from the economic point of view and financial point of view. I really believe that Mr. Zuma will do the same as Thabo Mbeki even if he becomes the president 18 months later.

And most important is again, repeatedly, I'll tell you, the governor has to control the country. That is most important, particularly from our private sector point of view, when we think the country risks, the most important thing is if the government is controlling the country or not. Too much control occasionally will have an effect. For example, from our point of view, I would say it is my private point of view, the biggest, highest risk of the country risk for us as a private company at this moment is, number one, the United States, number two, China, and number three, Russia. Why is that? They have the power, and they can change their policy immediately when it is not good for them. Thus, too much control is occasionally not good by a big country. However, for underdeveloped or developing countries, stronger government control is very much comfortable for us, because they can control the project. That is what our private company's view is. Thank you.

Shimamura: Thank you very much Mr. Miyaji. As we are running out of time, we may continue this discussion an another occasion. I really appreciate your insightful comments based on your own experiences in the private sector. Thank you very much.

Well, time is almost up. Among the various issues that were discussed during this session, one thing that struck me was the importance of considering the social dimension of development. I recall the discussion that we had yesterday in relation to a very fundamental point raised by Professor Otsubo – to what extent these policy recommendations (presented from the Japanese side) that focus on the growth aspects should address the social aspects of development to maximize the social benefits of growth. This issue may be carried on to the next session or at some other occasions for our continued discussion. Thank you very much for your participation.

Session III : Some African Experience of Industrialization

Presentation: “Implementing the Development State Model in Africa”
WILLIAM KALEMA, Former Chairman of Uganda Investment Authority

[Moderator: **SHIGERU OTSUBO**, Professor, Graduate School of International Development, Nagoya University]

Otsubo: Good afternoon ladies and gentlemen. This will be the last session, so let's concentrate a little while longer. My name is Shigeru Otsubo from Nagoya University. I remember that my first mission as a professional officer with the United Nations was a mission to Africa. It was the late 1980s, when African countries were saying that structural adjustment, so-called by the IMF and World Bank, were tearing apart the African continent. There was a project called the African Alternative Framework for Structural Adjustment, AAFSAP, and I was working for that team. About ten years later, my second intellectual association with Africa was the job to create the millennium issue of the African development report with the African Development Bank. Then, the major question was why Africa had been marginalized in global economies. Is it our fault, or is it their fault? So, that was the second intellectual association. Since then, I've been taking students from Africa to get Ph.D. in Japan, before they return to Africa. Now, the students are very clever to find the cases in Asia with particular relevance to a particular country case back home. Last year, unfortunately, I lost one of my very bright students to that epidemic rampant in Sub-Saharan Africa, so I face the sobering reality that Africa faces even today. Even though the macro-condition is getting better, people are talking about growth industrialization, there are still very difficult problems to face.

Let me introduce our first speaker, Dr. William Kalema. Dr. Kalema has been the lead consultant on a number of assignments related to private sector development, capacity building and institutional development. Dr. Kalema is also a former chairman of the Ugandan Manufacturers Association and of the Uganda Investment Authority. So, he is really the right person to talk about this situation. Let me introduce one more thing. Dr. Kalema’s Ph.D. degree is in chemical engineering, not economics, so he knows that with the right ingredients, the right mix and the right environment, this chemical reaction will start. So, that's what he is going to talk about. Please. It's your floor for 20 minutes.

Kalema: Thank you, Mr. Chairman. I was joking with my colleague from Nigeria that those of us who are addressing the last session have the easiest job because all the complex issues have been discussed by our predecessors, leaving only the simple ones for us to address.

I will towards the end kind of try and make a contribution to the whole discussion of what is the developmental state, if time allows, but I thought for now, we take it as an assumption, that this, we can establish some consensus in this room as to what that is. So, it's a very big 'if'. But if there is such a thing as a developmental state that we all have a shared understanding of, then what I am going to say relates to how that developmental state can be used to bring about the kinds of economic changes that have been discussed earlier today. But I will come back to trying to get a closer understanding of what that developmental state looks like.

In my paper, I have quite a bit of general information which need not be repeated, like when we say Africa -- we obviously are not -- most people in this room are not thinking of Morocco. They are thinking of countries like Angola, Uganda, and so on. And most of us, most of those countries have a common history that is very much affected by the colonial experience. And one result of that colonial experience is that the natural evolution of many of these countries was interrupted, if you like, and states were created that are still in the process of nation building. We are getting there, but the Ugandan nation is not like the Japanese nation. We have a lot in common as Ugandans, but also we have quite a lot of diversity among countries, and within countries. That I think is well understood.

When our countries became independent, one of the driving forces for seeking independence was to see if we could achieve faster rates of growth, higher levels of standards of living, and so on, so it was implicit that the African governments after independence will be trying to achieve developmental goals. And their efforts in those days took the roots of state-owned enterprises. Because we had taken over our countries from foreign domination, there were very few indigenous capitalists. So, indigenization meant government ownership, in many cases, government investing in new businesses, and we had what we call para-statal organizations. And some of them were quite successful actually in the early days. And it wasn't until we had problems in the political arena that the para-statals started not to perform. If you look at the history of something called the Uganda Development Corporation, I saw a remarkable fact; in 1970, it made a profit after tax of $35 million, which in today's money would be like $200 million. That was a state-owned corporation, and it was very well managed. So, that was one approach to the developmental state. And this happened in other countries as well.

But where we took a divergent path, I think, from the Asian countries like Malaysia and so on, was the way our politics turned out, and our politics became vicious, I would say, in some countries, and that made it difficult for the state as a whole to continue along that benign path. And in the same way, the professional civil service that had managed the developmental state, embryonic as it was, became disempowered. I think it was disempowered first by our politicians before the donors came along. At least in my country that's what happened. Some of them were physically liquidated by the government. So, one key aspect of those early days was that the private sector that we had was mostly made up of immigrant groups and foreign firms and was not close to the government. Many of our governments saw the private sector as a rapacious and suspicious agency. So, unlike say again Malaysia, where they may have had their ethnic problems but the government of Malaysia embraced its private sector, in a number of countries -- and there is an exception, I think, in Kenya and a few others -- but in a number of countries, the private sector was seen both by the politicians and by the technocrats as a group of people to be watched. And as for the indigenous businesspeople who were coming up, many of them were ones who had not necessarily had a very high level of education, and they were self-made entrepreneurs, people with creative talent and energy, and again, the technocrats looked at them as not being their kind of people. So actually the marginalization of the private sector was one of the unfortunate historical circumstances that in my opinion undermined the development of a healthy relationship between government and business. So, the differences between Africa and Asia are well-known. I've simply kind of summarized them. It's more interesting now to say, where do we go from here, because we could do, we could look backwards, and still not really get any greater insights than we have already. But we certainly know that we need to move from here in such a way that the government and the private sector are partners rather than competitors, and they share common goals.

Now, we'll come to question of what kind of industrial policy we should have. My view is that it's not necessarily a matter of drawing up a great industrial policy. First, we must determine the rules of engagement, because if the rules of engagement are not the right ones, they will not produce the right policies. So, imagine that the private sector and the government are trying to establish a healthy relationship. One of the first questions I would ask is, if I was Mr. Government who is always in the lead role, what does the private sector need from the government if it is to play its role in achieving sustained growth and development? And then the next question that I'd like us to think about is, what should be the agenda of the African developmental state, again assuming that we know what that is? The more we talk about it, the closer we shall come to a common understanding. And what can the government and business do together to implement that developmental state agenda? And then lastly, how can Japan and other international partners assist Africa in achieving that sustained growth that we've talked about earlier today through deliberate policies?

The first question I think to me is a longer one to answer and requires some clarity. I've just listed about nine items, and I won't talk about all of them, but I'll just mention one or two. The private sector requires predictability from the government. It requires direction and commitment. It requires fairness, clarity and effectiveness in the application of rules. It requires markets that are attractive and growing. In other words, they have to make profits, and whatever the government does, if it creates conditions in which private businesses can prosper, then business is happy. Particularly in our part of the world, all businesses are constrained by access and the cost of finance. The private sector requires a low-cost business environment, especially now that our economies are exposed to international competition -- Chinese goods are coming in. So, if you cannot produce cheaply enough and you are a manufacturer, you simply won't survive in your own market, let alone export into other markets. There is a question of investment incentives that many times some of my colleagues in the business world talk about. But when you strip it down, I am one of the few -- it's a minority point of view -- I don't think those investment incentives are as important as measures to reduce the cost of doing business. And then, we should consider the proactive things that the government can do with the private sector, business development support, whether it's the industrial parks, skill development and other things like that. And last but not least, the whole culture of a public-private sector partnership. So in the interests of time, I am only going to comment in detail about some of these desirable conditions, and then in the question-and-answer session, if there is anything that people want to talk about, we can give it some time.

I'll first talk about reducing the cost of doing business. Some of the measures to do that are not very expensive. One of them for instance is simplified and business-friendly regulation, easy to understand and easy to follow, and consistently enforced, and not elaborate. That would especially help the smaller businesses, because they can't afford to hire people to fill out forms for them.

Government should invest, again with input from the private sector, in developing a skilled and productive workforce. Again, we are competing with people elsewhere, and the lack of investment in vocational education, for instance, puts a lot of producers in

Africa at a great disadvantage.

And there is a question of infrastructure. I mean, I could go on and on -- I'm almost obsessed with the whole question of infrastructure -- but it's obvious to everybody.

And then, there is the whole so-called investment climate agenda. And it is real. And I can tell you from my own experience and from people that I deal with that these investment climate issues are a deterrent to domestic companies as well as foreign companies. And very often, the smaller companies suffer more because again, they can't get around the problems. On page 10 I've listed some of them based on World Economic Forum's last report that came in June last year -- the Africa Competitiveness Report. It is a useful guide, and it's a cross-country study. But the interesting thing is that if you take Tanzania, Zambia and Uganda, the top four constraints -- they might be in the different order -- are the same. And even when you consider a country like Morocco and Tunisia, access to finance is still a large constraint. So, that is to give you an idea of some of the things that need to be addressed.

I next want to talk about the whole question of discretionary incentives. This is mainly based on the experience in my own country where the government put in place all of the reforms that its development partners had recommended, but of course, the infrastructure constraint was still there -- finance is still expensive, and a lot of other constraints are still in place -- but they had liberalized the foreign exchange regime, and so on. And one day the president was addressing a meeting of his investment advisory council. He said, I feel like the guy in the Bible -- not many of you know the Bible -- who went to Jesus and said, I have done everything, now how do I go to heaven? And this kind of frustration is what makes governments so vulnerable to clever lobbyists who come and see it. They can see that the government wants to see some instant results or some quick results to satisfy the political constituency that all of the sacrifices were worthwhile, so they promise more than they can deliver. And the consequence is that very often the patient investors become disillusioned, and the fly-by-night operators pick up incentives or benefits from the government, and then move on to the next country. So in my paper, I caution very much against the idea of giving into demands or pleadings, and many of these will come in the form of an attempt to appear to be part of the industrial policy. The government must decide first -- the government together with the representative private sector, not individual companies. But in a very open and transparent way, the government needs to decide what the priorities are, and then let the private companies adjust themselves to those priorities. The priorities should not be driven by individual lobbies.

I also want to say something about how governments and the private sector can ensure that the dialogue they have is healthy, and is sustained, and is free of suspicion, and is not crisis driven. So often people like us in the private sector go to the government when there's an immediate problem. As soon as that problem is solved, we don't even follow-up with dealing with the core, kind of the causes of the problem. We treat the symptoms until the next time the problem appears.

Let me move on to the developmental state, such as I can talk about. I think to me, the developmental state is a competent well-focused organization, if you like, that can deliver long-term developmental objectives, and when that is applied to industrial policy, this requires what I may call an elite civil service -- which sounds very elitist. But I mean elite in the proper sense of the word; the best. But unless we have invested in developing and respecting those people who have to draw up the plan, we may have a plan which cannot work, or that no one is implementing properly. I think the first step, or the first attribute to me of a good developmental state is competence, that of competence and a lack of vested interests. If we can do that, then we'll simply be doing very well what all governments are intended to do, but with a greater sense of urgency, because we do want to have double-digit growth in Africa if we are going to close the gap between Africa and the rest of the world. Whatever else I have to say I think I will say during the question-and-answer session. Thank you very much.

Comment: KEIJIRO OTSUKA, Professor, National Graduate Institute for Policy Studies

Otsubo: Let me introduce our commentator, Professor Keijiro Otsuka. He is a professional fellow at the Foundation for Advanced Studies on International Development, FASID and visiting professor at the National Graduate Institute of Policy Studies, GRIPS. He is world famous for conducting many research agendas. One of his recent research agendas is the exploration of the East Asian model of industrial development, including industrial cluster formations, and their relevance to Africa. So, I'd like to invite Professor Otsuka to give us some comments. You have five minutes please.

Otsuka: Thank you very much for your extremely kind introduction. It's a great pleasure for me to be here to make comments on the Uganda paper. Not necessarily Uganda. I like Uganda, and that's why I said Uganda. I have been to Uganda more than ten times, and I am going to visit Uganda this month, this coming September, and probably one more time this year alone.

So, I enjoyed reading this paper very much, and I found a lot of agreeable points. I want to start with the agreeable points. Of course, there are others that are not agreeable. Agreeable points. Dr. Kalema emphasized the importance of the private sector -- that's very good -- and the importance of mission, vision and commitment to fairness, transparency and so on. That is also very good. You definitely need a good mission and good vision. And a good mission and good vision should include the investment in infrastructure, such as roads, electricity, industrial parks and so on and so forth. And also I agree with Dr. Kalema that the promotion of industries that have a comparative advantage is very, very important. Actually, following the changing comparative advantage was one of the keys to the success of development in Asia. There is no country in which the economy grew without following the changing comparative advantage. All the countries, poor countries, must begin with the simple, right industries followed by the development of machine industries, and so on and so forth. Without taking this step, there will be no development. That is clear. So, promotion of industries based on a comparative advantage is excellent. And then, the provision of basic education -- that is very important. And vocational training and consulting services for the development of new products, improvement of marketing, and after all, for innovation. And I liked the very short paragraph on page 13 talking about business development strategy. Indeed, FASID or myself, has been collaborating with the World Bank to provide vocational training for managers of enterprises in Kenya and Ghana to transfer the knowledge from East Asia to Africa in order to boost the development there. And the idea, I think is very similar. But I think we should emphasize the importance of vocational training et cetera, to facilitate the transfer of relevant knowledge from other countries. I think that is a key. So, there are a lot of agreeable points here.

But there are some points to which I cannot easily agree. First there is one you did not mention, so let's forget about the first point. The second point is, although I don't think you mentioned this in your presentation today, but in the paper, Dr. Kalema emphasizes the importance of access to finance, and he says access to finance always ranks high in virtually all countries. I do not necessarily agree.

Kalema: In Africa?

Otsuka: Any country. How can the government in any country avoid adverse selection, the selection of the wrong people? And how can government avoid or reduce moral hazards so as to support the most efficient innovative producers? In fact, Dr. Kalema himself stated in one place that selecting winners was always bound to be very difficult. Everybody in this room looks very brilliant, but if you have to choose brilliant guys, it's not easy unless we have more information. I believe, based on my own research, not subjective judgment, I believe based on my own research that a critical lesson from East Asia is that formal credit is provided, cheap credit is provided to enterprises that have a good record of successful innovation in the past. If enterprises look alike and are very small, how can we identify the most promising enterprises? When enterprises are small, the main source of credit is always from their own funds, and from relatives and friends. Once they innovate to some extent and they grow, banks and others come to help. I think that is very important. That kind of selection mechanism is needed. So, just providing money does not help development. But providing money to the right people, innovative people, innovative entrepreneurs, is the key.

I am also a bit worried about Dr. Kalema's discussion about the public-private sector dialogue -- he sometimes said the public-private sector partnership -- and he said that that must be healthy. I agree. But this can also be a strong source of rent-seeking by the most aggressive lobbyists, particularly if strong private sector organizations, like associations, lobby, because those associations or organizations think only about their own benefits without regard to the interests of SMEs, small and medium enterprises, farmers or consumers. I am not saying that government should not talk to the private people. They should. In fact, I very much admire policymakers and bureaucrats in China, who visit factories very, very often, and who talk with the entrepreneurs to identify what the problems are, and those problems are dealt with in the actual policy implementation. That is very good. But that is different from working together between the private and public sectors. So, I agree with the spirit of your discussion, but at the same time, you must be cautious about the bad connections between private and public sectors.

These are my major comments, but I do have a few questions. So, it's very important to follow the changing comparative advantage in the promotion of industries. But for example, in Uganda, what are the industries that have comparative advantages? What is the recognition on this issue, by you or by people who are policymakers in Uganda at large? In the paper, Dr. Kalema mentions agribusiness, but exactly what kind of agribusiness? Milk? Rice? And then also, ICT. But I definitely disagree that ICT is a very good industry, an appropriate industry, for poor countries like Uganda or any other African country. ICT is suitable for advanced countries or middle income countries, endowed with rich human resources, like China or India. But I don't think most African countries have a comparative advantage in ICT. So, I want to know what you think are the appropriate industries to promote.

I have been to Uganda many times since 1994. Whenever I go from Kampala to Mbale -- that is near the border with Kenya -- there is always road construction all the time, and there is always a traffic jam, and this has been going on for more than 10 years. And the chemical fertilizer price in Uganda is twice as high as in Kenya. Many of the Kenyan farmers now apply chemical fertilizer, and they have succeeded in raising maize yields to a significant extent. Very, very few farmers in Uganda apply chemical fertilizer because the price of chemical fertilizer is too expensive. So, farmers in both Uganda and Kenya are rational, but their behavior is very different because of the poor infrastructure in Uganda. That is very unfortunate. As Professor Asanuma mentioned in the beginning, a green revolution is essential to stimulate the development of non-farm sectors, so the simple deteriorated road conditions really badly affect the possibility of a green revolution in Uganda. That is very unfortunate.

One time I spent one or two days, I don't remember, to locate interesting sites for research. I looked around Kampala. I found two very, very promising industrial clusters consisting of more than 100 small and medium enterprises engaged in metal processing. I talked with the JICA people there and also with the government people there. Nobody expressed any interest. Of course, the enterprises here were very, very small with employment of two to three workers. That is very common. But all of the large enterprises in Japan used to be very tiny ones -- Honda is a good example, Toyota is a good example and Sony is a good example. So, I know that if we provide the right information, the right training and the right education, they have a chance to grow. But there is no support for such promising industrial clusters as Katwe and Kiseny -- since I was so impressed that I still remember the names of the locations; Katwe and Kiseny. So, why not promote such promising industrial clusters in Kampala? That's another question I wanted to raise. Thank you very much.

Panel Discussion and Question & Answer

Otsubo: Thank you very much, Professor Otsuka. I'd like to give several minutes for Dr. Kalema to respond.

Kalema: Thank you. The good professor is so pro-Ugandan that he's pinning me down on the Uganda agenda, and my disclaimer is that I don't make the rules. But if it was up to me, that road would not have been done by the Ministry of Works, given the people who are running the Ministry of Works right now. They provide a justification for tied aid because the roads that they have supervised have been substandard and double the cost, and it takes me back to my elite civil service, which we still have to work on that. And it's part of the reason for the infrastructure problem. But you know what I think of infrastructure. I needn't go on and on.

I won't talk about the areas of comparative advantages. You can discuss that. But access of finance. I'm sorry if you thought I was saying that government should dish money out. But you need to address the systematic problem of financial access, and you must do it in a way that is professionalized, is transparent, is rigorous and is demanding, but you shouldn't go around with envelopes for everybody. I certainly wouldn't suggest that.

Regional groupings -- there is absolutely no doubt in my mind. The figure is shocking that African countries trade, only 13% of African trade is with other African countries. That's not true of any other region of the world; Latin America, Asia or anywhere -- Europe. How can we sell goods in China when we can't sell goods next door? And when you look at the reasons why our regional groupings are not working, they come down to the lack of physical connections. I mean, you can produce a great product in Uganda, but how do you get it to Kisangani, which is in Congo next door, when there is no transport infrastructure to get you there? So, we need to have not just policies that are integrated, but physical infrastructure, air connections, railways, and so on. We have to create the African regional market and compete there, and achieve economies of scale there before we can expect to export to Asia or anywhere else. It's not that the trade agenda is not important, but we have to train at home before we go to compete abroad. And to us, the home market cannot be defined in terms of a country that may have a population like Rwanda, which has 8 million people. That's not a place to train for international competition. So, I am prepared to argue for a very long time that regional integration is crucial, not just for sustainable growth, but for survival

And lastly, on the public private dialog. Again, I think you'll notice that I did try to list some do's and don'ts. But all politics has risks of capture. I'm sure even in Japan, the Liberal Party as good as it is, occasionally is captured. But if you have a civil society, if you have an aggressive press, if you have other contenders for power and for access, and if the dialogue takes place in broad daylight, then these risks can be minimized. But there is no risk-free dialogue. Thank you.

Otsubo: Thank you Dr. Kalema. At this point, I'd like to take only those comments and questions directly related to the contents of the presentation and commentator's comments. Yes, Dr. Noman.

Noman: These are more questions for Professor Otsuka than Professor Kalema. Well, I found your; I have some questions. I don't know what you mean by promoting only those industries that have a comparative advantage, existing or potential comparative advantage, because on that principle there would have been no Toyota Motor Car Company because Toyota did not have a comparative advantage. It was a created comparative advantage. But I agree that that is tricky.

In terms of the public-private partnership, I think the point that is made is that, you see, the whole point about the public-private dialogue in an open, transparent forum is that it minimizes precisely what you are talking about -- lobbying -- because lobbying and special interest groups always exist. They exist in all societies. And the point about a public-private partnership is that by having a formal, transparent, open and inclusive dialogue, you minimize the chances of that, not that you risk creating it. In the absence you'll always have that. I think that I will confine myself to those points. Thanks.

Otsubo: Let us collect some questions and I will let you answer those questions later.

Edigheji: I think I am going to take off from the point Dr. Noman has made. The argument you are making is the public choice argument made by Mancur Olson, but he has clarified it. When you sit at a table like this, rents are transparently allocated, the rules of the game are clear. You meet certain criteria, you are rewarded. If you don't meet certain criteria, you are punished; the carrot-and-stick approach. It minimizes corruption. So, I think that point has been well documented in the literature and responded to. So, I don't think we should be worried about that. But in my own research, one of the things that I found in my research of, when I looked at 12 countries is that, where you have a shared project between the state and societal actors, a consultative mechanism or processes -- you might call it societal participation -- are always institutionalized. Where you have an institutionalization of consultation, one of the outcomes is that the actors have a considerable degree at stake in the final outcome. Their input is taken into consideration, unlike places where you don't have institutionalization. Institutionalization can be in two forms. It can be by legislation, but it can also be by the state's [...], but because of the regularity of meetings, it is predictable. Everybody expects this thing. It is not ad hoc. So, I think that is one point that we need to know, and it can be an important entry point for Japan's intervention in the continent. Encourage the institutionalization of the state-societal relation, [...] call it social dialogue.

The other point is your question of comparative advantage. The last time -- look, I am a Catholic, okay? -- the last time I read my Bible, I did not see where God said God created comparative advantages for any country. Comparative advantages are created by humans. You and I who are sitting here, we created comparative advantages. So, each country can do it, and each will also respond to it. If we have used that argument, Korea would not be where it is, and Japan would not be where it is. The critical question is, given everything that we know, where should be the entry point of Africa, say in the ICT sector? If you look at Malaysia, maybe their entry point was semi-conductors, and [... in the value chain.] And that should be an important lesson for countries to create their comparative advantages, and say, given everything that we know, where should be their entry point.

Otsubo: Dr. Mkandawire?

Mkandawire: A few very quick points. One on finance. I think finance, for almost every study you read on Africa this arises, the issue of finance is always raised by business people -- the lack of finance -- and I think there is a reason why. We do not have in Africa today development finance. Most of our banks, development banks, were closed down, some of them were inefficient, but anyway, they were closed. History tells us the following, that for late industrializations, the most effective banking was the German universal banking system, which was copied in Japan and copied in Korea, and the new successful banking turns out also to be Stalinist banking in China. The Stalinist banks fund you by your size, not by your profit. That's what's driving the Chinese investment. It just goes on and on and on. It was predicted to collapse one day, but it's driven by a banking system that rewards size. And so what we have done in Africa instead, we've introduced a banking system that is a very Anglo-Saxon banking system, which is hands off, and stock markets, which are the most inefficient way of starting development financing. So, we have a very bizarre situation. The banks are complaining of excessive liquidity, and the private sector is complaining of no finance. There is nothing to bridges these two things.

The second part is that, quite understandable as a businessman, your state demands from the state, but you didn't tell us what you would do to reciprocate state provision. That's one of the problems in Africa. During the import substitution phase, governments gave rents to business, and there was no reciprocal action from the other side. And I think that until we agree on what you get from the state and what you give back to society for those rents, you'll be fighting as you hear in Uganda. Often Musaveni is very dismissive of local business -- he says they cannot deliver, they are inefficient, […], because there is no reciprocity in the case of...

The third part is an old Marxist problem. When we talk about developmental states today in Africa, we are talking about capitalist developmental states. Under capitalism, the capitalists must have privileged to access to the state. It may not be kind of controlling it, but it must have privileged access to the state. In Africa what we have now is states where the business community has no control over the state, have no access to the state, and in fact, I was surprised that in Malawi, that the biggest source of instability in Malawi was the visitors from the IMF. When the IMF comes in, we don't know whether they will devalue the currency, whether they will fire the Minister of Finance, or whether they will cut the budget such that the local business has no control of its own state. The state is floating out there, always controlled from outside. And I think until we find, until we resolve that problem of a privileged relationship in the capitalist system of the capitalists to the state, you will be faced with this endless sense of uncertainty.

And finally, the tax issue. I think studies show that for most businesspeople, it's not so much the tax that bothers them as the use of revenue by the state. If the state is using revenue to lower transaction costs, I say like that for Nordic countries, Nordic countries -- high taxes -- business does not mention that as a problem, because they get compensation from the very high efficiency of the state that lowers transaction costs, and that's what matters ultimately, you know, that if you are paying high taxes in a very efficient environment, your costs go down and you make money. So, I think that business must find ways of accepting that if we want good infrastructure, we must pay taxes, and if we pay taxes, we must insist on having good infrastructure. If you can resolve that, then you are okay.

Otsubo: We have one more gentleman on this side. Please go ahead.

Watanabe: Let me make a minor comment on the regional integration. At least in terms of the contribution to the intraregional trade, it seems that such a regional trade arrangement would work. In the past, I did a gravity model analysis on an East African community that once collapsed in 1977 and resurged from the mid 1990s, and the dummy for the ESC, the East African community, is always positive and significant. So, at least for Kenyan manufacturers, the ESC is good for their businesses. Thank you.

Otsubo: Now, I'd like to ask the speakers to respond if you could, containing those answers in five minutes each please. Dr. Kalema first, please.

Kalema: Thank you. I fully agree. Comparative advantage is not created by God, it's made by people, and very often you have to look at what your options are. A good example right now is Rwanda. Rwanda is densely populated. There is hardly any more land left for extensive farming to the point that they have strife, which is really about land rights. Their government has decided to go full speed ahead with ICT. They've entered into arrangements with Microsoft and everything else. They are teaching computers in schools. These are very basic things compared with developed countries. But the capacity to process the information is now as basic as driving a car in America. So, if countries like ours are going to even be part of the global economy, we have to get into the act. And then, with our relatively low labor rates, and the high cost of physical transportation, we can get into the business of ICT-enabled services, and so on and so forth. So, I am not saying that Uganda will produce the next supercomputer.

On lack of finance. I take the point made by Professor Mkandawire about the model of financing that we're using today. I think we should study other models and see what can be done. Ultimately, all financing depends on trust. A lot of businesspeople are financed by their suppliers, supplier credits, and in business, as long as you always pay your debts, you'll gradually improve your access. The problem is that very often there is no way of documenting the fact that someone is a good risk, and the same risk of adverse behavior that should be applied to a chronic defaulter is then applied to him. Systems to build trust are very important. And I am sure that China, very few people default. In Vietnam, the state will really punish you if they advance resources to you and you waste them. But I do agree, we don't have to. We should get away from the idea that you must always go to the stock market, which doesn't even exist in a meaningful way right now.

What does the government expect from the private sector -- to pose the question the other way. I think the government expects compliance. For instance, if every businessperson pays all his taxes, the government will have a lot more freedom and policy space than it has at the moment. Compliance with the rules on the employment, on environment; the number one thing is compliance, if I was the government and I was sitting across the table from private sector people. So now I want to answer it as government saying what it needs from the private sector; compliance, performance, be profitable and growth. So, it's performance. In fact, the classic definition of good corporate governance -- you have compliance requirements and performance requirements. You must be successful so that you can create more jobs, and you must give unto Caesar what belongs to Caesar. You must give the government its slice of what you produce, and obey all of the rules. If you can do that, and if you then also in your own best interests learn how to collaborate with others and improve your value chains, which ultimately makes your business more successful, if you have reliable suppliers and you are working with them, and you are giving them credits, and you are giving them training, and you form partnerships, then clusters of companies will help each other. Individual companies that stick or play alone hardly ever succeed. So, government would love to see these businesses working together. But it is strategic common sense. Businesses should be looking for partners. And very often, businesspeople are narrow-minded and don't realize the potential there is for them to perform better by linking themselves with other businesspeople.

Regional integration? No argument from me. ASEAN. Can you explain ASEAN?

Otsuka: Thank you. Regarding this regional agreement. What I meant was free trade is enough. Just liberalize the trade system in each country, then, […] beneficial trade will automatically take place. That's my argument. Regarding the question by Professor Noman. I meant the existing comparative advantage, determined by relative endowments of unskilled labor, capital and scientific knowledge embodied in highly educated people. So, these three things basically determine comparative advantage. So, in the case of Africa, certainly if industry has not yet developed, and labor rates are low, then the economy should begin with industrialization of labor intensive ones, otherwise I am sure the economy will not grow. But it is wise to invest for the future. In the future, the economy will be transformed, and it takes time to create high-quality human capital. So, thinking about the future, investing now in human capital to prepare for the future changing and comparative advantage is a wise policy, but it's not so easy. Poor countries should certainly begin with the development of labor intensive industries. That is the main message I wanted to make.

Banking. My view is innovation first, and that innovation that needs investing with new capital should be supported by credit. Without innovation, how can credit lead to higher rates of return? So, my suggestion is to provide education, training, and so on to stimulate innovation. And for innovation, money is needed to invest in new machines, new facilities, new factories, and so on.

Noman: Money and know-how together.

Otsuka: Yes.

Noman: So, it's not just money by itself.

Otsuka: But after some symptoms of successful innovation start to show, the formal sector should come in and provide credit. That is the way things should go. Thank you.

Presentation: "What Africa Can Learn from Asia's Economic Development Experience -The Example of Nigeria's Economic Reforms from 2003 to 2007"
NASIR AHMAD EL-RUFAI, Former Minister of Federal Capital Territory (FCT) Abuja, Nigeria

Otsubo: Thank you very much Dr. Kalema and Professor Otsuka. Now, we'd like to move to the second session. Thank you.

Now, let us introduce Mr. Nasir el-Rufai. He was Minister of Federal Capital Territory, Abuja, and Member of the Presidential Economic Team in charge of Public Service Reform from 2003 to 2007. He is currently a member of the ruling People's Democratic Party, and a member of National Energy Council, so obviously, he is well-versed in energy issues, and he is also well-versed in privatization issues. According to his resume, he has attended post-graduate programs at Harvard, both at the business school and the Kennedy School of Government. So, he is also well-versed in business-government relationships. Mr. el-Rufai, it's your floor; about 20 minutes please.

El-Rufai: Thank you very much. Let me thank JICA again for inviting us. I have a PowerPoint presentation made up of over 50 slides, but it's all pictures and graphs so I'll be able to go through it very quickly. What I want to spend some time talking about is the experience in Nigeria in implementing economic reforms. My basic message is that it is possible to learn from one's own mistakes. It is possible to learn from the successes and failures of others. And Nigeria is an example of that possibility. On the basis of that, I'll go on to suggest to JICA that this draft paper on industrialization strategy should be pushed to African countries, because I think it's just the right moment to look at these options.

So, I want to start by looking at Africa, past and present economic performance, and then, look at Nigeria as a typical African country. Nigeria is the largest country in Africa -- one out of every five Africans is Nigerian -- and Nigeria has many characteristics of most African countries. So it's typical, but huge in many ways. And then look at our country in 1999 after years of military rule and mismanagement, and the sort of debates that we went through internally to try to design an economic program by studying what we did right, what others did right and what we did wrong. It was a very honest debate with a lot of introspection, but we came up with our own program, which we then invited the IMF to monitor. We didn't draw any funds from the IMF, but we got them to monitor our programs, and you will see the results of that.

Then, we achieved all of the targets that we set for ourselves, but we are not growing as much as we should. And then we began to think, well, what's next, and this is what I'll go through very quickly.

This table shows the macroeconomic improvements in Africa. If you take the 70s, the 80s, and 90s, you can see that indeed at some point Africa was growing as Thandika pointed out -- in the 70s, 4% growth -- and then the 80s and 90s were, of course, the lost decades, and now, it's back again. Throughout Africa corruption is decreasing. These are the TI, Transparency International rankings in 2000 and 2007, and the changes. Growth rates are improving all through Africa. It's not just oil producing countries, [...]. All African countries are actually improving, including the oil importers, and this shows the trend. Indeed, it shows for instance that in the 80s, the oil importers actually were doing better than the oil exporters. But you can clearly see that everyone is growing these days. Inflation is declining, so Africa is watching its macroeconomic fundamentals strongly. Our stock markets are booming. Some of our stock markets are among the best rated in terms of return on investment in the whole world. Many don't know this, but this is a fact. And increasingly African countries are joining the global economy by being rated by Fitch, by Standard & Poor and by Moody's, and these are the ratings.

Coming back to Nigeria, we had a unique situation in 1998. After years of military rule, Nigeria resembled in many ways a post-conflict nation, though we didn't have to go through large-scale conflict since the 60s and 70s. But we had wasted $300 billion worth of oil revenues, so we have a lot of experience in waste, and we all remember that. We had elections in 1999, and we had a new democracy, and people expected dividends from democracy. They expected that they will wake up one night, and because we are no longer ruled by the military, life will be fine. Of course, it wasn't quite like that because President Obasanjo -- that's my former boss -- inherited many challenges, and the written paper that I gave tried to describe each of those in some detail. But this is the picture from 1999, and what he tried to achieve in his first term. Things improved a little bit, but not that much, because the major issue for Nigeria at that time was our foreign debt. We had nearly $40 billion in debt, out of which about $35 billion was foreign debt, and that was one of the legacies of waste in the 70s and 80s, and we were still grappling with that.

In terms of human development indicators, Nigeria was lagging behind even low income countries in many ways -- in immunization and sanitation -- in virtually everything Nigeria was lagging behind, even though we were the largest oil exporter in Africa. Instead of being the giant of Africa, we became the big disappointment of

Africa in many ways. In terms of infrastructure, again we were lagging behind. Look at electricity consumption for instance. Nigeria's electricity consumption is among the lowest in the world -- 82 kilowatts per capita -- whereas South Africa is doing nearly 4,000. Even low income countries, with a lower income than Nigeria, was 317. Telephone lines. Everything was really disappointing.

Growth had been near zero particularly in the 90s. The graph shows that not only real GDP growth, but even oil GDP growth, was not that impressive. We depended entirely on oil revenues, and we developed a habit of increasing our budgets -- whenever oil prices rise, we have huge budgets, and then, the next day, oil prices collapse, and we had these boom-bust cycles that needed to be addressed.

We spent a large amount of money supporting public enterprises. By some estimates, nearly one-third of all our oil revenues from the beginning, nearly $100 billion dollars, were spent establishing public enterprises, which were not functioning well. Typically these are records of some of the investment grants and support we gave to SOEs that were not working.

When President Obasanjo was elected for his second term in 2003, he formed a small group to debate these issues honestly. How do other countries, how did they do it, and what did we do wrong? How can Botswana and Mauritius do well? How did Japan do it; Korea, China? What are they doing that we are not doing? And what are we doing that we should not be doing? So, we had a lot of debate and it was interesting. Indonesia was one of our most interesting cases, which had some comparisons with Nigeria.

But after a lot of debate, we came up with six commonalities that we found in all countries that were doing well. They had stable legitimate governments, not necessarily democratic, but stable, legitimate. Second, we found that these countries had pragmatic, tolerant societies. They don't kill each other once in a while. They try to coexist. And rule of law, of course, protection of basic rights, investment in human capital, health, education, investment in physical capital, transportation, telecommunications and power. And then of course, a very sensible mix of using government and markets. They are very pragmatic about -- they are not ideological at all. Whatever worked, these countries tried to do.

And while we were having this debate, we came across work done by Goldman Sachs on the BRICs -- Brazil, Russia, India, and China -- and they came up with this idea of N-11, the Next 11, eleven countries that they thought had great potential to become economic powers by the year 2050. Of course by then, China would have overtaken the U.S. But what was interesting was that Goldman Sachs thought that Nigeria would then be potentially the 11th largest economy in the world. So, we tried to find out why did Goldman Sachs think like that, because we didn't know we had this potential, you see. And in discussions with them, they came up with this number that they call the Growth Environment Score that measures drivers, macro-drivers as well as micro-drivers, and demographics, openness, investment, debt and inflation were the macro, and the micro were education, cost of business, and so on and so forth. And we took interest in that to try to see how far we can factor some of that in our economic reform program. And we looked at some of these countries. For instance, up to the mid-80s, China was poorer than many African countries. Malawi was doing better than China until about 1985. Ghana was about the same level as Singapore in 1960. Malaysia and Nigeria; that's the graph. And we found by using the Goldman Growth Environment Score that we did well generally on all the macro policy measures. We scored low on education and life expectancy. And then, we looked at the cost of doing business, and we found that we are not doing very well; the cost of registering property is very high, business start-up costs are very high though we are lower than the Sub-Saharan African average and the cost of enforcing contracts again is very high. So, the summary was that we are doing well on the macro-drivers, and doing very poorly on the micro.

Around these ideas we designed our economic reform program, which we called NEEDS, National Economic Empowerment and Development Strategy. And our goal was simple. We wanted to get debt relief. Second, we wanted to have a slim, facilitating government that does not try to do everything -- because we tried to do everything before, and we ended up not doing anything well -- but a facilitating government that will live within its means, and one that will do more with less. And these are the components of the NEEDS program. I think I have described them in some detail in our write-up.

But we began to see changes from 2003 when we started implementing the program. This table shows how things began to move. Now, in 2003, the first year of implementing NEEDS, we had 10% real GDP growth. Most of it came from oil, because oil prices shot up that year, and there were no production disruptions, so it was a bit of a myth. But if you look at non-oil GDP, which was what we used to measure our success, these began to move up.

We introduced a fiscal rule. We decided that we'll not be spending our oil money as we earn it. Our constitution says we must share all of the money for of all the government branches, but we created a system whereby all oil revenues above a certain benchmark price were saved. So, we built a huge savings account over time, which became very useful. This oil price fiscal rule led to better management of our oil wealth, and we accumulated savings and huge reserves. And compared to our past booms -- because we've had booms before, you can see this graph shows how well we have managed this cycle -- our reserves and savings went up. Again, the blue shows what we did in the past booms as compared to this one. We used the savings to negotiate our exit out of the Paris Club. We got a 60% discount and paid off $30 billion of our debt. We used those savings from the oil price fiscal rule to retire the savings. Inflation went down. Non-oil GDP was growing. Monetary policy was prudent. Exchange rates stabilized. And for the first time in almost 20 years, we nearly eliminated the gap between the black market rate of exchange and the official rate. Banking reforms were introduced. We consolidated our banks from 89 to 25; creating much larger banks, and more stable banks. The challenge now is to get those big banks to lend. Monetary performance again has improved. Our debt markets have been deepened. Interest rates were adjusted downwards. Bribery, a big issue in Nigeria, was going down. In 2002, we were the most corrupt nation on earth. By last year, we were out of the bottom ten. We are not where we should be. We want to be out of the bottom fifty. But it was a major move. And this was a study done by Dan Kaufmann of the World Bank that showed bribery in virtually every area was going down. And comparing Nigeria with South Africa and Russia, the leakage of funds percentage was also going down, money laundering was going down, and from 2004, we began to show stronger results in virtually every measure. Certainly, high oil prices helped. Thanks to Mr. Bush and Iraq, you know, oil prices went up, and we benefited. But we also had production disruptions because we had problems in the Niger Delta, but we didn't quite suffer from that as much because of the high oil prices. The environment generally improved, the doing business report showed that we were improving from 2005 to 2006, and services were being liberalized. Nigeria's telecoms market became one of the fastest growing markets in the world.

So, there was some luck in this whole thing because of oil prices, but luck and good policies helped us because we were prepared, because in the past, we've had luck, we've had bad policies, and the two led to disastrous results.

In 2005, this was the situation. Just as William pointed out, access to financing is always among the top four issues in the cost of doing business, and in Nigeria, this was the issue. The main problem was infrastructure, then corruption, then access to finance, and inflation. So, we made those the targets of our work. And of course, inefficient government bureaucracy.

Challenges remain. Our social indicators are weak. We are not likely meet the

MDGs. But there are improvements evident from this survey of households.

Now, about around 2005 and early 2006 when we exited out of the Paris Club debt, we began to ask ourselves, are we happy with 6% to 7% growth? We have huge reserves, we have macro-economic stability, we have no debt. Now, what's next? At this point, our president began to experiment with interventions, micro-interventions, because I think the economic reform program enabled us to stabilize the economy, but it did not give us answers of how to accelerate growth. So, we began to take steps, which together if you look at this list you can see, we are moving towards that developmental state paradigm without knowing or thinking about it.

We started a project called Destination Nigeria Project, where we identified commodities or areas where we think Nigeria can be number one in Africa or number three in the world. And we got KPMG and the Nigerian Economic Summit Group, a private sector group, to debate and identify these areas that for us look to be areas of possible comparative advantage. And that project is still going on. We began subsidized lending to agriculture, and we established a fund to protect our textile industry, because the Chinese were dumping goods in our country, and our textile industries were closing, so we thought we had to do something. We relocated some commercial farmers that Mr. Mugabe didn't want. We brought them to Nigeria, and gave them large tracts of land. And there was public investment in rail and power -- we put in $11 billion to have a new rail system and seven new power stations. And the federal government sold 30,000 of its houses in Abuja and established a quasi-mortgage system. We recapitalized three of our development banks, and we came up with a policy to subsidize the price of gas. Nigeria has huge gas reserves that are not being well used, and we thought if we have incentives, we would develop that area.

So, we began to move more towards this developmental state. We encouraged the states in Nigeria to look at the possibility of having industrial clusters. We looked at Lagos, which is the largest city in Nigeria, the commercial capital of 15 million people, and began to think of it as a megacity for which the federal and state governments will collaborate in key projects. We also made a decision to establish the Africa Finance Corporation, which is like the IFC of Africa, with it’s headquarters in Lagos, and each of the states was encouraged to pursue a program very similar to the One Village One Product program.

So, you know, to conclude, I want to say that Africa is growing. There is no doubt about that. We are now better positioned to explore policy options than ever before. Because a large number of African countries are free of debt, they are in a stronger position to tell the Washington Consensus, well, we don't want to do this, unlike in the

80s when we were beholden to this. And the developmental state model, I think, can work in Africa. It can be learned and can be adapted to some African nations, not all, because I am of the view that some African countries are too small to ever be viable, and they can only, they can only succeed within the framework of regional integration. But Thandika will not agree with that. I think a few nations like Nigeria have already taken some tentative steps, unsure steps in my view, so I think this initiative by JICA and the Japanese government is timely and will help us get it right. I thank you very much.

Comment: HIROYUKI HINO, Senior Adviser, JICA

Otsubo: Thank you very much Mr. el-Rufai. Let us now introduce the commentator, Mr. Hiroyuki Hino. He is a senior advisor to JICA, and he has a long history of working with the IMF. I'd like to keep this session as peaceful as possible, so don't throw things at him, please. Please go ahead, Mr. Hino.

Hino: Well, thank you Mr. Chairman. Now you've revealed the secret of my past. I have to make a confession, maybe. I was one of those surgeons who engaged in the malpractice that you talked about, who produced maladjustment, that maladjusted state -- is that what you called it -- so while I was listening to you, I felt like crawling under this table bit by bit by bit, and I was just comforted by the fact that Honorable el-Rufai was sitting next to me with whom I worked for many years together. And I was comforted at least I'm not being killed. At least I wouldn't be shot by my good friend by Nasir el-Rufai. That was my comfort.

In my comments, I'd like to give my thoughts on two of the important points that Honorable el-Rufai has made in his concluding remarks. The first one is that Honorable el-Rufai says that this JICA will help Nigeria and other nations in Africa to get it right. That's what he says; get it right. And as you know, this JICA study recommends greater use of policy space for more aggressive government interventions. So, my question to Honorable el-Rufai is this. Given these recommendations, how differently would you manage the Nigerian economy? It's a practical question -- how useful the recommendations would be for Nigeria. What new or additional interventions would you provide to the economy? Now, if you asked me -- probably you won't, but if you asked me -- I would say in my view, not too much, maybe some, but not too much of additional interventions. You know why? Well, first as you've said very eloquently, the economy is doing very well. If it's working well, why do you want to fix something that is not broken? And if you also look back at the history, Nigeria tried this route of interventionist policy before -- a very aggressive one, as you've mentioned -- and it did not work. And I know, and you all know, it was partly because the institutions and capacities were not there to manage those interventions well. I know things have improved, but I also know that it tends to take some time for all of these institutions to evolve and become stronger. So a question; how confident would you be if you had to engage in giving cheap credits, giving tax incentives, which you do anyway, but if you are to pursue this sort of route of so-called industrialization policy as recommended in this report. I am not saying that this study of JICA is not useful or not relevant for Nigeria. I think it is. But I would like to know from you how you would use, as a policymaker or ex-policymaker, these recommendations which I think will be useful for all of us to listen to. That's my first question.

My second point is also a question. Honorable el-Rufai says that the developmental state model can be adapted to some African countries. He says some. He appears cautious, and I think that Honorable el-Rufai is right in his caution. You know why? If by a developmental state, we mean a strong government with a strong leader and with strong interventions, such as giving out cheap credits and tax concessions, et cetera, as mentioned, then, there will be a risk that the government could aggravate social tensions. There is a tension between those communities that benefit from government favors and those that do not, for example, tensions between some ethnic or religious communities from which the present leadership and president come, and those who feel that their interests are not properly or as well represented in the government.

Here as you know I am referring to the current tragedy of Kenya. That's what I am talking about. I devoted four or five years of my professional life to Kenya. And if you ask my wife, she will say I devoted all of my life for four or five years, not only my professional life to Kenya. The current government of President Kibaki has done well. As you know, the economy was doing very well until this time, by not intervening too aggressively as compared to his predecessor, President Moi, whom I know very well. But still he was perceived by most as having favored excessively the Kikuyus, the ethnic group from which President Kibaki comes. I know from my conversations from non-Kikuyus that, oh, they are doing just too much. But yet, I also know the policy was not to interfere too much, not giving out these favors too much. That was their policy in Kenya. So, this issue is that the perception -- maybe I don't know how much is reality and how much is perception -- but that even if the economy is doing well, if those favors are perceived to be associated with this kind of community, be it religious, ethnic or any sort of difference, then that creates underlying tension. The more government does, the more I know from my experience with President Moi, the more government does, the more aggravated the people feel.

And this issue, if I may say, is also relevant to Nigeria. As you know the presidency rotates in Nigeria between South, where there are Christians, sort of the majority, and the North, where there are Muslims. You also know that the ethnic tensions in the oil producing states have been causing disruptions in oil production. That is one of the reasons why oil prices are so high. And that also relates to the issue of what the central government does for them. This ethnic group in oil producing states feel they are not doing enough. They are being taken advantage of. Again, it's a matter of how strongly government allocates money; do this and do that.

So, in Africa it is not that there had not been growth, as I think you mentioned so many times. The issue more is that it tends to get interrupted, it tends to get interrupted, and sometimes because of events like those happening in Kenya, when one of the reasons as you know in Nigeria, you have difficulties when prices are low, and there are a lot of tensions. And I can cite many examples of this. So, if you think in a way, rather broadly, and thinking of the underlying social fabric on the continent, I think one has to take the right balance between the power of the state and the power of the market. I agree wholeheartedly with Dr. Noman, whom I share a common root many years ago, that what should be learned, as you said, is a matter of taking the right balance and how to maintain it and how to keep adjusting it. I think to me that's the issue. So, when applying this paper, again, it is good to use it to explore as the authors say, and I think to use it also as you mentioned, Honorable el-Rufai, but again, not to think that pushing this line to almost all countries on the continent would be a good thing.

In Nigeria, again I'd like to come back to the question to you, to Honorable el-Rufai, again thinking back as to what kind of developmental state you like and thinking of the paper; how would you make use of these recommendations or the study itself, and I would appreciate very much a reflection of the two small points I made. Thank you very much.

Panel Discussion and Question & Answer

Otsubo: Thank you very much. Mr. el-Rufai is to respond, please.

El-Rufai: Well, thank you, Mr. Hino. You said, if the Nigerian economy is doing okay, if it is working, why fix it? Yes, we have grown 6% to 7% on average for the past four years, but China is still doing 11%, and they have done more than 10 in the last 30 years. So, we don't think 7% growth is the limit. We are looking for double digit growth, as I pointed out. So, what we are looking for is how do we achieve double digit growth? What more can we do to tweak the policy environment to achieve double digit growth? And the only option available to us was not to allow things to happen, but to make them happen, and this was why these tentative steps were taken. So, I think there is a lot to be done. I think we should go ahead and intervene to a reasonable extent to achieve this double digit growth.

How would I use this study in Nigeria as a policymaker? I think that I will approach it probably the same way we approached the [...] of our economic reform program. I think the study is a very good foundation, but it needs to be looked at deeper, and we have to take into account the context of our country. I still say that part of the reason why we were able to implement our reform program with great success was because we had this goal of debt relief, we were able to bring everyone to the table; the legislature, our judiciary, the political parties, civil society, everybody, even trade unions, agreed that this was the most important objective of economic policy. And because of that, we were able to get consensus. And I think that in the same way, we need to for each country to take this industrialization strategy and set a defining goal for the country to use the industrialization strategy to achieve that goal just as we had debt relief for instance for our own reform program. So, we need a clear vision and a lot of debate in the country as a means to achieve consensus on that vision. And then we need to look, as I said, at the country situation to develop a very clear program with targets and outcomes, and measure these targets and outcomes regularly to see that you are moving in the right direction. That's how we did ours, and I think that's the way to go.

Yes, I am cautious about saying that this will apply to all countries, because again, going back to the experience in the 80s and 90s, the multilaterals, the IMF, and the World Bank came with this doctrinaire program -- one size fits all with small modifications -- and I think we've all learned that one size doesn't fit all. In the same way, I think this industrialization strategy cannot fit every country, and it would have to be looked at from country to country. I don't think there will be one solution. I think every country will have to think through and debate and decide whether they want to do this, and what aspects of this they would want to do.

Yes, there are risks, as pointed out by Professor Hino, of the government becoming more interventionist, because our government tends to be interventionist, and tends to favor certain groups. And I think that can be very risky. But Thandika has been pointing out the importance of incorporating social policies in whatever program you have, and I think this is one area where social policy, looking at the dynamics of society, and ensuring that as you intervene, you ameliorate the pains of those that will lose while trying to get concessions from those that will gain. It requires clear, well thought out, conscious social policies to strike that balance. But I don't think that we have an option to refuse to intervene, because otherwise we are leaving our fate in the hands of someone else other than our nations hands. And I think we have to intervene, but we have to be very sensible about it. Nigeria is lucky in that we have intervened wrongly, so we have 30 years of experience on what not to do. Luckily for most of us, most of the policymakers in Nigeria have gone through a time when Nigeria used to work a little bit, and we saw it go down, so we all experienced it. So, in the case of Nigeria, I think that there is very little likelihood of us repeating our mistakes. Maybe in another generation that could happen, but we've all gone through so much pain that I don't think we will repeat our mistakes. But that's Nigeria. Other African countries would have to look at their own special circumstances. Thank you.

Otsubo: Now, I'd like to invite questions and comments from the table first of all. Professor Thee.

Thee: Thank you, Professor Otsubo. I enjoyed your paper, Dr. el-Rufai, very much. You know, I have a personal interest, because a colleague of mine is doing a doctoral thesis now at the University of Leiden comparing Indonesia's and Nigeria's performance, so I am going to fax him your paper.

And again, a personal question. Is he allowed to write you by e mail?

El-Rufai: Oh yes. Sure. I'd like to continue this discussion, so please contact me.

Thee: Well, you are a senior official, a member of the Harvard Gang, advising former President Obasanjo. My colleague is just like me; just a humble researcher.

But I have actually, a few questions. First of all, after macro-economic stability was achieved -- and I'm impressed with that non-oil GDP growth -- which sectors grew most rapidly? Was it the tradable or non-tradable sectors? That's the first question.

My second question is, can you explain -- I didn't find in your paper -- what do you mean actually by fiscal rule, the impact of fiscal rule? Can you clarify on that?

And my third question is on prudent oil price rule; what do you mean by that? Can you clarify? It's not very clear to me what you mean by that. Thank you.

Otsubo: Let me take a few more questions from the floor. Please go ahead.

Mkandawire: … comment. One; I think I agree with you that growth can always be made better. But also more important -- which I like in the topic at least in the title JICA gave this meeting about sustainable accelerated development -- if you look at the last thirty years, you would be very surprised at how many countries in Africa were on the top hit list and then disappeared. They were there for years and then disappeared, and they come back, and so forth. So, I think the idea of sustainability is very important. And the best way to sustain it is not to sit there and do nothing, because every growth creates new bottlenecks, and these must be corrected. It's interesting. I was just in India last week and one of the big debates in India from the private sector is for the state to do something about infrastructure, because they have been growing so rapidly and they can't cope. And the state has said, well, they were expecting Enron and all those to come in, and they didn't come in. So, there is pressure from the private sector for the state to fix the bottleneck that is emerging, which is around human capital, and, you know. And I was very surprised. Regarding human capital, they are importing pilots from Africa because there is a shortage of these with skills within India. So, I think the state must continue correcting, if you are thinking over the long term. For every bottleneck, somebody else must be there.

I think the view that state interventionism is a major source of the tension in Africa is a little bit unfair to African history. There are two crimes a state can commit with respect to ethnicity; some of omission, others of commission. The market works on the biblical principle -- to those that have more shall be given, and to those that have little, even the little they have shall be taken away. If you don't do anything, you are in trouble. One of the problems you have in Kenya is very interesting. All over Africa, like anywhere else, the privileged minority at some point want the state to get out. It's like in South Africa. The whites in South Africa, when things were changing, they wanted the state to get out. They wanted a free market system, because once you are already privileged, you want that. So, you have in Kenya the same thing. The

Kikuyus began talking more and more of a liberal regime, because they were doing very well. And the others want an interventionist state, and the opposition actually ran on the campaign of a state that would correct the [...]. I think you have to be aware of both the crimes of omission and the crimes of commission.

The third question which I would like to directly ask you -- would you allow a Malawian farmer to have land in Nigeria? I do not understand this idea of white Rhodesians getting land in Nigeria. I think you're misled in a sense for two reasons. These are farmers who produce well under very specific conditions of highly subsidized farming, and very cheap labor, migrant labor. When they have gone to Congo, they have failed, they are now having trouble in Mozambique, because those conditions, those two conditions -- repressed labor and cheap finance -- were missing. If you want really good farmers from Malawi, it's very easy -- no credit, just give us land, and we'll do it cheaper than that.

Otsubo: Thank you, Dr. Mkandawire. Dr. Edigheji?

Edigheji: I think I share a common strand with Professor Hino, he and I, we have a common attribute. We are good Catholics. As good Catholics, every day you say, Father forgive me. You do the same thing. Father, forgive me. He has just told us that he was one of the bad surgeons, and he's given us the same prescription again. So, I find that interesting. But when we leave here, we have to go to the Father and get down, ask for forgiveness, and not do it again. But I don't know whether your suggestion is serious or not, whether it has worked anywhere. You said -- let me just quote you -- you said, "Kibaki has done very well because he has not intervened aggressively." It is precisely because of that, that he has what he has. He thought the market will resolve things, or maybe he thought for a few. And he thought the market will resolve things for a majority of Kenyans. See what he has. Also Suharto. We can learn from that.

Look, I think intervention can never be enough. That is what I'm going to argue. And we have to learn from the Asian experience. You intervene to deal with the new challenges. You have to find a way to address it. Development is a process that throws up challenges constantly, and you cannot be static. And some of the interventions that you adopted today may not be necessary for tomorrow. I think I said the same thing here yesterday. You wear one pair of trousers when you were 12 years old. Now you are 40. You are not going to wear the same trousers. You have to sew the trousers to match, and you have to sew the trousers to address your current condition. The Scandinavian countries have some of the most interventionist states in the post-second world warera. We have had less interruption than that procticed in the Scandinavian countries. You'll have minor protests and all of that, but you have not had a major, major protest that would disrupt the economy, one that would disrupt the political system. So if I have to, if these Scandinavian countries are the only countries that I see, I am going to argue that I would rather follow that model that constantly intervenes but adjusts as conditions changes. That would be what I would propose.

Otsubo: Mr. El-Ruafi to respond please.

El-Rufai: Well, thank you, Dr. Thee. If I remember -- I don't know if Mr. Hino will correct me here -- if I remember correctly, if you look at the graphs, you'll see that non-oil GDP is the fastest growing component, and it has been growing more than oil. So, you know, that's how we thought we should measure our success -- are we growing the non-oil economy, because oil can grow, prices can change and all that. So that's one. But the three major components that have grown in the last four years were agriculture, which was growing about 8% every year, then, services, financial services, and telecoms -- there was [...] telecoms grew 20%, the fastest growing -- and then, of course construction and real estate.

Thee: What was the growth of the manufacturing sector?

El-Rufai: I cannot remember exactly. I can send you the detailed figures. But I know that in 2004, telecommunications alone grew about 22%. But financial services and telecommunications, which are the main contributors to the services component, also grew first, and then, real estate and construction. Manufacturing has not been growing, it has been more or less flat -- growing very slightly, more or less flat -- and that's a major concern. That's why we are looking at subsidized lending for the manufacturing industry, and also trying to do more for agriculture.

I will take fiscal rule and oil price based fiscal rule together because they are the same. Now, our constitution -- we have a very strange constitution in many ways in Nigeria. We have a constitution that says when we earn any federation revenues -- oil and mineral revenues are owned by the federation -- the revenues should be monetized and shared between the three tiers of government. We have a federal government, we have 36 state governments and 780 local governments. And we have a revenue allocation law that specifies what percentage goes to each tier of government, and then, we have a vertical formula that shows how much each state and each local government will get, and a percentage that goes to the oil producing areas. So it's a complex thing. But what is strange about the constitution is that it mandates that the revenues must be shared. Nothing can be saved. So, unlike Norway and the Arab countries that have oil funds, our constitution prohibits saving any money. So we had to sit, we had to find a way around the Constitution, we had to sit with the 36 state governors and 780 local government chairmen and agree with them that we have done this in the past and look at the result. We have to agree administratively, extra-constitutionally, to save our oil revenues for the rainy day, because we've all experienced that. We have a huge budget this year, and then maybe oil prices collapse, and there's contraction, abandoned projects and so on. And it made sense to everybody, so we agreed. And the first year we budgeted, the national budget was based on $25 a barrel. That's the oil price based fiscal rule. We agreed that every government will base its budget on $25 a barrel at the time when the oil price was about $35 a barrel. So, on every barrel of oil we sold, we saved $10, and we kept it in a bank account, or several bank accounts, because each state had its own bank account, with the money lodged in, but they can't sign for, they can't spend it. But they can receive a statement every month to see how much money they have that they cannot spend. So, we created what is now called the excess crude savings account, where all this money was accumulated. And it became very handy, because we didn't know that oil prices would hit $100 a barrel, but it became very handy when we had to pay off our debt. Because we had a savings account, we negotiated, and we paid off the debt. It became very handy when we realized that we had to intervene in the electricity sector. We have deregulated the sector. We have a new regulatory framework, but no investors. So, the government had to go in and agree to build seven new power stations. We had to do that. We also had to put in a new rail system, because transportation costs account for a large part of the differences in prices between northern and southern Nigeria. So, we needed a new rail system, because we've not invested in railways since 1964. So, we contracted with the Chinese to build a brand new rail, standard gauge rail system. So, this savings account that we established just to ensure that prices are stable, budgets are stable, came in handy to do other things. So, that's the oil price based fiscal rule that I mentioned.

I agree with Dr. Thandika of course that to sustain growth, sustained growth acceleration means we have to take our fate in our hands and think constantly of what to do. The challenge, of course, is to do what is sensible. I am arguing that in Nigeria, because we’ve messed up so much in the past, we have learned something. We have learned what not to do. For instance, when we decided to build seven new power stations, we agreed with all the tiers of government that as soon as we build the power stations, the day after we commission them, we'll privatize them, we'll hand them over to the private sector to manage, because we realized that we don't manage those things well as a government. So, we have made so many mistakes that I think that we have learned not to repeat them. This it is what I am assuming.

But of course as I said, experiences differ. And I think as the Kenyan experience has shown, sometimes not doing something enables those that are privileged to acquire even more privileges, and that can threaten even the state's capacity to keep the nation going.

I would like to discuss more with you about Malawian farmers. But basically Nigeria has, we have one million square kilometers of land, most of it arable, which we are not using. Since we discovered oil, we stopped doing certain things that are a little more difficult. And the idea was, if these farmers are ready, if land is the problem, we have land, come. Subsidized lending -- sure, we can give you that. We don't have migrant workers, but we have 150 million people, so you may be able to find some to work for you. We have not seen the results yet. They have been in Nigeria less than two about a years, and we are watching to see how that will work out. But I will discuss with you about getting the Malawians. But I'm just trying to explain the logic behind our thinking, and if it doesn't work, we will try again. I mean, we've learned that sometimes these things don't work. Looking at what the Asians did -- you tried this, it doesn't work -- you know, don't be ideological, just try something else, and chances are that you'll get one right. So, that's the logic behind the Zimbabwean farmers, and we are open to other suggestions. Thank you.

Otsubo: Thank you very much. Dr. Hino, would you like to respond? Only the condition is that there is a time constraint, so if you could confine it to a couple of minutes. Please.

Hino: What? I think again what I was saying is that it's a matter of striking the right balance, and that's the challenge. It's not easy, and I think it's easy to say, developmental states should be this and that, but then, when you try to do it, thinking about all these complications. I was -- just one minute, okay -- I am an advisor to the Ministry of Finance of Uganda. I was really shocked when I heard about the riots in Kampala where the Indian businesses were shut down, from something that seemed not that big of an issue. I was really shocked by how powerful the emotion, the sort of simmering emotion was. So, I am just saying one has to really think about many facets and then find what may work, what may not work, and that it's just not the simple sort of just planning. I am not a believer of planning, because it's difficult to plan. If you try to do it, it's very difficult. But anyway, that's all. Thank you so much.

Otsubo: Now, before turning the floor over to Mr. Kato and Mr. Hanatani to wrap up, let me say just one thing. The ICT, in the discussion we had today is basically treating ICT as one of the industries to promote. Now, that is very dangerous. The ICT revolution is very parallel to an industrial revolution. Now, the ICT provision is very important in order to make a social impact of cluster building in development. If I can give you one quick example. I was in Northern Thailand last week. I was visiting one of the villages working in craftsmanship. Now, the Thai Tourism Authority developed roads and parking lots, so many tourists come to the village to purchase products, woodcrafts basically. Therefore, it became suddenly very profitable. And a Chinese investor came to town, and all the roadside properties were bought by Chinese investors. Now, farmers are poor, because they had to sell all the land, so they don't have any outlets on the roadside. So, they turned to Internet. They produce products and sell and export them directly using the Internet. And when SARS hit, that epidemic hit in Asia, the business was down, and many Chinese shop owners went bankrupt. But those villagers connected to the world market through the Internet survived. So, that is just one good example. But ICT in terms of providing infrastructure, we should pay some attention to that. With that note, let me turn over this floor to Mr. Kato and Mr. Hanatani. Before that, let me thank you, Mr. el-Rufai, for sharing your wisdom with us.

Closing

H. Kato: Thank you very much Professor Otsubo for your excellent moderatorship. I think this meeting is coming closer to the end. First of all, I'd like to thank you, all the participants as well as the observers, for your active contribution. I think we have learned a lot from this exchange of our opinions and information. Perhaps somebody from the JICA side would like to make some remarks about what we have learned from the exchange of opinions and information today, so for that purpose, I'd like to turn the floor Mr. Kuroki, my boss, to say a few words.

Kuroki: Well, it's quite hard to make a resume of what the researchers talked about, because I am not a researcher, and I have no intention to make a resume. I think each one of you will make yourself your resume. But I just want to mention some issues that were very frequently discussed at this workshop. I will mention four points. One is there is a need to pay more attention to the social dimensions of growth and that industrial development, and those things that are the social impacts of growth and industrial development, especially on MDGs and human security, and what is the type of growth leading to social development. JICA is aware of the social dimension of growth as we are promoting, especially human security, in our development projects. Our industrial development strategy is not to make rich people richer and poor people poorer, but we have to take into account also the equity aspect of growth and industrial development. So, I think we will try to incorporate social dimensions of growth in our paper.

The second issue is the role of government. I think that the majority of the people more or less recognize the role of the government, but some people mentioned the question of what is the right balance between the government's role and the market's role. And here I think the context of each country matters, so it is quite difficult to generalize what is the right and good balance between the government and the market. Also, we have to identify the market failures in each country. So in case JICA will implement some projects based on the JICA /JBIC paper for industrial development strategy, I think our approach should be country specific, taking into account the context of each country.

The third point is the developmental state. Here I think there are different definitions of the developmental state, and I see no common definitions of the developmental state. Maybe the necessity to have long-term vision of development was common, but I didn't see other common elements for the developmental state. And also developmental states are not always successful for economic development, and developmental states can become predatory states. So, I wonder if it is necessary to utilize the naming of the developmental state if there is a risk of very different interpretations based on that wording. But if the developmental state is relevant, I think it depends on the different factors, such as the kind of policies, the type of leaders, and also the type of institutions of the country. So, I have no clear idea on what is the definition of the developmental state.

The fourth point is the relationship between democracy, good governance and growth or industrial development. Here also I think there are different understandings, especially on the linkage between governance and the growth. Some people think that democracy and economic development are compatible, and for others, there was also an opinion concerning the need to have narrower definition of governance in the context of growth, and also some opinions concerning, saying that it is easier to achieve growth with a strong government, but that strong government doesn't necessarily mean authoritarian government. So here, in regard to the relationship between governance and economic development, I think that there are different understandings on the linkage.

So, finally, the follow-ups. We don't want to finish our work by this workshop, but we have to think of the follow-ups to this workshop. I have three ideas. One is to, of course, reflect the opinions and comments expressed during this workshop in JICA/JBIC paper as well as on the operations of JICA/JBIC in Africa. The second follow-up is that we have now several potential subjects of further research activities by JICA, so we will consider the different subjects that were raised during this workshop in order to conduct further research activities of JICA. The third follow-up is to establish a network among participants, particularly between Asian and African researchers. I think this workshop was very useful, especially to have the perspectives of African researchers, and we hope that we can continue to have this network between the Asian, particularly Japanese, researchers and African researchers. And JICA is ready to play a role of facilitator in order to promote the networking. So, those are my concluding remarks for this workshop. Thank you.

H. Kato: Thank you very much Mr. Kuroki. Now, I think Mr. Kuroki has made a very extensive and comprehensive summary and remarks, so I don't think I have anything to add. I simply want to conclude this workshop by first of all thanking six distinguished guests from overseas: Professor Noman, Dr. Thee, Dr. Edighiji, Dr. Mkandawire, Dr. Kalema, and last but not least, Honorable el-Rufai, for taking time from their busy schedules to be with us today. You know, Tokyo is very far, not only from the intellectual centers of the world like Washington and Europe, but also far from the growing center of the world, Africa. So, we intentionally made the decision to hold this kind of workshop in Tokyo to create opportunities for those who aren't very familiar with Japan, and to have an opportunity to mix with Japanese researchers and practitioners. So, we'd like to do this as often as possible in the years to come, so I hope this process will continue to develop. And I also would like to thank all of the participants, commentators and those academic researchers who have been supporting our exercise. And also I'd like to thank all of the participants who have taken their time to be with us despite the bad weather today. And finally, I'd like to thank the simultaneous interpreters for their excellent work. I understand that the topic of today's workshop has been very varied and difficult, and I would like to thank the interpreters by, you know, -- thanks. With this I'd like to conclude today's workshop. Once again, thank you very much for your being with us today, and I hope to see you again. Thank you very much.

Strategy for Sustained Growth Acceleration (SGA) in Africa
- A View from Asian Experiences -
(Provisional Output from JICA-JBIC Stocktaking Work)

Feb. 2008

Atsushi Hanatani
Senior Advisor
IFIC-JICA

1

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An Opportunity for Mutual Learning between Asia and Africa

- Renewed interest in Asian experiences and African successes
  - Confidence in African Economic Growth
  - Growing Economic Ties between Asian New Economies (China and India) and Africa
- Interest in Asian experiences expressed at development fora by African leaders at a number of occasions
- Growing academic interest around possibility of "Developmental State" in Africa

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Possible Input to Int'l Fora in 2008 - TICAD IV and G8 Summit

- Opportunities for int'l Community to exchange ideas and discuss way forward on future of "Vibrant Africa"
- GOJ willing to renew its commitment to support African development around three broad themes
  - Acceleration of Growth
  - Promotion of "Human Security"
  - Combating Climate Change

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Key Messages

- Africa needs to sustain and accelerate growth through <u>export-oriented industrialization</u>
- Governments in Africa need <u>more policy space</u> to discover and help develop growth-leading industries
- A call for establishing "<u>Industrialization Strategy</u>" <u>process</u> in Africa

4

4

SGA in Asia and Africa

<u>In Asia</u>

- High and long-term growth achieved

<Selected Indicators for SGA Asian Countries >

	Real GDP Growth	Real Per Capita GDP Growth (1995-2004)	Pop. Growth
PRC (1978-2005)	**9.73**	**8.41**	**1.2**
Indonesia (1967-2005)	**6.14**	**3.96**	**1.9**
Korea (1962-2005)	**7.33**	**5.97**	**1.4**
Malaysia (1970-2005)	**6.66**	**4.50**	**2.4**
Thailand (1960-2005)	**6.69**	**4.69**	**2.0**
Vietnam (1985-2005)	**6.72**	**4.68**	**1.7**
Average	**6.7**	**4.8**	**1.8**

- Growth realized under "export-oriented industrialization"

<u>In Africa</u>

- Current growth needs not only to be sustained but accelerated

<Selected Indicators for SSA Countries (1996-2005 Average)>

	Real GDP Growth	Real Per Capita GDP Growth	Pop. Growth
SSA Africa with Growth >= 2.0%	7.3	4.8	2.5
SSA Africa with Growth <= 2.0%	2.7	0.04	2.5
Average SSA	4.5	2.0	2.4

- <u>High time to strategize resource mobilization to achieve SGA (commodity boom may not last long)</u>

Source: S. Johnson et. al, IMF, 2007

5

5

Diversified paths of development in Asia

- Common features
  - Gradual institutional development under stable and development-oriented government
  - Early stage investment in agriculture and rural sector (led to political stability, mitigation of demo. pressure)
  - Century-long economic transaction network connected markets and capitals in the region
  - Capital formation (physical, H.R. and financial) enabled by positive real interest rate
- Diversity across country and over time
  - Domestic res.-based v.s. FDI-based
  - State-led v.s. Private-sector led
  - IS → EO → Globalization
  - Growth-leading industries
- Discovery of growth industries through government-private sector strategic partnership was the key – a process of adjustment to the environment and search for latent potentials

6

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Limited policy space in Africa

- Economic strategies and policies have become uniform under globalization and international trade regime
- Limited scope for the role of government in economic development, while private sector is still weak
- Past efforts in realising macroeconomic stability and reforms have not borne fruits in promoting new industries
- The issue of “policy space” is gradually high on agenda in international debate on trade and development (UNCTAD XI 2004, World Summit 2005)

7

7

Why more space for policy?

- Past efforts in maintaining stability and enacting reforms may not have been sufficient in diversifying African economies
- More attention is necessary for uniqueness of individual economy and constraints thereof
- Market failures can be complemented by government in light of coordination when and where market is still weak and underdeveloped
- Need for signals to guide private investment to realize desirable economic structure from the long-term development point of view

8

8

Enhanced policy space through “Industrialization Strategy”

- Identify long-term vision of economic development, desirable economic structure and positioning in international value-chain system
- Discover, through public-private dialogue, potential growth-leading industries based on existing and latent potentials
- Identify constraints surrounding the leading industries as well as related investments (infrastructure, HRD etc.) necessary to support the industries
- Devise measures to remove constraints and supporting measures according to the level of institutional capacity of the country

9

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Some key principles of “Industrialization Strategy”

- Industries mean more than manufacturing – includes services sector and agriculture
- Clear and objective criteria to identify the industries and maintain transparency
- Information sharing through public-private partnerships – establishing a “process”, not a document
- Promotion with discipline and competition
- Proceed as institutional capacity develops

10

10

Some Asian cases as reference for strategic options in Africa

- <u>Mineral resource based economies</u>
  - Investment of revenues from mineral resources in agriculture and rural development: Indonesia
  - Breakaway from mineral resource dependent economy: Malaysia
- <u>Non-mineral resource based economies</u>
  - Promotion of commercial agriculture export industries: Thailand
  - Promotion of ICT industries through investment in higher and technical education: India
- <u>Common Approaches</u>
  - Supporting industry development: Malaysia
  - Use of SEZs: PRC, Thailand, Bangladesh
  - Discovery of community-based export product: Thailand
  - Corridor development: Mekong Basin Development

11

11

Some policy options for consideration

1. Industrial development measures
   - Use of SEZs as a pilot of institutional reforms
   - Promotion of SMMEs – formalization of informal sector
2. Fundamental growth-driving functions
   - Infrastructure incl. cross border – need for providing minimum standard as public goods
   - Human resources development – importance of female education, sci-tech education and reverse brain drain
   - Financial market development – property rights reforms

12

12

Some policy options for consideration (cont'd)

3. Agriculture and rural development
   - Increasing productivity of staple crops (cereals and tubers)
   - Promoting commercialization of agriculture – linking up with international and domestic value-chain system
4. Regional and extra-regional markets
   - Promotion of regional markets
   - Indian Ocean Rim countries may offer future potential market

13

13

Role of international community

- Support for diverse development strategies and policies to accelerate growth（flexibility in applying international standards to Africa）
- Sustain efforts to maintain/enhance market accessibility for African products
- Investment in large-scale and regional infrastructure projects
- Enhanced support in poverty reduction and human resource development to attain MDGs

14

14

Recommendations for the Government of Japan

- Knowledge and dialogue-based support for "Industrialization Strategy" development reflecting Asian experiences
- Technical support for export product development and marketing related capacity development
- Technical and managerial support for SMMEs and industrial cluster development
- Sci-tech education (incl. ICT)
- Infrastructure development, with emphasis on those with regional impact
- Agriculture and rural development, aiming both at cereal productivity increase and promotion of commercial agriculture

15

15

Recommendations for the Government of Japan (cont'd)

- Introduction of Japanese version of AGOA/EBA
- Strengthening capacity to better utilize preferential tariff arrangement
- Promotion of public-private partnership in Japan - incentive packages for Japanese firms to reduce investment cost/risk (investment financing, trade insurance, support for infrastructure and CSR activities)

16

16

Concluding remarks

- "Industrialization Strategy" as an institutional process – NOT a piece of document
- A trial and error process: be aware, some may end up in flops!
- Support measures adopted in accordance with institutional capacity – one may as well begin with neutral – cross sectoral – measures
- Most support measures are permissible for LDCs, even under today's international rules

17

17

So, is it a matter of willingness (or feasibility)?

Thank you for your attention.

18

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(Not for Quotation)

Can Africa Afford Not To Be Asia? What Does That Mean?

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Can Africa Afford Not To Be Asia? What Does That Mean?

- The African tragedy of having been left out of the unprecedented economic growth that the world has experienced in the past 50 years or so stems from not learning the lessons of success, including in Africa itself. In particular, the policies adopted by or imposed on much of Africa in the past 25 years or so not only neglected but often violated the lessons of Asian successes. Africa has paid an exorbitantly high price for this "non-learning", even "unlearning" of lessons.

- This and more importantly what to do about it in the future to achieve sustained accelerated growth is the motivation of the task force on Africa set-up by the Initiative for Policy Dialogue (IPD) at Columbia University, a think-tank established by Nobel laureate Jospeh Stiglitz. Like other IPD task forces, the one on Africa brings together a network of scholars and practitioners from across the world. The fact that JICA has launched a similar exercise proves yet again that great minds think alike!

- I am not bragging so much as pointing out that those who co-chair the IPD task force with me are Joseph Stiglitz and Kwesi Botchwey; that our task force also includes such great minds as Thandika Mkandiwere, and that we are hoping to involve some distinguished Japanese scholars in the task force.

- Lessons are of course, learnt not only from successes but also failures – African, Asian and elsewhere. One lesson is: nothing fails like failure as illustrated by the Asian crisis of the late 1990s, when the whole Asian model was turned on its head by many orthodox economists and commentators. What had been deemed to be central elements of Asian success such as overcoming coordination failures and capturing externalities via state-business relations, relationship banking etc. were condemned as "crony capitalism". The glee and rapidity with which neo-liberalism seized upon the Asian crisis to try and discredit the Asian model is a testimony to the power of ideology; to how ideas matter.

- So what chance did Africa or for that matter Latin America have when they ran into difficulties by the end of the 1970s? Just as in E. Asia, the remedies proposed for Africa were often of the sort that cure the patient by killing her. There was one important difference though: Asia's treatment only lasted some three years whereas for Africa it was nearer to three decades.

- This is NOT to say that there weren't some important lessons from the collapse of growth and the crises that engulfed much of Africa around 1980. There was in many cases excessive "etatism": neglect of the fact that there are not only market failures but also government failures, overvalued exchange rates, macroeconomic instability, decrepit state dominated financial sectors, excessive public sector employment, neglect of agriculture and so on.

- But overall, the stylized African story can be said to be one of going or being made to go from one extreme to the other: from excessive faith in governments to excessive faith in markets. Thus not learning the *overarching lesson of success in Asia and elsewhere: getting the balance right between the state and the market*. And to do so by adaptation and adjustments depending on the context: the stage of development, economic size, recourse endowments, state capabilities, other country idiosyncrasies, the state of the world and so on.

- Whilst there has been growing recognition that there was excessive faith in markets when conditionality pertaining to stabilization and "structural adjustment" became the fashion; concern with government failure continues to make much of economic policy analysis and advice wary of interventions. One strand of thinking accepts an important role for governments but confines it to the realm of infrastructure – both physical and institutional (property rights etc.). Another strand seeks inspiration from the lessons of success, above all, but not only, in the Asian star performers and finds that the role of government has been invariably more complex, more extensive and more contextual. What is required is a comprehensive approach that focuses on key complementarities and constraints in specific country contexts.

- One question that is often asked is whether the capabilities and governance of African countries allow emulation of Asian success? This is the wrong question. First there is, of course, no monolithic Africa. The differences within Africa are highlighted by the fact that the fastest growing economy in the world in the past 50 years or so is African: Botswana. Mauritius is another long-standing success story and there are several cases of success in different places, times and ways.

- The question is what lessons are relevant and how to translate them in specific country contexts and what capacities of the state need to be strengthened when? That is of prioritization and sequencing of reforms, including for building capacity. Another way of posing the right question is the following: for a reasonably committed, serious, "developmentalist" African government what are the policy options and what are the trade-offs involved in making policy choices?

- Take the case of industrial policies: probably the most controversial aspect of the relevance of the Asian experience (indeed, some have even questioned their efficacy in East Asia). Whilst there is much to be said for reforming trade regimes characterized by irrational, highly distorted structures of protection; and there are risks associated with interventionist trade and industrial policies; they can be highly rewarding.

- Going to the other extreme of completely foregoing some form or degree of industrial policy also has risks and costs. Thus it has been argued that trade reforms in Africa often took away “bad” incentives for productive investment but made things worse by replacing them with nothing. The result frequently was not an elimination of rents but their diversion to other less useful or “growth-unfriendly” forms such as kick-backs on government contracts; also that the absence of any form or degree of industrial policy in most of Africa in the past 25 years or so had contributed to the de-industrialization of Africa as reflected in the falling share of manufacturing in GDP and employment.

- There are many dimensions to industrial policy and it has taken markedly different forms in different contexts. Of special relevance to Africa are two related aspects of industrial policy: socializing or reducing the risks of investment and grooming a class of entrepreneurs/capitalists/industrialists. This last might be called the “infant capitalist” or “infant entrepreneur” argument for industrial policy as distinct from the well-known infant industry argument. Outside East and S-E Asia, Pakistan of the 1950s and 1960s is a particularly good example of this. It is of special significance for Africa, where the organized/formal private sector is not only sparse but heavily dominated by foreign investors or ethnic minorities of relatively recent vintage. Malaysia’s experience is also of particular interest in this regard.

- Another dimension of industrial policy of particular relevance to Africa is the one of special economic zones (SEZs) that played such an important role in China, especially for regulatory experimentation and in concentrating infrastructure and other support services. One of the exercises being undertaken by IPD’s Africa task force is to assess the African experience with SEZs and analyze how it might be improved in the light of Asian experiences.

- Yes, there are risks and many examples of going wrong with industrial policies. But that is also the case for most, if not all polices. There are also failed stabilization programs, disastrous privatizations and inappropriate deregulation. The issue is whether to draw lessons from both failures and successes or simply give up? Yes, there is a danger of the rents associated with industrial policies becoming permanent subsidies to inefficient infants that refuse to grow up. But rents and risks are not exclusive to industrial policy or interventionism.

- Neo-liberal reforms, especially privatization and concessions, can also give rise to rents. The issue is not whether or not there are rents but how those rents are used; what activities do they encourage; what risks are worth taking and what institutional arrangements minimize agency costs. Whilst the degree of success in the quintessential Asian developmental states like Japan, Korea. Taiwan or Singapore is difficult to replicate, there had been notable successes in quasi-developmental or “developmentist” states in South and S-E Asia.

- In Africa too there were examples of success with industrial policies: e.g. leather and flowers in Ethiopia; tea in Kenya; South African breweries adapting to and encouraging use of local materials; and possibly some JICA projects (e.g. hand-operated simple water pumps in Ethiopia which could and were produced locally?). More generally, a research project nearing completion whose findings were presented at the last meeting of the Africa task force shows that within Africa there was a positive relationship between the strength of State-Business relations and economic growth. In any event, learning necessarily implies adaptation since circumstances are never exactly the same.

- Why did Ethiopia succeed where Ghana had once failed? Why did India's automobile industry break out from its technological paralysis? Under what circumstances or for what types of states, what sort of industrial policies should be put on the menu of policy options? What sort of "health warning" should they carry? How can one reduce the risks of picking losers that is inherent in "vertical" as opposed to "horizontal" industrial policies that focus, say on all new exports? Is it possible for Africa to reverse de-industrialization and increase employment opportunities in the industrial or formal sectors without some form of industrial policy? Indeed, can Africa narrow the widening agricultural productivity gap with the other regions without an industrial policy for agriculture? These are some of the questions that IPD's Africa task force is trying to shed light on.

- Simply replacing the biases against agriculture by abolishing marketing boards and liberalizing prices proved far from adequate. Industrial policy for agriculture arguable played a vital role not only in East Asia but also in the green revolution in the "quasi-developmental" states of India and Pakistan Also, simply reforming decrepit financial sectors by privatization and liberalization of interest rates was hopelessly inadequate for providing access to term finance at reasonable interest rates. Again whilst there were failures, there are also examples of reasonable success with interventionism in the financial sector in a variety of countries other than the "pure" developmental states such as Japan, Korea and Taiwan.

- Questions about policy lessons for Africa from Asia have arisen both from the perspective of governmental capacity and the related but distinct one of governance. The concern with governance has partly to do with the perfectly understandable and legitimate fiduciary concern of aid donors. But it can also serve to divert attention from policies to governance as an explanation of the disappointing growth performance of Africa. Problems of governance are sometimes invoked in a manner that has the implication of restricting the policy space and narrowing the policy options for African countries. Thus, it has been suggested that "bad" governance argues for a minimalist state which should abstain from East Asian style interventions. But aside from the many examples of committed, serious developmental regimes and leaders in Africa (cf. Mkandawire); the idealized Asian development state is a bit of a myth; it did not appear overnight as a fully-formed gift from heaven. Its emergence was often a messy process with ups and downs and not free from either corruption or trial and error. Moreover, less than full-fledged development states with a great deal of corruption have also had many successes with "Asian interventionism" (e.g. Indonesia, India, Pakistan, Bangladesh, not to mention China).

- Recent research by Mushtaq Khan (also presented at IPD's frica task force meeting) finds that if one takes the developed countries out of the econometric study of the relationship between growth and governance as measured by the standard indicators, there is no meaningful statistical relationship. Fighting corruption is, of course, highly desirable and the proper accounting of aid monies essential for donors. Corruption can be highly damaging to developmental efforts but if its absence was necessary for development, there would be no developed countries in the world. There are always rents and the question is how the rents are used and how corruption is mitigated. Climbing the productivity or technology ladder has often required rents/subsidies: when this is successful, corruption appears as benign; if it fails in inducing "catch-up", then it appears as malign.

- There is a worry that the governance agenda, as it is often framed, risks making the pursuit of the best, the enemy of the good. "Good governance" as has come to be commonly defined may well be impossible to achieve in low-income countries. Successful anti-corruption efforts need to have priorities. These should be informed by such considerations as what are the requirements and prospects of moving towards a developmental state in specific country contexts? How can the risks of government failure be mitigated? What are the most pressing anti-corruption measures? What aspect of governance and state capabilities need to be focused upon? What specific market failures need to be addressed and how in particular contexts. Such parsing and refinement of the governance agenda is another of the tasks that the IPD task force is to attempt.

- An important strand of research has emphasized Africa's geography as an impediment to its growth. This includes the major recent research project of the African Economic Research Consortium (AERC), "Explaining African Growth". Geography is, of course important: it affects the availability of natural resources, transport costs, irrigation potential, infrastructure costs, disease burden and so on. Geography may well be an important explanation of why some countries are poorer than others or of past growth or technical change. Indeed, there may well be some validity to the Jared Diamond view that in the distant past, the East-West Axis and contiguous land mass of Eurasia facilitated trade and knowledge flows as compared with the North-South axis and physical barriers of Africa and the Americas.

- The issue this raises is: so what in terms of policies and future growth potential in this age? Are transport costs that important and measures to reduce them that difficult or expensive? At worst, being land-locked means a somewhat higher requirement for such investments for any given growth and/or wages and land rents will be lower than they otherwise would be. It may well argue for aid donors to provide more assistance for investments in overcoming such infrastructural barriers in land-locked countries, ceteris paribus. How big a deal is that? And once these "adjustments" are made, even if levels of income are lower, why should *growth* be lower? Perhaps the main underlying concern is the danger of an excessive focus on geography having the two related effects of (a) distracting attention away from the policies and institutions needed to realize a country's growth potential; and/or (b) camouflaging the past failings of policies and reform conditionalities inspired by the so-called Washington consensus. At any rate, some combination of synthesis and research work to clarify the issues surrounding the role of geography is clearly an important task for future work.

- Another one is to learn lessons on how to manage the so-called "resource curse". The importance of this "curse" for Africa can hardly be exaggerated; the more so given the growing importance of oil exports. Aid can also exacerbate the problems of what has come to be known as the "Dutch disease". Africa provides the best example of overcoming the resource curse in the performance of Botswana but unfortunately it also provides some of the worst examples like Nigeria. Aside from learning its own lesson, Africa could also learn lessons from such Asian successes as Malaysia and Indonesia, which escaped the resource curse by diversifying their economies, including notably through manufactured exports. How to keep exchange rates competitive and take other measures to stimulate the growth of the tradable sectors is a major challenge for Africa that is likely to benefit from learning Asian lessons. It is all the more important if the benefits of growth are to be widely shared.

- Ethiopian Prime Minister Meles Zenawi in a paper distributed at IPD's Africa task force meeting speaks about the need and desirability of an African developmental state and of emulating Asian success, particularly with industrial policies. He forcefully criticizes the argument for neo-liberal reforms of the Washington Consensus variety that said to African countries: There is no alternative (TINA). At any rate, does Africa have an alternative to traversing the path that much of Asia has been on, if it is to achieve structural transformation, sustained rapid growth and poverty reduction? The question is how does an African country do it? One answer is obvious: it depends on the country. How to illuminate the policy paths available to such a country is the task that JICA has invited us to participate in. Thank you.

INDONESIA'S ECONOMIC DEVELOPMENT DURING AND AFTER THE SOEHARTO ERA -ACHIEVEMENTS AND FAILINGS [1]

THEE Kian Wie[2]

Introduction

After presenting a brief overview of Indonesia's rapid and sustained economic growth during Soeharto's New Order era and its performance after the Asian economic crisis, this paper discusses the country's economic and social achievements as well as its serious shortcomings during the New Order era. The paper then discusses the challenges which the post-Soeharto governments faced in solving the serious economic and social problems currently facing Indonesia.

The Indonesian economy during and after the Soeharto era: an overview

The achievements of Soeharto's New Order (1966-1998)

During the late Sukarno years in the mid-1960s, Indonesia was experiencing stagnating output, widespread poverty and hunger, crumbling infrastructure and a hyperinflation of almost 600 per cent because of runaway deficit-financing. However, after a successful stabilization and rehabilitation program designed by a new team of capable economic advisers (the so-called 'Berkeley Mafia'[3]), Indonesia since the late 1960s embarked on a period of rapid and sustained economic growth averaging 6.7 percent annually which lasted for three decades until the Asian economic crisis struck Indonesia in 1997/98.

Meanwhile, a successful family planning program reduced population growth from an average of 2.4 per cent in the period 1965 to 1.8 per cent in 1980-1996 (World Bank, 1992: 268; 1998: 43). The resultant average population growth of 2.0 per cent led to an average, annual GNP per capita growth of 4.7 per cent, one of the highest rates among the world's fast-growing, emerging economies (World Bank, 1998: 25). While per capita GNP was around $ 100 in the mid-1960s, it had reached $ 580 in 1982, and almost $ 1,000 in the early 1990s, enabling Indonesia to 'graduate' from the ranks of the 'low income' into the ranks of the 'lower middle income economies' (Thee, 2002: 198).

Indonesia's rapid economic growth was underpinned by a rapid and sustained growth in gross domestic investment, including investment in human capital, averaging 9.2 per cent on the average during the period 1965-1997, on a par like the two other, rapidly growing Southeast Asian economies, Malaysia and Thailand (World Bank, 1999: 16-9).

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3 The group of Soeharto's economic advisers were named the 'Berkeley Mafia' since many of them, though not all, had pursued their postgraduate study in economics at The University of California, Berkeley.

Indonesia's rapid growth was also driven by high rates of total factor productivity (TFP) growth (World Bank, 1993: 28-29; 40-48).

Indonesia's rapid and sustained growth was also accompanied by a steady reduction in the incidence of absolute poverty. This decline took place in both the urban and rural areas (table 1).

Table 1 The decline in absolute poverty in Indonesia, 1976 – 1996
(% of people under official poverty line)

Year	Urban areas	Rural areas	Total
1976	38.8	40.4	40.1
1978	30.8	33.3	33.3
1980	29.0	28.4	28.6
1981	28.1	26.5	26.9
1984	23.1	21.2	21.6
1987	20.1	16.1	17.4
1990	16.8	14.3	15.1
1993	13.5	13.8	13.7
1996	9.7	12.3	11.3

Source: Central Agency of Statistics (BPS), Jakarta)..

In a context of growing population during the above period, the corresponding number of poor people fell from around 54 million people in 1976 to 23 million people in 1996 (BPS). This steep reduction in poverty was quite remarkable, as reflected by a comparative World Bank study on poverty alleviation in developing countries. This study found that over the period 1970 – 1987 the average annual reduction in absolute poverty in Indonesia was much higher than in the other developing countries (World Bank 1990: 45).

During the 1970s this remarkable achievement was caused by the successful stabilization of food prices which, particularly on Java, meant that the poor experienced a lower rate of inflation than the rich. The steady growth in agricultural production during the 1970s and early 1980s was made possible by the government's commitment to abroad-based rural development, as reflected by the successful dissemination of new production technologies in the food crop (particularly rice) sector, which generated new employment opportunities in production, processing, and marketing. The two oil booms in the 1970s (1973/74 and 1978/79) also spurred rapid growth in the non-tradable sectors, including construction and trade, which created new employment opportunities for the large number of unskilled workers (Booth, 2000: 81).

Even after the end of the oil boom era in 1982 which forced the government to pursue tight fiscal and monetary policies to restore macroeconomic stability, absolute poverty kept falling. The reason was that the budget cuts after 1982 were made in the capital-intensive sectors, including energy, and in the transmigration (resettlement) program and the subsidies to state-owned enterprises, which died not have a large effect on employment (Booth, 2000: 85).

After the resumption of rapid growth in the late 1980s poverty declined at a slower rate, particularly in the rural areas, as the agricultural sector was given a lower priority compared to large-scale, capital-intensive and technology-intensive (e.g. aircraft assembly) manufacturing, modern services and physical infrastructure. Hence, since the late 1980s economic policies became less pro-poor (Booth, 2000: 89-90).

Rapid economic growth was also accompanied by rapid social development, as reflected by a number of social indicators, including rising net primary enrollment ratios which for both boys and girls were close to 100, infant mortality rates which showed a sharp decline compared to 1970, and a rising percentage of the population having access to safe water (World Bank, 1999: 16-19). In fact, by 1980 Indonesia's net primary enrollment ratios of both male and female students were already quite high as a result of the government's large investments in the expansion of primary education, particularly in the rural areas. This expansion was made possible by the oil boom windfall gains in the 1970s (Jones, 1994: 164). By the late 1980s the goal of universal primary education had largely been achieved, assisted by slower growth of the primary school age education due to the successful family planning program introduced in the 1970s.

Indonesia's three decade-long rapid economic growth was driven by rapid growth of all three main sectors, including agriculture, manufacturing, and services. During this period Indonesia's manufacturing sector grew at a faster rate than the two other main sectors (table 2).

Table 2 Economic growth in Indonesia, 1965 – 1996
(average annual growth rates (%)

	1965 - 1980	1980 – 1990	1990 - 1996
Agriculture	4.3	3.4	2.8
Manufacturing	12.0	12.6	11.1
Services	7.3	7.0	7.4
GDP	7.0	6.1	7.7

Source: World Bank: World Development Indicators, successive issues.

As a result of the much faster growth of the manufacturing sector than the other sectors, the Indonesian economy experienced a rapid structural transformation as the contribution of the manufacturing sector rose from 8 per cent of GDP in 1965 to 25 per cent in 1996, while the agricultural sector contracted from over 45 per cent to 16 per cent during the same period. During this same period, Indonesia's manufacturing sector on the average also grew faster than most of the other East Asian emerging economies, except for South Korea. Table 3 presents data on the rapid industrial transformation which Indonesia experienced during the New Order era in comparison with the three other large ASEAN countries.

Table 3 Indonesia's industrial development in ASEAN perspective, 1965 - 1996

	MVA (millions of US$)		**MVA as % of GDP**		**% ME of TE**	
	1970	1996	1965	1996	1965	1996
Indonesia	994	58,244	8	25	4	51
Malaysia	500	34,030	9	34	6	76
Philippines	1.,622	18,908	20	23	6	84
Thailand	1,130	51,525	14	29	3	73

Notes: 1. MVA = manufacturing value added
2. ME = manufactured exports
3. TE = total exports

Source: Thee, 2002, as quoted from World Bank: World Development Indicators, successive issues.

The data in table 3 show that although in 1965, the full last year that President Sukarno held power, Indonesia had a much smaller manufacturing sector than the Philippines (which had been the most industrialised country in Southeast Asia since the early 1950s) and Thailand. However, after a sustained double-digit industrial growth in the following three decades, by 1996 Indonesia had the largest manufacturing sector in Southeast Asia. Table 3 also shows that while manufactured exports (mostly processed commodities) only accounted for four per cent of Indonesia's total exports in 1965, they accounted for 51 per cent in 1996. This was the outcome of a series of deregulation measures, including a series of trade reforms to reduce the 'anti-export bias' of the highly protectionist trade regime, which the government had introduced after the end of the oil boom in 1982.

These deregulation measures, including the trade reforms, to spur the development of a more efficient and competitive private sector and increase non-oil exports, particularly manufactured exports, to offset the decline in oil and gas exports, proved to be very successful. Since the late 1980s the manufacturing sector had replaced the oil sector, not only as the major source of export earnings, but also as the major engine of growth. In turn, the rapid growth of the manufacturing sector was mainly driven by the rapid growth of manufactured exports. .

During the oil boom era of the 1970s, Indonesia had pursued an import-substitution pattern of industrialization which, after the end of the 'easy' phase of import-substitution in the mid-1970s, was followed by a second-stage import substitution in the late 1970s. Flush with the proceeds from the oil boom, the second stage of import substitution was initiated to establish a range of upstream, basic, resource-processing industries (steel, aluminium ingots), to be financed largely by the proceeds from the oil boom, and to be initiated and operated by state-owned enterprises (Thee, 2002: 222)..

As a result of its considerable economic and social achievements, the World Bank in its famous but controversial report of 1993, '*The East Asian Economic Miracle – Economic Growth and Public Policy*', classified Indonesia, along with Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia and Thailand, as one of the eight '*High-Performing Asian Economies*' (HPAEs) (World Bank, 1993: 1). While other developing countries had grown equally rapidly, none had achieved such high and sustained rates for such a long period. Because of its recent good performance in manufactured exports, Indonesia, together with Malaysia and Thailand, was also classified as one of the three *newly-industrialising economies*' (NIEs) in the World Bank report (World Bank, 1993: 1).:

The Asian financial and economic crisis and its aftermath

However, only four years after the release of the East Asian Miracle report, and only two months after a fairly upbeat World Bank of May 1997 which projected that the Indonesian economy would continue to grow at an average annual rate of 7.8 per cent (World Bank, 1997: 29), market sentiments about the Southeast Asian economies, including Indonesia, suddenly turned worse. As a result, the currency markets in these countries, including Indonesia, came under increasing pressure, causing the currencies, including the Indonesian *rupiah,* to depreciate rapidly, as foreign investors and creditors scrambled to purchase US dollars to reduce their exposure to these countries, including Indonesia. This sudden reversal was ironic, since before the crisis the Indonesian authorities were concerned about the strength rather than the weakness of the *rupiah* (Hofman, et.al. 2007: 70).

When several attempts by the Indonesian authorities, including a steep increase in interest rates, tight monetary and fiscal policies and the floating of the *rupiah* by Bank Indonesia, Indonesia's central bank, failed to stem its downward slide, the Indonesian government in late October 1997 turned to the IMF for financial assistance. In return for a large standby loan offered by the IMF, the Indonesian government in its Letter of Intent (LoI) to the IMF pledged to implement a comprehensive reform program, including sound macroeconomic policies, restructuring the financial sector, and undertaking structural reforms. It was hoped that, with the availability of the IMF standby loan backed by a credible financial and economic reform program, confidence in the *rupiah* could be restored (Sadli, 1999: 17).

The involvement of the IMF, however, failed to stem the downward slide of the *rupiah* and the ensuing economic crisis because, as some Indonesian critics argued, the IMF had prescribed 'one size fits all' reforms without taking account the peculiar economic conditions of Indonesia. For instance, in the first agreement with the IMF, it was stipulated that Indonesia had to tighten its fiscal policies, similar to the policies the IMF had prescribed to some Latin American countries which had run up large budget deficits because of loose fiscal policies. Before the onset of the crisis, however, the Indonesian government had run up a budget surplus. The decision to close 16 private insolvent banks, prescribed by the IMF, also proved fatal, since it led to a bank rush and the collapse of the entire banking system.

As a result the Indonesian government had to establish the Indonesian Banking Restructuring Agency (IBRA) to restructure the troubled banks through closures, mergers, recapitalization and to arrange the sale of its equity stake in these troubled banks. It was also to recover the transferred bad loans, and to monitor and sell the corporate assets transferred to IBRA from former bank owners as collateral for the liquidity credits provided by Bank Indonesia (Pangestu & Habir, 2002: 21) The recapitalization of the troubled banks by issuing bonds to these banks proved to be an extremely costly effort for the Indonesian government which until the present still has to pay costly interest on these bonds, a heavy burden on the government budget.

On the other hand, many critics of President Soeharto argued that the IMF involvement failed to halt the steady depreciation of the *rupiah* because of his reluctance to implement the agreed reforms vigorously, particularly the structural reforms. These latter were seen as aimed at hurting his childrens' many business interests.

Although the Asian economic crisis hit Indonesia in mid-1997, GDP in 1997 was still able to grow at 4.6 per cent (compared to 7.8 per cent in 1996), since all the sectors still managed to grow at positive though lower rates of growth. The full adverse impact of the crisis was only felt in 1998 when GDP contracted by an unprecedented –13.1 per cent. In 1999, however, the economy recovered slightly with an anemic but positive growth of 0.8 per cent.. As the economy slowly but steadily recovered in the subsequent years, GDP started growing at a more rapid rate, reaching 6.5 per cent in 2007 (table 4).

Table 4 Indonesia's economic growth after the Asian economic crisis, 1998 – 2007
(% annual growth)

1998	- 13.1 per cent
1999	0.8 per cent
2000	4.8 per cent
2001	3.8 per cent
2002	4.3 per cent
2003	4.8 per cent
2004	5.1 per cent
2005	5.6 per cent
2006	6.1 per cent
2007	6.5 per cent

Source: BPS (Central Agency of Statistics)., Jakarta

In line with Indonesia's economic recovery, poverty rates also steadily declined after reaching a peak of 23.5 per cent in 1999 (table 5).

Table 5 The incidence of poverty after the Asian economic crisis, 1996– 2007

Year	Percentage of population under the poverty line	Number of poor people (millions)
1996	17.6 *)	34.5
1999	23.5	48.4

2001	19,0	37.3
2002	18.4	38.4
2003	18.2	37.3
2004	17.4	36.1
2005	16.0	35.0
2006	17.8	39.3
2007 (preliminary estimate)	16.6	37.2

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Note: *) After the Asian economic crisis, the Central Agency of Statistics revised its poverty estimates based on a better method to estimate the incidence of poverty.

Source: Central Agency of Statistics (BPS), Jakarta.

In September 2006 the Central Agency of Statistics (BPS) announced that the poverty rate had increased from 16.0 per cent in February 2005 to 17.8 per cent in March 2006, corresponding to an increase in the number of poor people from 35 million to 39 million over this short period. It was the second time that the measured poverty rate had risen in recent years, the first and much more severe increase having occurred in 1998-1999 following the sharp contraction of the economy in 1998 (Lindblasd & Thee, 2007: 30)..

According to a recent World Bank study, three-quarters of the additional four million people falling below the poverty line did so as a result of the 33 per cent rise in rice prices between February 2005 and March 2006 rather than the fuel price increase, asserted by some critics of the government. The rice price increase was mainly caused by the ban on rice imports. According to the World Bank study, the Unconditional Cash Transfer Program (UCT), which provided direct cash transfers to to 19.2 million poor and near poor households, were able to offset the negative impact of the fuel price increase on these households (World Bank, 2006: x).

Although economic conditions continued to deteriorate and incidence of absolute poverty rose, the authoritarian Soeharto government proved unable to deal effectively with the serious financial and economic crisis, which eventually led to a serious political crisis, which forced President Soeharto to step down on 21 May 1998 after a reign of 32 years. Hence, within a time span of only one year, Indonesia had turned from a ‘booming economy’, extolled by the international aid community and many foreign observers as a development model worthy of emulation by other developing countries, into a ‘melted-down economy’ dependent for its survival on aid flows from the international aid community (Thee, 2003a: 184).

Was Indonesia under the New Order a ‘developmental state?’

In view of its high and sustained economic growth over three decades, and particularly in raising the standards of living of the Indonesian people, the question might be raised whether New Order Indonesia was a ‘capitalist developmental state’ as defined by

Chalmers Johnson. Quoting Manuel Castells, Johnson described the capitalist developmental state as:

‘ A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in relationship to the international economy’ (Johnson, 1992: 25, quoting Castells, 1992).

Referring to Japan’s case of a ‘capitalist developmental state’, Johnson further argued that ‘the power of the Japanese state has not been delegated to it by the elected representatives of the people; instead the state has imposed its economic achievements on the people and won their allegiance in doing so’ (Johnson, 1992: 26).

In view of Indonesia’s remarkable growth performance under the New Order, one might refer to New Order Indonesia as a ‘developmental state’. What accounted for the success of the New order state, and what factors accounted for its collapse after the onset of the Asian economic crisis?. Were there factors at work which, behind the facade of economic success, were undermining the economic and political foundations of the authoritarian New Order state? More specifically, did New Order Indonesia pursue an industrial policy, like Japan and the East Asian newly-industrialising economies (NIEs), such as South Korea and Taiwan, which led to the development of an intrernationally competitive manufacturing sector?

After suppressing the alleged communist coup on 30 September 1965, General Soeharto, Commander of the Army Strategic Reserve Command (*Kostrad*) was able to consolidate his power, and subsequently emerged as Indonesia’s effective leader after President Sukarno had transferred executive power to him. In March 1968 the Provisional People’s Consultative Assembly (MPRS) deposed President Sukarno, and appointed General Soeharto as Indonesia’s second president.

Having witnessed the misery in which the large majority of Indonesians lived during the late Sukarno years, President Soeharto realised that the people of Indonesia had suffered unduly because of President Sukarno’s predilections for playing politics (Elson, 2001: 150). Being preoccupied with ‘completing the national revolution’, including the liberation of Dutch-occupied West Irian (West New Guinea), and building an ‘Indonesian-style socialism’, and waging the ‘Crush Malaysia’ campaign in 1963, Sukarno had little interest in solving the country’s serious economic problems.

Hence, on assuming power, Soeharto was convince of the need for economic development and the crucial role that economic development might play in political pacification. Reflecting on this period, Soeharto in his memoirs stated that ‘all the deterioration that we experienced before 1966 had their origins in the neglect of economic development’ (Elson, 2001: 150). Hence, while Sukarno had obtained his political legitimacy as the primary leader in the revolutionary struggle against the Dutch, Soeharto had to obtain his legitimacy through economic development.

Facing the urgent need to solve the country's economic problems, notably hyperinflation, Soeharto turned to a group of five economists (Widjojo Nitisastro, Ali Wardhana, Mohamad Sadli, Emil Salim and Subroto) from the Faculty of Economics, University of Indonesia (FEUI), for economic advice. Soeharto had known these economists when he, as a participant at the Army Staff and Command School (*SESKOAD*) during the final years of the Sukarno government, had been taken courses in introductory economics given by these economists (Thee, 2003b: 21). According to Professor Sadli, one of the FEUI economists, Soeharto had obtained his basic knowledge about economics from these FEUI economists (Sadli, 1993).

Upon assuming power, Soeharto asked his team of economic advisers, ably led by Professor Widjojo, to draw up a Programme for Stabilisation and Rehabilitation. The main objective of the Programme was economic stabilization by stopping the hyperinflation by establishing the principle of a balanced budget, which prohibited the government from printing money to finance a budget deficit (Thee, 2003b: 23). The Rehabilitation Progamme involved the rehabilitation of the rundown infrastructure and productive apparatus.

From the outset Soeharto realised that Sukarno's anti-Western attitudes had been part of the problems Indonesia faced (Hollinger, 1996: 25). He therefore decided to abandon the bankrupt 'inward-looking policies' of the Sukarno government, and henceforth pursue 'outward-looking policies' by pursuing more liberal trade and foreign investment regimes. To this end, the New Order government decided to re-establish good relations with the Western countries and Japan. These good relations were deemed crucial to rescheduling repayments of the large foreign debts inherited from the Sukarno government; to obtaining foreign aid to support the balance of payments and the budget; and to attracting new foreign direct investment (Posthumus, 1971: 12). Pleased with the turn away from anti-Western and anti-capitalist policies, the international aid community responded favourably to Indonesia's request for rescheduling debt repayments and obtaining new foreign aid. At the initiative of the Netherlands government, an international aid consortium for Indonesia, the Inter-Governmental Group on Indonesia (IGGI), chaired by the Netherlands, was established in 1967.(Posthumus, 1971: 12)..

In contrast to the Sukarno government, the New Order government abandoned the 'statism' (the state as dominant player in the economy) of the Sukarno government. The stigma of private enterprise , characteristic of the Sukarno era, was removed (Sadli, 1988: 358). Henceforth, private enterprise, both domestic and foreign, was encouraged to invest in various economic activities to foster economic growth and employment. To this end, in 1967 a Foreign Investment Law was enacted in 1967 and a Domestic Investment Law in 1968. The 'open door' policy towards foreign investment attracted new foreign investment flows into the country, particularly in the oil sector, other mining projects and the mining sector (Hill, 1988: 81).

The Stabilisation and Rehabilitation Programme carried out by the economic team and with the strong political support of Soeharto resulted in an impressive economic recovery.

Hyperinflation was quickly brought under control by tight monetary and fiscal policies, which resulted in a rapid decline in the rate of inflation from 636 per cent in 1966 to only 9 per cent in 1970 (Grenville, 1981: 108). The restoration of and subsequent maintenance of macroeconomic stability enabled the New Order government to embark on a period of rapid economic growth which was generally sustained for the next three decades and which, as we have seen, led to a steep reduction in the incidence of absolute poverty, and a general increase in the welfare of the Indonesian people, as reflected by the improvement in several social indicators.

Despite these achievements, it is incorrect to characterise the authoritarian New Order state as a quintessential 'developmental state', similar to Japan, South Korea, Taiwan and Singapore. The reason for this are the failings and shortcomings of the New Order State, as described below.

Failings of the New Order state: the deterioration from a 'developmental state' into a 'predatory state'

Despite the initial successes of the New Order government, shortcomings of the New Order 'developmental state' soon became apparent. In response to critical press reports and criticism by dissidents of increasing corruption, President Soeharto in 1970 appointed a four-man commission (Commission of Four), headed by Wilopo and assisted by Mohammad Hatta, the respected former prime minister respectively former vice-president under Sukarno, to investigate and report on corruption (Elson, 2001: 195).

After serious investigations and intensive interviews with officials suspected of corruption, the Commision submitted several reports to President Soeharto, reporting on corruption committed by several generals close to Soeharto, and financial improprieties and irregular modes of operation by state enterprises, including Pertamina, the state-owned oil company, Perhutani, the state-owned forestry company, and agencies, such as Bulog, the Food Logistics Board, and questionable connections between state-owned enterprises and private individuals. However, concerned about antagonizing his political supporters, particularly the generals, Soeharto was unwilling to take strong steps against high-level corruption (Elson, 2001: 195, 197).

Over time corruption became increasingly blatant, until by the end of the increasingly oppressive and corrupt New Order regime in the mid-1990s the acronym KKN (corruption, collusion and nepotism) became synonymous with the New Order. This was reflected by the fact that by the late 1980s rising concern was voiced about the blatant corruption at all levels of government, collusive relationships between political power holders and their business cronies, and the proliferation of policy-generated barriers to domestic competition in the form of restrictive regulations and restraints on domestic competition and trade issued by the central and regional governments and sometimes by officially sanctioned trade and industry associations (World Bank, 1995: 45). These regulations and restrictions increased the costs of doing business in Indonesia, reduced efficiency and limited productive economic opportunities for bona fide entrepreneurs, including small and medium-scale enterprises (Thee, 2006: 141). These KKN practices also distorted market incentives by providing good opportunities for highly lucrative '*rent-seeking activities*' by well-connected businessmen and their political patrons in the government bureaucracy. These practices, as reflected by the blatant preferential treatment given to well-connected businessmen, several of them Sino-Indonesian tycoons, led to the explosive growth of large conglomerates which, unlike the highly competitive *chaebols* (Korean conglomerates), were not internationally competitive, since the bulk of their output was sold in the protected domestic market. With rapidly expanding interests in various sectors, including forestry, estate agriculture, manufacturing, banking and real estate, the stranglehold of these conglomerates in the economy was likened to that of an octopus (Thee, 2002: 213).

Not surprisingly, the rapid rise of big conglomerates reinforced the perception that there was a 'widening economic gap' between rich and poor, and between the Sino-Indonesian minority and the indigenous (*pribumi*) majority, which was undermining the social cohesion required for political stability and national development (Thee, 2002: 213-214). Some Indonesian critics also argued, with some justification that the rise of conglomerates has been at the expense of the development of a more broadly based entrepreneurial class, which in turn would be more representative of the country's diverse ethnic groups. In addition, most of the various government programs to promote small-scale, indigenous (*pribumi*) Indonesian enterprises turned out to be inadequate (Booth, 1998: 322) in fostering economically viable enterprises.

To a large extent the rapid and sustained growth during the New Order era can be attributed to the ability of the economic technocrats to maintain macroeconomic stability. They were able to do this thanks to the strong support, particularly during times of economic distress, given by President Soeharto, who over the years was able to strengthen and consolidate his position as the undisputed leader of the country. However, in the early 1990s the strict financial discipline which had been maintained by the economic technocrats since the late 1960s started to erode, largely because of the waning influence of the economic technocrats, many of whom had by that time retired. While a younger group of capable economic technocrats had succeeded them, they did not enjoy the trust and rapport with President Soeharto which the older generation of economic technocrats, particularly Professor Widjojo, the leader of the economic team, had enjoyed (Thee, 2003: 35).

The waning influence of the economic technocrats was reflected by rising off-budget expenditures, that is government transactions not recorded in the official budget of the government, and thus not under the strict control of the Department of Finance, but under the direct control of President Soeharto. These off-budget expenditures were allocated to ailing state-owned enterprises, the companies of well-connected businessmen, and the 'strategic industries', including the aircraft industry, controlled by Dr. B.J. Habibie, the powerful Minister of State for Research and Technology (Nasution, 1995: 19), and, last but not least, the companies owned and controlled by President Soeharto's children..

The erosion of financial discipline was a worrying development, as it clearly reflected the waning influence of the economic technocrats because during the last decade of the New

Order. Some senior economic posts passed to non-economists, many of them engineers, the so-called '*technologists*', who under the dynamic leadership of Dr. B.J. Habibie favoured 'hi-tech projects', such as the aircraft assembling industry (Thee, 2002: 214). Their political ascendancy was primarily due to the strong support they received from President Soeharto.

Economists, however, worried that these expensive hi-tech projects were projects of questionable economic viability, since they had been established without regard to the economy-wide scarcity of resources or the impact on the size distribution of income. Without a prudent policy that took proper account of resource constraints, ambitious projects would, it was feared, become devouring 'tape worms', as one critical economist put it (Nasution, 1995: 3-4).

Is there a reason why the strong tendency to engage in rent-seeking activities was so large in Indonesia during the New Order and still continues until the present. Is it due to the '*natural resource curse*' which allegedly afflicts many resource-rich countries, such as Indonesia, and which therefore deflected it from consistently focusing its efforts on developing a prosperous and equitable society underpinned by an efficient and an internationally competitive manufacturing sector?

The 'natural resource curse' is that slow economic growth in resource-rich countries is due to a failure to sustain efficient factor use, especially in industrial sectors where the potential for productivity gains is highest. Referring to Sachs and Warner, Coxhead argued that there is a negative relationship between GDP growth rates and natural resource wealth, as indicated by the experience of a large sample of countries (Coxhead, 2005: 71-72)

There are several explanations for this phenomenon. First, there are the adverse 'Dutch disease' effects of the boom in natural resource exports on the other, non-booming export industries because of the real appreciation of the exchange rate as a result of the large inflow of foreign exchange earnings. However, in the case of Indonesia the adverse 'Dutch Disease' effects were relatively mild, since the Indonesian government took several measures to protect those sectors and industries producing tradable goods. In the manufacturing sector a combination of high tariffs and quantitative restrictions on various consumer durables and cars and motor cycles effectively insulated domestic producers from foreign competition (Booth, 1992: 25). Unlike Nigeria where the oil boom led to a severe disruption of the agricultural economy, Indonesia managed to avoid serious economic disruption of its agricultural sector, because of the government's emphasis in the 1970s on agricultural development, particularly the rice crop sub-sector in order to achieve food self-sufficiency. Rice production grew by 4.2 per cent annually from 1968 to 1978 and by 6.7 per cent from 1978 to 1984, largely because of rapid increases in rice yields (Pinto, 1987: 432), made possible by the government's ability to benefit from the 'Green Revolution', involving the development of high-yielding, fertiliser-responsive seed varieties developed by the International Rice Research Institute (IRRI) in Los Banos, The Philippines, in the late 1960s and early 1970s (Thee, 2002: 217).

Second, it is also argued that exploitation of natural resource wealth reduces the return to human capital, and thus diminishes incentives for educational attainment. Resource-rich countries therefore encounter a form of low-level equilibrium trap in their attempts at industrial and technological upgrading because of their weakness in skilled manpower (Coxhead,. 2005: 72-73). Despite the rapid expansion of primary, and to lesser extent secondary, education in Indonesia during the New Order, secondary and particularly tertiary education has lagged far behind its East Asian neighbours, particularly South Korea, Taiwan, Hong Kong and Singapore (World Bank, 1999). No wonder this has hampered Indonesia's industrial and technological upgrading.

Third, it has also been argued by political economists that resource wealth promotes the ascendance of the '*predatory state*' over the '*developmental state*', either by actively encouraging the former through corruption related to resource rents, or by undermining the latter when revenue flows associated with resource extraction reduce the efficiency of policy and administration (Coxhead, 2005: 73, quoting Auty, 2001). We have seen that in the late New Order era, with its extensive and blatant KKN practices as described above, the New Order state increasingly acquired the characteristics of a 'predatory state'.

As the power of the centralised New Order state accumulated over time at the expense of society and, if threatened, was sustained by violence, authoritarianism eventually led to self-serving policies, including the exploitation of natural resources of resource-rich regions for the benefit of the central government and the ruling elite. Eventually this led to discontent and separatist movements, notably in Aceh and Papua, which undermined the foundations of the unitary state and an integrated national economy (Thee, 2002: 240-241).

In her generally positive analysis of development under the New Order, Professor Booth, a keen observer of the Indonesian economy, implicitly recognized that the oppressive and corrupt New Order state (particularly in its latter years), had deteriorated into a 'predatory state'. This recognition was reflected by the final paragraph at the conclusion of her perceptive book where she stated that

'at the end of the 1990s, Indonesia is rapidly reaching the stage where 'apathy and acceptance of the state's rules, no matter how repressive, are giving way to challenges from new economic forces demanding the removal of the final vestiges of the predatory state'(Booth, 1998: 336).

In the end, it was not the new economic forces from within Indonesia which led to the downfall of the predatory New Order state, but the Asian economic crisis which revealed the brittle nature of the New Order state.

Postscript: developments after the Asian economic crisis

After the fall of Soeharto, the oppressive, authoritarian and highly centralized New Order state was overnight transformed into a democratic and highly decentralized state. Wide-ranging reforms were carried out at both the national and local levels, with the new government designing new structures of state power and implementing a new electoral system. The reforms opened the way for new arenas of political participation, new actors and power constellations, and new forms of political interaction (Erawan, 2007: 58).

In 1999 the first free general elections since 1955[4] were held, and in 2004 for the first time direct presidential elections were held, which led to the election of Susilo Bambang Yuidhoyono (SBY) as the first directly elected president of Indonesia with about 60 per cent of the popular vote. Subsequently, direct local elections were held all over the country to elect local parliaments and local heads (*Pilkada*). Thus far, however, President Susilo, has not been able to utilize this broad popular mandate to push through needed economic and political reforms because he has been stymied by the lack of cooperation, even opposition from various political factions in the parliament. This relative weak position of the president is caused by the fact that the 1945 Constitution, which provided for a strong executive, was revised to provide for a much stronger legislature. In the present legislature elected in the general elections of 2004, president Susilo's party, the Democratic Party (*Partai Demokrat*) was unable to win a majority, obtaining only 10 per cent of the seats, and thus requiring it to forge a coalition with much bigger political parties, including the large Golkar party. .

Based on the enactment in 1999 of two new decentralization laws, Law no. 22/1999 on Local Autonomy and Law no. 25/1999 on Financial Balance between the Central and Local Governance, a wide-ranging decentralization was introduced in early 2001 which marked a fundamental change in the landscape of the central-local political relationship (Erawan, 2007: 58). Under this decentralization program, executive authority was devolved not to the provincial, but to the district (sub-provincial) governments.

The experience of regional autonomy thus far has indicated that the extent to which local (district) governments have been able to introduce policy reforms, building a societal support network and political coalition, and insulate their programs from capture by vested interests, has been shaped by the ability of local actors (governments) to isolate their programs from personalistic and partisan demands and, at the same time, create networks of supporters. These two factors have in turn been influenced by the existing shape of local political and economic circumstances (Erawan, 2007, 68-69)..

Despite the political upheavals in post-Soeharto Indonesia, (having had four presidents during the decade since 1998), Indonesia's economy has steadily grown faster after it gradually recovered after its severe contraction in 1998 (-13.1 per cent), as the data in table 4 show, This economic recovery and subsequent faster growth, particularly since 2005, has been underpinned by the adherence to sound macroeconomic policies, as reflected by a low, single digit inflation, a current account surplus, and a relatively stable exchange rate. Although investment has been growing at only single digit rates in the

[4] The first general and free elections in newly-independent independent Indonesia were held in 1955.. During the New Order 1966 – 1998) six general elections were held which were rigged in favour of the ruling government party Golkar.

post-crisis years, it has grown at slightly higher rates over the past year, growing at 7 – 8 per cent annually since early 2006, with indications of faster growth in the near term. The value of exports of agricultural and mineral commodities (accounting for one third of total merchandise exports) have increased by 18 to 42 per cent since early 2007 as a result of the international commodity boom, while manufactured exports (accounting for around on half of total exports) also increased at a robust rate of 15 per cent, with forestry products up b 24 per cent (World Bank, 2007: 1).

Fiscal deficits too have narrowed significantly in recent years, from over 4 per cent of GDP in 1995 to 0.9 per cent in 2006 and 1.5 per cent in 2007. The larger budget deficit in 2007 was caused by temporary factors (e.g. large, once- for- all settlements of arrears in VAT payments arrears and spending for disaster relief) as well as more lasting factors (increased spending on priority areas (health, education and welfare) and higher fuel subsidies because of the rapid rise in oil prices. Over the past few years the ratio of government debt to GDP is estimated, despite larger budget deficits, to drop further from 39 per cent of GDP in late 2006 to less than 35 per cent in late 2007 because of continued strong growth (World Bank, 2007: 2).

Despite these improved macroeconomic indicators, criticism has been leveled at the SBY government for failing to reduce employment and absolute poverty significantly, despite its promises during the campaigns to increase employment and reduce poverty.. Despite the fact that the incidence of absolute poverty in Indonesia had declined to 16. 6 per cent in 2007, this still meant that 37.2 million Indonesians were still living in absolute poverty. Moreover, large income disparities remain between relatively more prosperous Western Indonesia and poorer Eastern Indonesia, with the poverty incidence in the provinces of Papua, Maluku (Moluccas) and the two Nusa Tenggara provinces being 41 per cent, 26 per cent, and 23 per cent respectively. There is also a persistent disparity in the incidence of absolute poverty between the rural areas (20 per cent in 2007) and the urban areas (13 per cent) (World Bank, 2007: 19), because of a persistent '*urban bias*' in Indonesia's development. Moreover, millions more people were living precariously just above the poverty line (the near poor), thus were vulnerable to fall below the poverty line again in the event of external shocks or natural disasters which struck Indonesia in several places since late 2004.

To reduce the high unemployment rate (slightly less than 10 per cent in 2007), but with around 40 per cent being disguised unemployed, a more rapid growth of the real sector (agriculture, mining and manufacturing) is required. This will require a rapid rise in investment, including foreign direct investment (FDI). However, this rise in investment in turn requires a substantial improvement in Indonesia's investment climate which, unfortunately, is still rated as one of the worst in the developing world. For instance, in the World Bank- International Finance Corporation report on Doing Business 2008 which compared business regulations in 2007, Indonesia ranked as number 123 out of a large sample of 178 countries surveyed in terms of the ease of doing business in Indonesia (World Bank-IFC, 2007: 126). In other words, doing business in Indonesia is still considered difficult by foreign and domestic investors alike, which accounts for the relatively low investment growth, though over the past year investment has grown at a slightly higher, though still single digit growth. Without higher investment growth required for higher employment growth, poverty rates are unlikely to decline more rapidly.

The above account of Indonesia's current economic conditions and short-term economic prospects, Indonesia's immediate development strategy and priority should be directed at increasing investment rates by improving its poor investment climate. Higher investment in the real sector will create more employment and reduce absolute poverty. Dreams of national grandeur by building up 'strategic, hi-tech industries promoted by a strong 'developmental state' should be abandoned in favour of the much more urgent task of raising the still low standards of living of the Indonesian population by increasing employment, and reducing poverty by improving the public goods of primary health care, extending and improving education at all levels and improving the dilapidated infrastructure.

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INDONESIA'S ECONOMIC DEVELOPMENT DURING AND AFTER THE SOEHARTO ERA – ACHIEVEMENTS AND FAILINGS

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1

The achievements of the New Order, 1966 - 98 (1)

- After economic stagnation and hyperinflation during the late Sukarno years (1st half of 1960s), under Soeharto's New Order government rapid and sustained growth of almost 7% was achieved for three decades
- Due to successful family planning program, population growth declined from 2.4% in 1965 to 1.8% in 1980-96.
- As a result, average annual GNP growth was 4.7%, one of the highest among the emerging economies.
- GNP per capita rose from $ 100 in the mid-960s to $ 1,000 in early 1990s, enabling Indonesia to 'graduate' from the ranks of the 'low income economies' to the 'lower middle income economies'

2

The achievements of the New Order government (2)

- Indonesia's rapid economic growth accompanied by steady reduction in absolute poverty (table 1)

Year	% of population under poverty line
1976	40.1
1980	28.6
1984	21.6
1987	17.4
1990	15.1
1993	13.7
1996	11.3

3

Achievements of the New Order (3)

- Rapid economic growth accompanied by rapid social development (reflected by a.o. rising net primary enrollment rates close to 100 for boys and girls; declining infant mortality rates; and rising numbers of people having access to safe water)
- Rapid expansion in primary education and in primary health, particularly in the rural areas, made possible by oil boom windfall gains.
- By late 1980s goal of universal primary education was largely achieved.
- However, Indonesia's social development still lagged behind that of the other East Asian countries

4

Achievements of the New Order (4)

- Rapid economic growth accompanied by rapid structural transformation due to double digit growth of manufacturing sector, while agricultural and services sectors grew at single digit growth (table 2).
- After end of oil boom in 1982, successful transition from import-substituting to export-promoting industrialisation due to deregulation measures and trade reforms to reduce the 'anti-export bias' of the trade regime (table 3)
- As a result, by 1996 manufactured exports accounted for 52% of total exports, compared to only 4% in 1965

5

Impact of the Asian economic crisis

- Economy contracted by -13.1% in 1998
- Slow but steady economic recovery since 1999. In 2007 growth was 6.5% (table 4).
- In line with economic recovery, poverty rates also declined to 16.6% in 2007 after reaching peak of 23.5% in 1999. However, in absolute terms number of poor in 2007 (37.2 million) was more than in last pre-crisis boom year (34.5 million). Moreover, millions more people still living precariously above poverty line (the near poor)

6

Was the New Order state a 'developmental state?'

- 'A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in relation to the international economy' (Castells, 1992, quoted by Johnson, 1992).
- On this score, the New Order state was a 'developmental state' , at least during its first two decades. In his memoirs Soeharto stated that 'all the deterioration experienced before 1966 had its origins in the neglect of economic development' (Elson, 2001).

7

The New Order 'developmental state'

- Soeharto's reliance on five able economists (the 'Berkeley Mafia') for economic advice to restore macro-economic stability (inflation down from 600% in 1965 to 9% in 1970) and rehabilitate dilapidated infrastructure and productive apparatus. Throughout the New Order, sound macroeconomic policies were pursued
- Establishing principle of balanced budget to prevent government from printing money to finance budget deficits
- Abandonment of Sukarno's 'inward-looking policies' by re-integration with the world economy, and pursue more liberal trade and foreign investment policies
- Establishment of international aid consortium, the Inter-Governmental Group on Indonesia (IGGI) in 1967
- Enactment of liberal Foreign Investment Law in 1967 and Domestic Investment Law in 1968

8

Failings of the New Order state: from 'developmental state' to 'predatory state'

- Despite initial successes of the New Order government, shortcomings of the regime soon became apparent: increasing corruption by generals close to Soeharto and in state-owned enterprises, notably Pertamina, the state-owned oil company, and in state agencies such as Bulog, the Food Logistics Board. Soeharto reluctant to act against his political supporters
- Over time, particularly during the last decade of Soeharto's rule, corruption, collusion and nepotism (referred to by its Indonesian acronym KKN) became synonymous with the New Order

9

The manifestations of the New Order's 'predatory state' (1)

- Blatant corruption at all levels of government, facilitated by a.o. cumbersome and opaque licensing systems
- Collusive relationships between political power holders (including the President's children) and their business cronies, many of them Sino-Indonesians
- Proliferation of policy-generated barriers to domestic competition and trade issued by the central and regional governments and by officially sanctioned trade and industry associations, thus opening wide opportunities for 'rent-seeking activities', increasing the costs of doing business in Indonesia (Indonesia's 'high cost economy'), reducing efficiency and limiting business opportunities for bona fide entrepreneurs

10

Manifestations of the New Order's 'predatory state' (2)

- **Wide opportunities for 'rent-seeking activities' for generals and their business cronies in the oil business and in forestry ('natural resource curse')**
- **Waning influence of the economic technocrats reflected in lower fiscal and financial discipline, as indicated by rising off-budget expenditures, i.e. Government transactions not recorded in the official budget, and thus outside the control of the Department of Finance.**
- **Off-budget expenditures allocated to ailing (inefficient because of mismanagement and corruption) state-owned enterprises, ambitious development projects, the companies of the President's children and their cronies, and the state-owned 'strategic industries', including the aircraft assembling plant IPTN, controlled by Dr. B.J. Habibie, the Minister of State for Research and Technology**
- **Increasing concern among economists that without taking account of resource constraints, ambitious projects would become 'devouring tape worms' (Nasution, 1995) without financial accountability.**

11

Post-crisis developments

- **After Soeharto's fall, the authoritarian, oppressive, and highly centralised New Order state overnight transformed into a democratic (the world's third-largest democracy after India and the US) and highly decentralised state, with executive authority devolved to the district (sub-provincial) governments**
- **Despite political upheavals in post-Soeharto Indonesia, Indonesia's economy has steadily grown faster after it gradually recovered after the severe contraction in 1998 (table 4)**
- **Economic recovery and subsequent faster growth underpinned by strict adherence to sound macroeconomic policies**
- **Despite improved macroeconomic indicators, the present SBY government has not succeeded in stimulating faster growth in the real sector, which would have increased employment and reduced poverty significantly**
- **Growth of the real sector hampered by slow investment growth, caused by Indonesia's poor investment climate (one of the worst in East Asia). Hence improving governance is imperative, but takes time.**

12

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Rethinking Africa's Development Path: Building a Democratic Developmental State

By

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`"The first few examples of developmental states were authoritarian. The new ones will have to be democratic, ….". (Mkandawire 2001: 310)

"…every successful developmental state introduces its own innovations in the economic and social organisation of the country and cannot afford to simply live on imitations". (Bagchi, 2000: 412)

1. Introduction

This paper addresses the question of whether the concept of the developmental state (DS) is useful in the African context. If the answer is in the affirmative, the question then becomes what form the DS should take for the continent to overcome its developmental crisis. I will argue that the DS in the African context needs to be conceptualized and contextualized in order for the continent to promote sustained accelerated equitable growth – E-growth. I will further argue that Africa requires a state that is both democratic and developmental - a democratic developmental state (DDS) and that its focus should be on E-growth growth. Put differently, the DDS should not only focus on growth but also how the fruits of that growth are shared among the various income quintiles. It will be further argued that the Asian experience needs to be understood in its proper context by according a prime position to the social policy component of the Asian DS's. In effect, this might be a revisionist account of the Asian DSs, compared to most scholarly work that have not given much attention to its social policy component.

2. Background: The African Developmental Challenge

Socio-economic crisis

Africa today is the least developed continent in the world. Its history is replete with people mired in poverty, hunger, diseases and without access to basic physical infrastructure and social services – such as potable water and sanitation, good roads, decent housing, education and healthcare. It also has the highest rates of illiteracy, maternal mortality, infant mortality and the highest HIV-AIDS prevalence and death rates in the world. Worst still, the economy of the continent is generally dependent on the primary sector – mainly minerals and agriculture - which contribute the largest share of its gross domestic product (GDP). Not surprising, though worrying, is that the majority of its people who work in non-agriculture sector are in the informal economy that is characterized by vulnerabilities - unstable job and income, lacking basic social security and protection. These are against the backdrop of the absence of a social safety net to cushion the effects of the harsh socio-economic realities experienced by most Africans. Hence, the majority of the African people are trapped in poverty. In fact, there has been increase in the number of people living in absolute poverty. Given the gendered nature of African societies and the capitalist mode of production to which it is integrated, women and girls are severely more affected by the scourge of poverty. The United Nations

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Conference on Trade and Development (UNCTAD) projected that Africa is the only region of the world that is unlikely to meet the MDG's goals of halving poverty by 2015 (UNCTAD, 2007).

The dire developmental crisis facing the continent is captured in the introduction of the base document of the New Partnership for Africa's Development (NEPAD) as follows:

> In Africa, 340 million people, or half the population, live on less than US $1 per day. The mortality rate of children under 5 years of age is 140 per 1000, and life expectancy at birth is only 54 years. Only 58 per cent of the population has access to safe water. The rate of illiteracy for people over 15 is 41 percent. There are only 18 mainline telephones per 1000 people in Africa, compared with 146 for the world as a whole and 567 for high-income countries (African Union, 2001: 1).

The above is coupled with the fact that the continent is heavily dependent on foreign investment and development aid. It has the lowest level of fixed capital formation and has the lowest Foreign Director Investment (FDIs) flow, lowest saving rates and highest levels of indebtedness. UNCTAD estimated in 2000 that for Africa to achieve sustainable growth of 6 percent, which is required for the continent to overcome its developmental deficits, it needs an investment rate of between 22 – 25 percent. Unfortunately, between 2000 and 2004, reports UNCTAD, "sub-Saharan Africa averaged investment rates of 18.1 percent, while the figure for all of Africa was 20.7 percent" (UNCTAD, 2007: 3). Another tragedy of the equation is that the growth rate of 5.7% in 2006 is short of the projected 7 – 8 % required to meet the MDGs goal of halving poverty by 2015. A disturbing trend is that in sub-Saharan Africa, there has been decline in rates of gross national savings and gross domestic investment in the periods 1971-1980 and 1991-2000. The rate of savings declined from 24% in the period 1971 – 1980 to 14% in the 1991 - 2000 period. In the same periods, the rate of investment marginally declined from 21.4% to 21%, but declined to 20% in 2001/2005 period (World Bank, 2007).

Governance Deficit and the Retrenchment of the African state

The development crisis also manifests itself in form of the governance deficit. For decades after the demise of colonial rule, the continent was marked by military dictatorship and one party-rule, both of which denied Africans of their basic social, economic, civil and political rights. In some instances, these gave rise to ethnic and religious conflicts, civil wars and political instabilities. The governance deficit is today exemplified by the weak institutional arrangements in most countries in the continent. Even some of the few institutions that were established in the immediate post-independent period, which point to embryonic DS's in Africa and their consequent good economic performance, were systematically dismantled in the 1980s following an assault on the state as part of the structural adjustment programmes (SAPs) that were foisted on the continent by international development institutions such as the World Bank and the IMF. Institutional arrangements that were most adversely affected were those responsible for central planning and coordination of government policies, as well as ministries charged with the provision of public goods such as health and education. While the former were dismantled, the latter were dubbed 'spending' ministries and were downgraded in the overall developmental agenda. At the same time, the Ministries of

Finance were elevated to a higher pedestal and it imposed its discipline across government departments. Other institutional arrangements that were dismantled as part of the structural adjustment package were those responsible for social provisioning such as market boards. These boards played two important development roles in post-colonial Africa, namely ensuring food security and providing ready markets for agricultural products. Consequently, the dismantling of the marketing board eroded the capacity of the African state. Furthermore, privatization and down-sizing were also other instruments to retrench the African state, and consequently the erosion of its capacity.

Reducing development to economic growth

What is of interest is that the policy prescriptions that came with the structural adjustment packages were such that they had a narrow understanding of development which was seen in terms of quantitative development – a narrow concern for economic growth, and development "fundamentals" conceived as macro-economic stability. This policy was undertaken in the context of an absence of overall development strategy and the budget became the main planning instrument unlike the Asian DS where overall development strategy (this were in inform of the five years development plans) informed the budget. This conventional policy direction has little or no concern for questions of equity, livelihood and human security. If it has such concerns, these were to be achieved through trick-down effects of growth, and not be any deliberate intervention by the state. The maxim of this development agenda was, "grow now" and "have social development later". In general, social development was seen as a drag on economic development. Social development, in this paradigm was meant to serve the objectives of economic development. This was unlike the situation of some successful countries such as the Nordic and the Asian developmental states were macro-economic policy were conditioned by social development goals in the context of an overarching development strategy. For example, the social objective of Europe after the great depression was to have full employment. In that context, macro-economic policy of the period was intended to achieve that developmental goal. In effect, economic policy, in general, was instrument to meet social development goals. In other word, economic policy was a policy tool to meet social objectives. One of the implications of this analysis is that social policy is an integral part of a developmental agenda, including the Asian DS. Hence social policy and economic policy need to go in tandem and simultaneously pursued. The point is that social policy is not something introduced after (economic) development but has to be introduced at the early stage of a country's development as was the case in the DS's of Asia. I will return to this point later.

Dichotomizing economic and social policies

One of the major implications of the policy regime in Africa as from the 1980s is the false dichotomy created between social development – social policy – and economic development – economic policy. This approach to development tends to ignore the synergies and complementarities between social development and economic development. Mkandawire (2004) correctly argues, that it tends to undermine the instrinsic value of social policy and development – that questions of equity and improved livelihoods are important development goals on their own rights. In addition, he notes that social policy/*development* and economic growth are complementary and synergistic, and the potential of both for overall development needs to be harnessed rather than undermined or curtailed. In addition, they need to be simultaneously promoted. Unfortunately, this has not been the case in Africa since the 1980's.

Another point to note is that the dominant development paradigmatic regime tends to reduce social development into poverty reduction – the palliatives to reduce the adverse effects of economic stabilization. Unfortunately, there has not been a significant change of the levels of poverty in the continent. If anything, the number of people falling below the poverty line has increased. As will be argued subsequently, the policy prescriptions of structural adjustment took a narrow view of social policy. Consequently, there has been an absence of a holistic and comprehensive development strategy in most African countries.

Monopolisation of the development agenda by post-colonial rulers

A main weakness of the post-independent developmental project was the assumption by post-independent rulers and technocrats that only the state could be the driver of socio-economic development. This unfortunate assumption explained the marginalization, and in some cases the repression of other social forces in the development process. This had the unintended consequences of the underdevelopment of productive forces of Africa. This legacy still exists today. One adverse consequences of the immediate post-independence developmentalism was that the human capabilities of the African people were not harnessed and mobilized for the continent's development, a fact that remain true at the turn of the 21st century. This is despite the growing recognition by scholars and development agencies that the greatest wealth of a nation is its people. A consequence of this development is that there has emerged in the continent what can be referred to as an enclave economy. An enclave economy is one that deliberately excludes and impoverises the majority of the African population while benefiting a minority – the elite class. Hence, an 'inclusive' development has been lacking for most of Africa's history. Overcoming this will among other things require giving a prime place to social policy in the development agenda as a necessary condition for E-growth.

Minimal but unsustainable progress in the turn of the 21st Century

It should, however, be noted that while some progress has been made in the last decade or so, in terms of increasing growth, democratization, reduction of civil strife, etc, the general development crisis has not been fundamentally altered due to a number of reasons. For example, the recent increased growth rate in the continent may not be sustainable in the long run. This is because it is largely driven by exogenous factors – debt relief and the global commodity boom. In addition, the growth level is far below what is expected to overcome the continent's developmental challenge. Importantly the recent growth has not resulted in improvement in the standard of living of majority of African people, nor has it make a dent on the high level of poverty. In addition, it has also not translated into employment. Where there has been increase in employment, it has been in the informal sector. This speaks to the disarticulation and disconnection of the African economy – whereby the formal sector is considerably disconnected from the informal economy hence growth in the former has limited positive impact on the latter. UNCTAD provides a poignant critique of the current African growth path. It notes:

> Despite strong macroeconomic performance since the turn of the century, the growth rates achieved are still insufficient for the continent to achieve the objectives of the MDGs by the target date of 2015. From 1998 to 2006, only five countries in Africa (Angola, Chad, Equatorial Guinea, Mozambique and Sudan) grew at 7 – 8 percent growth rates for halving poverty (UNECA, 2007). Additionally, although the region as a whole has enjoyed good economic performance in recent years, growth rates remain dependent on a small number of primary commodities and high average rates mask large differences in performance across the region. Furthermore, recent economic growth has not translated into corresponding increases in employment, and the limited job creation that has taken place has mainly been in the informal sector, due to the capital-intensive and enclave nature of the extractive sectors that have been driving this growth (UNCTAD, 2005; ILO, 2007). (UNCTAD, 2007: 3).

In light of the Africa's developmental challenges, two related questions are pertinent. First, what should be the new developmental framework for Africa. Second, how can that developmental agenda be underpinned by a state that is both developmental and democratic? Addressing these questions is important if the continent is to improve the material conditions of its people and become an important global actor in the 21st century. I will now address these questions.

3. The Developmental State: A Panacea for Africa's Socio-Economic Crisis?

There has been fascination with the concept of developmental state among policy-makers and academics alike. In particular scholars in the development world have shine an analytical search-light on the concept and have deployed it to explain the economic performance of the successful East Asian countries, who not only have transformed the structures of their economies from primary sector to high value-added service sector, and consequently have recorded high economic growth rate, but also have fundamentally improved the well-being of their citizens.

Conceptualising the Developmental State in Africa

The definitions of the developmental state can be broadly divided into three groups. The first group emphasizes the ideological disposition of the political elites. The focus here is that the political elite possesses primacy over the ideology of developmentalism. Developmentalism implies that the state aimed to achieve industrialization through active industrial policy while simultaneously "implementing policies to redistribute income (intended to minimize unequal distribution resulting from industrialization), to promote education, and to achieve other social and political goals" (Murakami, 1992: xxiii). In his perspective, developmentalism is imperative for late industrializers who need to "catch up". The social components of developmentalism tend not to receive equal attention in the discourse of the Asian DSs. Manuel Castells (1992) work broadly falls into this category. In addition, his work is an apt example of a definition that only emphasized ideology as the central component of the Asian DSs. To him, "a state is developmental when it establishes - as its principle of legitimacy - its ability to promote and sustain development, understood as the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship with the international economy" (Castells, 1992:56). Unwittingly, this definition seems to have a narrow view of development, understood only in terms of growth. This approach tends to ignore or subordinate the central role of the Asian DSs in promoting human well-being. Peng and Wong (2004: 3) correctly observed that in the dominant work on the East Asian DS, "Development …was defined as aggregate growth and industrial modernization. Distributive considerations were secondary in this narrow conception of development". This is what some scholars, such as Holliday (2004), have dubbed the productivist orientation that has dominated the discourse and analysis of the Asian DS's.

Another main weakness of a definition that focused exclusively on the ideology of the political elite is that it ignores the institutional attributes that enable the political elites to formulate and implement programmes to give concrete expression to their ideology. As I will argue subsequently, if ideology is the only defining variable of the DS, the states in Latin America and some African states in the 1960s to early 1970s would have qualified as developmental states. But what set the states in the two regions apart from Asia is that in the latter the state established institutional structures that enabled it to achieve the developmentalist ideology of the political elite. Flowing from this logic, the institutional characteristics of the DS are as important as its ideology. Also, the institutions enabled the state to achieve sustained and accelerated development in over three decades, including growth. Furthermore, it was the institutional arrangements of the Asian DS that enabled it to transform the structures of their economies, adapt technology and be innovative as well as anticipate and respond to change in the global economy. The importance of this argument is that the DS also needs to be defined in terms of its institutional characteristics. These are what enabled it to define its developmental project and mobilize society around the project. As an example, most of the institutional arrangements including planning commissions and ministries of planning that were established in Africa in the early 1960s to the mid-1970s were dismantled in the 1980s. As a result, the impressive development performance in some African countries, which I have alluded to earlier, could not be sustained.

The second strand of the definition of the DS is that which focused on its institutional and organizational structures. This focus is important because the impact of ideological disposition and consequent policies may vary depending on institutional structures of the state. Peter Evans (1995) have coined the term "embedded autonomy" to described the institutional attributes that enabled the Asian DSs to achieve and sustain the most impressive development performance experienced by developing countries since the 2nd world war. Central to the concept of autonomy is a recognization of the importance of a coherent and competent bureaucracy. Bureaucratic capacity was therefore one of the major defining characteristic of the Asian DSs. The sources of bureaucratic autonomy in Asia, among other things, were that the core bureaucratic elites were recruited based on merits, had predictable career paths and in some instances had commensurate long-term rewards as their counterparts in the private sector. These institutional attributes were reinforced by planning agencies, such as the Economic Planning Board (EPB) in South Korea and the Economic Development Board (EDB) in Singapore, which enhanced coordination across governments ministries and synchronization and alignments of policies. It was this capacity that enabled the DSs to formulate and implement their developmental goals without being captured by the industrial elites. In general, because of these organizational structures the Asian DSs avoided the pitfalls of political captured and minimized the risks of corruption. It also had the advantage of engendering a commitment to corporate goals and consequently the success of the developmental project.

Embeddedness describes the intense connections/ties that the state forged with its societal partners. These ties were primarily with industrial elites because they were seen as important and indispensable partners in the process of industrialization. In effect, the DSs and the industrial elites had a "shared project" of industrialization. Shared project made it possible for the DSs in Asia to simultaneously support and discipline the industrial elites. At the same time, the latter shared information with the state that was central for its ability to implement its developmental project. In some instances, the state relied on the capital for the implementations of specific policies. But one remarkable factor that set the Asian DSs from states with lower degree of embeddedness was that they set clear performance targets for capital. Those that meet the set targets were rewarded and those that failed were punished. Therefore, the carrot and stick approach was a central elements of allocation of rents in Asia.

While embedded autonomy coupled with a developmentalist political elite were some of the important factors that accounted for Asia's accelerated and sustained development performance for over three decades, they proved to be inadequate to sustained it. This point to one of the most important missing links of the Asian DSs, namely the centrality of political institutions to sustain accelerated E-growth. Put differently, the Asian DSs run into crisis because they ignored the importance of political institutions, including those of public deliberations, such as Consultative Mechanisms (CMs) that will enable the broad citizenry to determine and influence the development agenda. Top-down policy making process, in effect is not sustainable in the long run. Consequently, I argue that in the 21st century, the state would have to forge a broad base alliance beyond owners of capital. I have used the concept of synergy to describe this form of state-society relations. Synergy

> implies state immersion of ties with multiple centres of power based on trust and reciprocity. Such relations are characterised more by cooperation and inducements by the state of its partners than by discipline or the imposition of the state's will over the former. Such linkages, coupled with the coherence of the internal state structures, are the defining features of synergistic autonomous states. These would enable it to act independently and resist pressures from powerful socio-economic interest groups…It is an inclusive and democratic policy process and the state is unlikely to resort to positive repression. Rather, the state mobilizes inputs from its social surrounding and produces outputs to respond to that environment – business and civil society participate in agenda setting and policy formulation. In effect, this is a democratic policy process that involves both the state and society in policy-making and implementation (Edigheji, 2007: 54).

One of the advantages of synergy is the introduction of democratic component as an important feature of a state that want to achieve sustainable accelerated development (I will come back to this point shortly). And the goal of the state that has synergistic relations with society is broader than in embeddedness. The goal of synergistic relations is E-growth. In other words, equity is an important developmental goal in the context of synergistic state-society relations. One reason that synergistic relations have equity concern is the involvement of organizations of the poor in the policy-making process. This contrast brilliantly with elites' pacts that might be oblivious to equity issue.

The third strand of the literature is that which focuses on both the ideological orientation of the political elites and the institutional/organizational structures of the DS. Mkandawire work (2001) best represents this approach. He defined a DS "as one whose ideological underpinnings are developmental and one that seriously attempts to *construct and* deploy its administrative and political resources to the task of economic development" (Mkandawire, 2001: 3. emphasis mine). These factors accounted for the impressive performance of the Asian DSs. However, I have shown above that DSs are unsustainable in the long run without injection of democratization. In this regard, I argue that developmentalism has to be matched by democratization. In other words, the sustainability of DSs is largely dependent if it is accompany democracy (the case of Korea is an apt illustration of this point where the DS run into problem with time as pressure mounted by civil society and political parties for democratization of the state and society). A state that integrates these various attributes can be termed Democratic Developmental State (DDS). Elsewhere, I have defined a:

> A democratic developmental state is one that not only embodies the principles of electoral democracy, but also ensures citizens' participation in the development and governance processes. Thus in interrogating the democratic developmental state in the African context, it is pertinent to bring *citizenship back-in into politics*. This means placing emphasis on cooperative work and deliberative traditions by bringing people together across party lines, racial backgrounds, class divides and other differences, for the common good.
>
> … democratic developmental state is one that can also foster economic growth and development. This means that not only is the state able to transform its economic base by promoting productive, income generating economic activities but must ensure that economic growth has the resultant effect of improving the living conditions of the majority of its population. (Edigheji, 2005: 5)

It can be argued that the ideology of developmentalism and bureaucratic component of the state need to be accompanied by democracy – both electoral and substantive democracies.

The discussion above highlights some of the shortcomings of the existing conceptions of the DSs. It also laid a basis for us to interrogate the Asian experience and draw lessons for Africa in its efforts to construct a state that can meet its developmental challenges.

Some International Development Agencies such as UNCTAD are celebrating the virtue of developmental states and are recommending it to Africa to draw lessons from the Asian experience. They premised their recommendation on the fact that the continent ability to achieve sustained growth would be largely dependent on a developmental state that is able to intervene in the economy by among others things transform its structure, diversify it to more high value added and productive income generating activities. This, it is believed will enable Africa to address its high level of poverty and other social problems. As UNCTAD (2007: 4) correctly argued,

> In the medium to long term, the ability of African countries to finance an increasing share of their development needs from domestic sources would give them much needed flexibility in the formulation and implementation of policies that address their economic, social and other developmental challenges.

The achievement of the above, it argued, will largely be dependent on a developmental state. What is clear is that the developmental state is being put on the African development agenda. The "impossibility thesis" of a DS in Africa is giving way to how to how construct and contextualize it in the continent. And the question of "can African construct a DS?" seems to be answered in the affirmative by some of African scholars and leaders as well as some international development agencies.

Within the continent, policy-makers and senior political leaders have begun to embrace the concept on the premise that Africa is unlikely to effectively address its developmental challenges without a development state (DS). African leaders that have embraced the idea of a DS include President Thabo Mbeki of South Africa, the PM of Malawi and the Prime Minister of Ethiopia – all of whom see a developmental state as a necessary condition for their respective countries development. The faith in the DS as a necessary condition for Africa's development is not only limited to political leaders as some civil society organizations and political parties are embracing the idea. One country where the DS has a broad appeal beyond political leaders is South Africa where the ruling party, the African National Congress and its alliance partners, the Congress of South African Trade Union (COSATU) and the South African Communist Party (SACP) have committed themselves to constructing a developmental state in South Africa. The ANC explicitly made this commitment in its National General Council (NGC) in 2005. This was reiterated in the June 2007 policy conference and was finally adopted as an official position of the party at its 52^{nd} Congress in December 2007. This commitment is remarkable for a number of reasons. First, that the state will increasingly become more interventionist to meet the developmental challenges facing the country. Second, the DS concept is not merely invoked by individual members of the ruling alliance but has now been adopted not only by the movement but also by the government. Thirdly and closely related to the above is that, South Africa is perhaps the only country where a ruling party and government have explicitly committed themselves to the construction of a state that is developmental in nature. This is unlike most other developmental states, especially the East Asian developmental states that were explained *ex-post* and labeled as developmental by especially Western-based scholars. Chalmers Johnson (1982) seminal work, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975,* was a pioneering study in this field. He was subsequently followed by others such as Alice Amsden (1989), Robert Wade (1990) and Peter Evans (1995). One of the implications of this is that African countries are likely the only countries that explicitly commit themselves to construct a DS. In doing this, they can draw lessons from experiences elsewhere, notably Asian whose development success has brought the concept to the world's attention.

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Dymstifying the Impossibility these of Developmental States in Africa

It should be noted that African scholars have remained largely silent on the debates and discourses of the developmental state, although with few exceptions such as the work of one of African leading social scientists and developmental thinkers, Thandika Mkandawire (1999). This silence has provided a fertile ground for the demonisation of the African state by some Africanists whose work has been largely informed by Eurocentricism and consequently Afro-pessimism. A classical example in this regard is Roger Southall (2007) who classifies the South African state as a dysfunctional state without a clear conceptual framework and empirically verifiable indicators. To a great extent the various epithets they are using to describe the African state have not be empirically tested or operationalised. If any, to draw from Mkandawire, such epithets have been based on their *aprioristic* disposition of Afro-pessimism. Worse still, they tend to base their discussion of the African state in terms of presence or absence of the developmental state. Furthermore, they assert that the developmental state is impossible in the African context. This ignores the fact that in the real world, we can talk about the degrees of developmental states. Consequently, I will argue that all states have varying degrees of developmental states attributes. The work of Evans and Rauch (1999), Henderson (2003 and Edigheji (2007) demonstrate the impacts of the vary degrees of states institutions on development outcomes. In general, developmental states have higher degrees of states institutions and that such high degrees of institutions are not only positively correlated with better economic performance, higher growth rates, lower poverty and lower inequality, but that they are important explanatory variables for variations in economic outcomes. The point therefore is that various degrees of developmental state institutions have different developmental outcomes. This point is important if Africa is to construct a state that can be classified as developmental. I will return to this point shortly. Another main weakness of the work on the DS's is that they are mostly case studies. As such they did not lend themselves to comparison. Consequently, most of the studies have mislabeled some of the countries. A good example in this regard is Peter Evans' *Embedded Autonomy* that labeled Brazil as an intermediate state and Nigeria as a predatory state. But as I have demonstrated elsewhere using cross-country comparable data on both the independent variable (autonomy) for the 1970 – 1990 period and dependent variable (growth) for the 1991 – 2001 period, Brazil and Nigeria belong to the same category. Brazil's score in the autonomy variable is 0.45 compared to Nigeria's score of 0.44 (out of 1). Brazil growth record in the period under consideration was 2.6% and Nigeria's 2.7%. (Edigheji, 2001). The same mislabeling is evidenced in the work of Atul Kohli (2004) who classified Brazil and Nigeria respectively as fragmented multi-class and neo-patrimonial states.

Some of the premise for the scepticism about the ability of African countries to construct DS is that African governments are too corrupt and predatory, characterized by rent-seeking and are not rule-bound and that the continent lacks an indigenous entrepreneurial class and cultural factors that militates against such a class. It is regarded as a central factor for the success of a DS. Mkandawire (2001) have summarised some of the other factors which the proponents of the "impossibility theses" use to argue why they think Africa is unlikely to build a DS. These include "(a) dependence, (b) lack of development ideology, (c) 'softness' of the African state and its proneness to 'capture' by special interest groups, (d) lack of technical and analytical capacity, (e) the changed international environment that do not permit protection of industrial policy, and poor records of performance" (Mkandawire, n.d). In this logic, Africa will not be able to emulate the Asian experience. There are however, a number of problems with this argument. Mkandawire have provided a strong and detailed rebuttal to these arguments. For the purposes of this essay, I would highlight three more shortcomings of the "impossibility theses" First, part of the reasons for these arguments were part of a neo-liberal systematic attack on the African state and hence its demonization which ascribed to it a number epithets. Thus ideological predisposition rather than empirical facts informed these arguments.

Secondly, DSs are not synonymous with absence of corruption or rent seeking. As the Asian experience show, corruption and rent seeking exist in most of the Asian developmental states, hence there characterisation as crony capitalism. Korea is a classic example in this regard where most of its presidents, during or after their terms in office, have running with the law. What distinguishes the Asian experience from most of Africa is that those who are found to be corrupt are prosecuted unlike in the latter. Thus an important argument to make is that developmental states have low degree of corruption, partly because those who are caught are prosecuted. This then becomes a disincentive for corruption. In the same logic, rent-seeking also characterised the Asian DSs. In these cases it was one important instruments of development. In the developmental state literature, it is now being recognised that the problem *per se* is not rent-seeking but whether or not the fruits of rents are used for productive investment as was the case in the Asian developmental states or diverted into "unproductive purposes" as the case of most post-independent African states. K.S Jomo, one of Malaysia's most authoritative political economists notes:

> Rent transfers may well contribute to, rather than undermine, further investments in the national economy since rentiers can usually count on further advantages from such investments. If capital flight is thus discouraged, the greater concentration of wealth associated with such rentier activity may actually have the consequence of raising corporate savings, thus accelerated capital accumulation, growth and structural changes (1996: 12).

UNCTAD (2007: 82) has paraphrased Mkandawire's succinct critique of the neo-patrimonial thesis as follows:

> The neo-patrimonial state as a theoretical construct has some weaknesses. Certain "clientelistic" practices may be morally reprehensible, but despite recent attempts, there us yet no robust theoretical framework predicting how they affect the performance of capitalist economies, nor indeed, the extent to which they are pathological to capitalist economic systems. And rent-seeking does not necessarily have to be debilitating to an economic systems. If channelled into production, rents can contribute to development in neo-patrimonial States. The issue is that the Asian experience has been idealized while the African state has been excessively demonised to the extent of obscuring the appropriate lessons to learn from it. In effect, we failed to identity correctly the complex processes that underscore the successful performance of these countries.

In the same vein, Aoki *et al*. (1996:14) have persuasively argued that "if policy-induced rents are provided on the condition of fulfilment of an objective criterion, they may induce private agents to supply more goods that are undersupplied in the competitive process". In fact, policy-induced rents that are transparently distributed and has performance targets are likely to force private agents to act to further the development objectives of the state. Put differently, transparently state-induced rents force private agents to work towards the goals defined by the state. In addition, in the Asian case, rents were put into productive investment in the domestic economy rather than unwanton consumption that characterised most of Africa. These points are important lessons that we need to recognise if Africa is to build a state that can be classify as a DDS. Another pertinent issue to note is whether the African state will set performance criteria for domestic capital, aimed at reducing inefficiency and wastage by African firms while at the same time rewarding those that meet set targets. The carrot and stick approach to rent distribution adopted by the Asian DSs, therefore, requires greater attention in the Africa context in its efforts to promote a business class that can be an important partner in its development efforts. Part of the central argument here is that when rents are transparently allocated and tied to performance targets, they can actually contribute to development.

Another point to note is that the East Asian developmental states' institutions, including the bureaucracies, were "hard won edifices constantly under construction" and were not gifts from the past and therefore not God given (Evans (1997). Therefore, there is nothing genetically African that would stop the continent from constructing DDS. The conditions for constructing the Asian DS are clearly set out by Senders (1994) and could provide important lessons for Africa. According to him,

> The existence of an appropriate bureaucratic apparatus in these economies was not *a priori* God-given gift…The political and institutional conditions for successful state intervention in these economies were contingent on the outcome of an intense and protracted process of political struggle, ideological campaigning and conscious institutional innovation (Sender, 1994: 543)

The arguments above show the shortcomings of the "impossibility theses" and the fact that Africa can construct states that are developmental if they meet certain conditions. Given the political will and mobilization of the African citizenry, Africa has the potential to build a DDS. Evidence suggests that there are emerging DDS in Africa. I have demonstrated elsewhere that South Africa is an emerging DDS. It is a highly interventionist state with a considerable degree of state autonomy and synergy (there is a very high level of state-society relations with a number of constitutive mechanisms for state-society engagement on socio-economic policy (Edigheji, 2007a). But its internal institutional arrangements are full of contradictory impulses, thus hampering its efforts to develop into a fully-fledged DDS. On the one hand while the post- 1994 government has a strong developmentalist agenda – focusing on poverty reduction and inequality, employment creation and growing the economy, it has not be able to address these developmental challenges. Inequality has risen from .60 in 1996 to .64 in 2005. Similarly, the number of people living on less than $1 a day increased from 1.9 million (4.5%) to 4.3 million in 2004. What is clear is that the rhetoric by government and the ANC-led alliance about reduction of poverty and inequality have not been matched with effective policies. There is wide consensus among South African commentators, policy-makers and politicians that the democratic state lacks the capacity to effectively address the challenges of reducing the levels of poverty and inequality as well as unemployment. Though the South African economy is on a growth path, the growth level is far below what is expected to address the aforementioned developmental challenges. This is in addition to the fact that its current growth, like in most of Africa is being driven by exogenous factor, especially the global boom in commodities. The South African growth is also being driven by consumer demand. It is unlikely that the country's economic growth rate will be sustainable in the long-run given its dependency on the commodity boom.

While it can be said to meet the Weberian criteria of meritocratic recruitment, it lacks a predictable career path for its senior civil servants who are recruited on a short-term performance based contract. This is due to the South African state restructuring the civil service along the line of New Public Management (NPM) paradigm. One of the effects of this is the high turnover rate of technocrats. An examination of the economic cluster ministries will illustrate this point. The Department of Trade and Industry (DTI) has, in the space of ten years, had three Director Generals (DGs). The two previous DGs - Dr. Zav Rustomjee and Dr. Alistair Ruiters - left voluntarily to join the private sector. Similarly, the Department of Labour has also had three DGs. Again, the first two - Sipho Pityana and Rams Ramashia - have moved to the private sector (Pityana to Laetoli Investments Corporation and Mr. Ramashia to one of South Africa's largest oil company, BP Southern Africa). Similarly, the Department of Transport has had about four DGs. Of those that have left, two remain in the public sector, namely Wrennelle Standers who is now the CEO of Air Traffic Navigation Services (ATNS) and Prof. Rwelamira who moved to the Department of Justice. The Ministry of Finance (National Treasury), has had about three DGs since 1994. Of the former DGs, Maria Ramos, remains in the public sector as the CEO of Transnet. What these tend to show is that unlike the East Asian developmental states, there is an absence of life-long career paths for the economic bureaucratic elites. This is not by accident because career paths, generally speaking, are neglected within the NPM framework (Montneiro and de Tellenaere, n.d) along which the South African state is being restructured. Instead bureaucrats have performance-based contracts following the recommendations of the Presidential Review Commission (PRC). The PRC recommended a "move away from the traditional career-based model of public service management, in favour of a model based on contract-based employment of the entire management echelon" (PRC, 1998). Also, unlike the East Asian experience, there is no plan in place to ensure that these former senior bureaucrats will one day return to the public service. If these are indicators, one is unlikely to describe the post-1994 South African state as being autonomous, an important indicator of a developmental state. In general, there is a pervasively high turnover rate of senior bureaucrats in the new South Africa as there is no plan in place to retain them. This raises questions about the ANC's deployment strategy. The situation is even worse for black bureaucrats with finance or economic backgrounds that are daily lured to the private sector where there is higher remuneration.

Furthermore, the new South African technocratic elite have over-bearing influence over public policy and the consequent marginalisation of the ruling elite. This has been one of the major sources of tensions between the ruling African National Congress led alliance and the government. This was one of the reasons why President Thabo Mbeki lost his bid to be elected for a third term as ANC's president. The South African case is unlike the Asian DSs, where the political elite set the broad policy agenda and parameters while the

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bureaucratic elite teased out the specific policy within the broad policy parameter. In effect, the political elite in most of the Asian DSs set the policy agenda while the bureaucratic elite dominate the policy process. There was thus a clear division of labour between the political class and the bureaucrats. This is not to underestimate the central role of the Asian bureaucratic elites. In Japan as an example, bureaucrats not only played major roles in policy initiation and compilation of the budget but also played a significant role in initiating legislation but also in managing it through the Diet (Johnson, 1995). This is unlike most African countries, were the role of the bureaucracy is considerably marginalised and public policy driven not by rationale economic sense but personal interests of the political class. This is coupled with the fact that the advice of the bureaucracy, in most instances, is ignored.

Third, by almost every development indicators, the first generation of African leaders were developmentalists in their ideological disposition, a point that has been emphasised by African scholars (Olukoshi,…; and Mkandawire, 2001) and development institutions (UNCTAD). In fact, in the early post-independent era, from the 1960s to early 1970s, the African state was preoccupied with how to deliver development and consequently occupied the commanding height of the economy.

UNCTAD (2007: 77) poignantly puts it thus, “A majority of the first generation of African leaders were preoccupied with development as well as nation-building, to the extent that post-colonial State in Africa has been dubbed developmentalist…”. It was therefore no surprise that in the period, 1960 -1975, 11 of the top 50 developing countries that achieved 3% growth in GDP (which neo-classical economists use to measure development performance) were African countries (Pen World Tables, in Rodrik, 1997). And in the period, 1967 – 1980, of the 27 countries that achieved annual growth rate of 6 percent, ten (which is more than a third) were African (see UNCTAD, 2007). In the social arena, the developmental performance of Africa was not as bad as the conventional literature would have us believed. These evidences are strong rebuttals to the lack of ideology thesis, which in itself is a misrepresentation of the history of African political economy. This point to the fact that the poverty of developmentalist ideology by African leaders is a myth propagated by those who have completely misread the history of continent’s development. The poverty of the neo-patrimonial thesis and similar others, is that they have not factored the aforementioned impressive economic performance into their analysis. Hence the African state that is neo-patrimonial on the one hand contributes to good economic performance in some countries and results in poor performance in others. The various epithets used to describe the African state explain nothing: they have very little analytical utility. One other problem with these various descriptions is that they lack verifiable and measurable indicators. As a result, they are not operationalisable. This has provided a fertile ground for mislabelling of countries. In some instances, the real objective of the descriptive epithets is to erode the credibility and legitimacy of the African state.

4. Towards a Democratic Developemntal states in Africa: Lessons from Asia

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In this section, I will highlight some of the lessons that Africa can learn from the Asia in its attempts to construct states that are both democratic and developmental. Central to such a state should strive to promote E-growth.

Institutions Matter in Developmental States

As I have argued elsewhere, "what set a democratic developmental state apart from others is that not only is it able to clearly set its developmental objectives; it also establishes institutional structures in order to achieve the objectives" (Edigheji, 2005: 7). This is precisely the case between Asia and Africa. What set the African state from its Asian counterpart was that unlike the latter, the immediate post-colonial African state did not establish the requisite institutions that will enable it to become a truly developmental state. I earlier observed that the embryonic developmental institutions that were established were dismantled from 1980s following the implementation of SAP. While some might point to other exogenous factors as well as endogenous factors such as lack of diversification of African economies compared to their Asian counterparts to explain Africa's inability to sustain its economic performance, I will argue that the low levels of institutions partly accounts for the worsening economic performance of Africa as from the mid-1970s. If we use autonomy to assess the degree of developmental state institutions, then African countries have low degrees of autonomy compared to their Asian counterparts. In a sample of 16 developing countries for the period 1970 – 1990, six Asian countries (Korea, India, Singapore, Thailand, Pakistan and Malaysia) had high degrees of state autonomy. In contrast, the three African countries (Egypt, Nigeria and Kenya) had low degrees of state autonomy. The low level of autonomy is one of the important explanatory variables for Africa's poor economic record.

Table 1: Autonomy Scale[1], 1970 – 1990 for 16 Developing Countries

Country	Career	Merit	Super Ministry	State Autonomy
Korea	0.68	0.72	1.00	0.80
India	0.56	1.00	0.75	0.77
Singapore	0.67	0.85	0.75	0.76
Thailand	0.78	0.83	0.50	0.70
Pakistan	0.55	0.67	0.75	0.66
Malaysia	0.57	0.72	0.50	0.60
Mexico	0.52	0.46	0.75	0.58
Costa Rica	0.36	0.56	0.75	0.56
Egypt	0.42	0.44	0.75	0.54
Brazil	0.28	0.58	0.50	0.45
Nigeria	0.31	0.50	0.50	0.44
Chile	0.26	0.54	0.50	0.43
Guatemala	0.29	0.33	0.50	0.37
Ecuador	0.22	0.39	0.50	0.37
Kenya	0.37	0.39	0.25	0.34
Colombia	0.13	0.33	0.50	0.32

[1] These countries have been ranked in descending order according to their autonomy scores.

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Source: Edigheji (2007a) constructed from Evans and Rauch dataset.

Human Capabilities: The drivers of Development in the 21st century

Furthermore, Africa needs to contextualize the developmental state in order to meet its developmental challenges of promoting economic competitiveness and growing the economy as well as reducing the high levels of unemployment, poverty and inequality. Also, the need for contextualization is important because as Africa embarked on the journey to construct a developmental state at a time when the pace of globalization has intensified. Consequently a developmental state in Africa needs to be contextualized to meet the needs of a democratic society but also the challenges of the 21st century that is marked by the globalization of economic, political and cultural activities. Importantly, the point should be stressed that the developmental state of the 20th century (as was the case in Asia) may not be suitable to the challenges of the 21st century for a number of reasons. In the 20th century, the main drivers of growth in the 20th century were machines, with manufacturing sector contributing the largest share of GDP and employing the largest numbers of workers, especially in the developed world and the Asian NICs. Consequently the state in the Asian NICs forged relationship mainly with owners of capital. In contrast, in the 21st century, the service sector is the lead sector – contributing the largest share to GDP and employment.

Anchoring the Democratic Developmental States in Africa on Social Policy

In the 20th century, development was narrowly defined in terms of economic growth. This is what received much academic attention in policy and academic circles. A classical work that represents this view is Atul Kohli (2007) the DSs had "a single-minded and unyielding commitment to growth", unlike what he called fragmented multi-class states which he argued had multiple goals, namely: "economic growth, redistribution, legitimacy, and national sovereignty" (Kohli, 2007: 9 – 10). However, a close look at the policy orientations and their outcomes of the developmental states is that they not only focused on growth but they were also interested in the distributional consequences of their development. In Japan as an example, equity was a normative policy goal (Milly, 1999). It was therefore not by accident that most of the Asian developmental states have transited to middle economic countries. In most of the Asian DSs, poverty and inequalities were substantially reduced over time. Central to this strategy was policy towards full employment in countries like Japan, Korea and Taiwan. In sample of 12 developing countries, Edigheji (2007) shows that the most equitable countries were also the most industrially vibrant countries, a point that further support the new empirical work that shows that egalitarianism leads to high economic growth. Roots and Campos (1996), Weiss (1998) and Edigheji (2007) have shown some of the mechanisms (such as agrarian reform) that were employed to reduce poverty and inequalities in those countries.

As noted above, the often neglected aspect of the Asian developmental experience, even by Asian Scholars and Asianists, is that its industrialization was underpinned by a transformative social policy. This neglect might partly be because of the narrow conception of social policy. For our purposes, social policy needs to be understood in its broad context and its various roles. Social policy performs four key functions, namely, protection, production, reproduction and redistribution (Mkandawire, 2004). As an example, a narrow conception of distributive policy might focus only on welfare benefits. In actual fact however, redistributive policy may include programmes to transform and increase the skills of workers and the promotion of life-long learning. In the Asian DS, redistributive policy included the state facilitating access to training programmes and in some instances subsidizing training by firms as well as initiatives that sustained self-employment. As an illustration, in Japan, the "state seeks to ensure a strong measure of income support and income equality, with an emphasis on security of employment and measures to minimize the displacement of those threatened by market forces. Its overall efforts directed to subsidization of rice farmers, to financial and infrastructural support for small business, to employment maintenance programmes in time of acute crisis, and in particular to institutionalized measures for sunset industries are all far more indicative of the Japanese state's 'distributive' efforts than the provision of social security payments *per se"* (Weiss, 1998: 162). These measures such as universal access to education and healthcare as well as those to promote the equalization of opportunity for social class mobility that were undertaken in most of the DSs in Asia should not be conceived narrowly in economic terms, but as measures to redistribute income and wealth. In other words, these measures performed two crucial social policy roles, that of production and redistribution. Though introduced at different stages, social policy has become a central component of the Asian developmental states, to the extent that one can classify them as developmental welfare states. The examples above illustrate the fact that developmentalist ideology of the Asian political elite had a strong redistributive thrust.

The pace of social policy has increased from the early 1990s as most of the DSs in Asia moved towards universalistic social welfare, in addition to the fact that the social welfare component has increased. The scope of coverage has increased over time to those previously excluded such as children, women and the elderly. The Asian developmental states, to various degrees implemented social policy measures (access to education, health), employment creation and social welfare measures. These ranged from universal healthcare to pensions and various forms of social protections. This as noted above became more inclusive.

In some cases, the state provided public housing which served two purposes, namely a form of subsidy to firms and to keep workers content aimed at energising the process of economic development (Deyo, 1992). A policy of income redistribution was also implemented in some of these countries with the same intent. As an example, transformative social policy was evident in both Singapore and Hong Kong which centred on provision of public housing and social services organised in new towns that actually played a fundamental role in social integration/cohesion and, in the case of Singapore, interethnic pacification. In some of the Asian DSs such as India, social policy entailed explicit anti-poverty measures. Social policy programmes gave the ordinary people a stake in the Asian developmental project and consequently contributed to its legitimatisation as well as created a basis for political stability – a necessary condition for investment and consequently growth. In addition, the general improvement of living conditions and the emergence of an affluent middle class in

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Asia helped to maintain a stable industrial and social order, at least for a long time, paving the way for the creation of competitive advantage for these countries in the international market. Indeed, the availability of an educated workforce that was able to reskill itself during the process of industrial upgrading, with high levels of productivity was an essential element for the success story of Asia. (Castells, 1992). Given the range of the social welfare programmes implemented in the Asian DSs, it was therefore no accident that they achieved E-growth.

In drawing lessons from the Asian experience for Africa, a critical factor that needs some consideration is how social policy can contribute to transforming the structures of African economies, which are currently over-reliant on the primary sector – agriculture and minerals. This is in addition to enhancing the African skill basis and legitimizes the developmental project.

That most academics ignore this fact - the social policy components of the DS - does not in any way reflect their policy orientations. The United Nations Research Institute for Social Development (UNRISD) is trying to fill this gap by undertaking pioneering work to focus on the social policy component of the developmental states. These emerging work is likely to correct some of misconception about the developmental states, and could therefore help late developers like Africa to firmly place social policy on the agenda in its efforts to construct a state that is both democratic and developmental. This will considerably shift the policy orientation from a narrow focus on growth to an equitable growth (E-growth).

In conclusion, social policy has a number developmental or instrumental value, namely its strong positive impact on development. This point to the transformative or productive role of social policy. Hence, Africa can derive important lessons from successful Asian experiences if social policy is to occupy a prime place in the continent developmental agenda. The central argument therefore is that social policy needs to be at the heart of a developmental agenda in the context of a DDS in Africa.

Anchoring developmental states in Africa on democratic governance

To ensure sustained E-growth in African has to be undergirded by and predicated on a state that is both developmental and democratic. One of the mis-readings of the Asian developmental states that we need to be aware of as we attempt to draw lessons for Africa is that some scholars tend to suggest that political authoritarian regimes were necessary conditions for their development outcomes - E-growth. This is unlikely to be empirically supported. If authoritarianism is a precondition for successful development, then Africa and Latin America would have been two of the most developed regions in the world. That the Asian states were autocratic in nature and were still able to transform their economics may be accident of history. There is nothing automatic about it!

Within Asia, we can point to Japan and the world oldest democracy, India, as examples of DDSs. Malaysia also has a variance of democracy. These cases point to the fact that we should not generalized about authoritarianism in Asia. But we need not limit ourselves to Asia as DDSs exist in other parts of the world. Scandavian countries are good models of DDSs. Not only have they achieved high growth rates, they have achieved the highest level of human development as measured by the UNDP's HDI. They combined this with a democratic dispensation of regular multiple-party elections – even though dominated by two parties - and citizens' participation in the development process, from the local to national levels. And in Africa, Botswana and Mauritius are examples of such states – although the developmental component of the Botswana is subject to debate given its poor social development indicators. What these experiences show is that development can be achieved under different regime types – democratic and autocratic. And even the claim that authoritarianism is necessary for development, the Asian experience is a clear testimony to the fact that development without democracy is not sustainable in the long-run. Following the economic success and the consequent emergence of the middle class, citizens in those countries began to struggle for civil and political rights. This resulted in gradual democratization across Asia. In spite of this empirical evidence, some continued to insist that democracy will be inauspicious for Africa's development because the state is unlikely to 'impose' and 'implement' its developmental agenda. Although it didn't explicitly articulate this, the World Bank may have unwittingly supported authoritarian regimes in the continent because it was only such regimes that could impose its shock economic therapy on the people of the continent. Thus for decades, the Bank was oblivious to the nature of political regimes. And even when it became 'interested' in "good governance" such was limited to creating conditions for macro-economic stability and offering technocratic solutions to the continent's crisis of development. Mkandawire (1986) draws attention to some of the factors that informed this wrong perception by International Financial Institutions about the negative effects of democracy on development (narrowly conceived as economic growth). These include the perceptions that democratic regimes are likely to adopt populist policies that favour consumption over investment, which would be a drag on growth. But as Weiss (1998) has eloquently argued, what matters for successful development is not how the state use its autonomy to impose its will on society but how its uses it to elicit cooperative relationships from society. This would entail the ability of the state to mobilize society around its developmental project. One of the implications of this analysis is that citizens' participation is central to the DDS, with positive developmental spin-off. First, it is likely to result in more efficient allocation of resources. Second, it will ensure greater citizens oversight over government and consequently lead to accountability in development and governance processes. Third, citizens' participation has the advantage of making them co-owners of the developmental project. This in turn will give credibility and legitimacy to the project and thus create political stability that is so necessary for economic growth.

There are important economic reasons why the developmental state in Africa has to be underpinned by democracy and why social justice needs to occupy a prime place in its developmental agenda. The Nordic countries are apt examples in this respect at they are good model of DDS that focused great attention on the question of social justice. This is because,

> …democratic citizenship is undermined if there is too great a contradiction between the egalitarian norms of a democratic polity and the inequalities of individuals and groups in civil society. Glaring inequalities undermine democracy in two basic ways; first, by fuelling social discontent and political instability and, second, through the persistence of

> poverty, by excluding more or less extensive sections of the population from access to the political process and its fruits (White, 1998: 28).

In addition to the unsustainability of authoritarian developmental states, democracy has an intrinsic value of itself that is worth pursuing. In fact, "democracy should be seen as good in itself" (Mkandawire, 1986: 1). And given that authoritarian regimes in Africa – under colonial rule and in post-independent military rules and one party regimes dehumanized majority of Africans, they require a political dispensation that promotes and protects their civil and political rights as well as their socio-economic rights as a necessary condition for the restoration of their human dignity. These are partly the reasons why the state in Africa in the 21st century needs to be both developmental and democratic. This argument does not mean that democratization that has been witnessed across the continent in the last two decades has improved the living conditions of majority of the people. In fact majority of Africans have not reap the democratic dividends – most still live below the poverty line. A good illustration of this is Africa's most populous country and one of its richest – Nigeria – where about 90% of its population currently live below the poverty line (less the $2 a day) – ten years after the end of military dictatorship.

Maneuvering under Globalisation: Lessons from Asia

A key challenge for late industrialisers like Africa is that globalization has to a degree changed the rule of the game. In earlier industrializations, the state occupied a prime place in driving industrialization. In the current context of neo-liberal globalization, the degree of state intervention is increasingly being undermined through WTO's regulations, for example. As Mark Beeson correctly argued, "…the market oriented , deregulatory agenda promoted by the IFIs and the US is a direct threat to the interventionist, state-led economic models favoured in much of East Asia" (Beeson, n.d: 6). The challenge however, is not that these rules exist but how African states can maneuver in the face of the creative destruction engendered by the current global orthodoxy. In this regard, it can draw some lessons from China and India that have selectively and strategically abided by the policy of this new orthodoxy. Both countries, while aggressively trying to capture new markets (to the extent that the West is crying about how Chinese clothing is flooding their markets and by so doing destroying domestic firms), they at the same time continued to reserve certain sections of the domestic economy for domestic industry. The Chinese and Indian cases demonstrate the adaptive capacity of the DS. Though the size of both the Chinese and Indian markets is larger, a factor which they used to their advantage, including breaking some of the globe rules, the lesson for our continent is that it has to selectively liberalize and protect domestic firms. If Africa is to construct DDS, it has to have strong adaptive and innovative capacities which will enable it to engage with the current global order to its advantage.

Increasing the levels of Africa's saving

Increase domestic savings – the Asian experience also points to high levels of domestic savings that contributed to the high fixed domestic capital formation. Central to this was the mobilization of domestic funds such as pension funds, which in turn where channelled not to short-term speculative investment and "building of shopping malls" as in Africa today but to long-term, employment generating investments, especially in sectors favoured by the DS. This speaks to the saving-investment nexus: increase domestic saving leads to high investment and consequently high economic growth state. This is crucial for any DDSs in the continent.

5. Conclusion

In every historical epoch, developmental states have been constructed to respond to specific contextual developmental challenges. In doing so, they have drawn important lessons from other experiences and adapt same to address their conjunctural contexts. Some common characteristics of most developmental states, especially the Asian DSs, however are that they are highly interventionists and protectionists, have strong state capacity (due to the state internal institutional configurations (including institutions for economic-wide coordination and planning) and collaboration with interest groups, especially between the state and business) and political leaders that are highly nationalistic and patriotic – exemplified by the commitment to developmentalism and consequently have the political will to drive through their developmental agenda -, highly innovative, put measures in place to address the plight of the poor, high investment to enhance human capabilities and creates conditions for high economic growth rates (these included high investment in research and development, and transformation of the structural basis of their economies from primary sector to high value-added economic activities) as well as production for export while at the same time stimulating domestic demand. In addition, most developmental states have considerable high degree of national autonomy in policy-making. With respect to the Asian DSs was a fundamental land reform that contributed to their successes. These were some of the factors that accounted for national prosperity in most of the DSs in Asia – these states witnessed rapid industrialisation- premised on an active industrial policy - accompanied by rise in the living standards among their population. It is therefore imperative that Africa learn these lessons in its attempt to overcome its developmental challenges by constructing a state that is democratic, developmental and innovative. In so doing, it has to avoid the pitfalls of the Asian DSs. Among other things, this will include ensuring that the DSs in Africa have to be underpin by social policy and democracy.

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Rethinking Africa's Development Path: Building a Democratic Developmental State

Presented by

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Policy Analysis Unit

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1

Introduction

1. **Background: The African Developmental Challenge**
2. **The Developmental State: A Panacea for Africa's Socio-Economic Crisis?**
3. **Towards a Democratic Developmental states in Africa: Lessons from Asia**
4. Conclusion

2

Thinking About the Devtal State

- *`"The first few examples of developmental states were authoritarian. The new ones will have to be democratic, ….". (Mkandawire 2001: 310)*
- *"…every successful developmental state introduces its own innovations in the economic and social organisation of the country and cannot afford to simply live on imitations". (Bagchi, 2000: 412)*

3

Background: The African Developmental Challenge

1. ***Socio-economic crisis***
2. ***Governance Deficit and the Retrenchment of the African state***
3. ***Reducing development to economic growth***
4. ***Dichotomizing economic and social policies***

4

Background: The African Developmental Challenge (ctd)

5. ***Monopolisation of the development agenda by post-colonial rulers***
6. ***Minimal but unsustainable progress in the turn of the 21st Century***

****increasing growth, democratization, reduction of civil strife***

5

The Developmental State: A Panacea for Africa's Socio-Economic Crisis

- Conceptualising the Devtal State
- Dymstifying the Impossibility Theses of Devtal State in Africa

6

Three main strands of Definition of Devt

1. Ideological disposition of political Elites
2. Emphasis on Institutional/organisational features of the state
3. Ideological and institutional Nexus

7

Ideological Disposition

- "A state is developmental when it establishes as its principles of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy" Castells (1992: 56) .

8

Institutional/Organisational Attributes

- Autonomy
- Embeddedness
- Synergy

9

Autonomy

- Autonomy implies the presence of high degrees of coherent state agencies that are able to formulate and implement developmental goals. Put differently, autonomy means the ability of the state to behave as a coherent collective entity and is able to identity and implement its developmental goals.

10

Embeddedness/Synergy

- Embeddedness is a concrete set of ties with particular social group with which the state considered central to the achievement of its developmental goals.
- This is enable the state and its social partners to share information, build consensus over its policy and ensure their effective implementation

11

Ideological-Structural Nexus

- A Devtal State is "one whose ideological underpinning are developmental and one that seriously attempts to ***construct and*** deploy its administrative and political resources to the task of economic development" (Mkandawire, 2001 *emphasis mine*)

12

Autonomy

- Autonomy implies the presence of high degrees of coherent state agencies that are able to formulate and implement developmental goals. Put differently, autonomy means the ability of the state to behave as a coherent collective entity and is able to identity and implement its developmental goals.

13

The Impossibility Theses of Devtal State in Africa

- "(a) dependence, (b) lack of development ideology, (c) 'softness' of the African state and its proneness to 'capture' by special interest groups, (d) lack of technical and analytical capacity, (e) the changed international environment that do not permit protection of industrial policy, and poor records of performance" (Mkandawire, 1986).

14

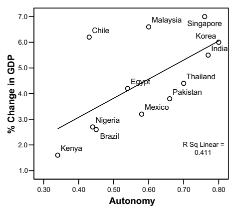
Dymstifying the Impossibility these of Developmental States in Africa

1. Ideological disposition rather than empirically supported – path of neo-liberal attack on the African state
2. Devtal not synonymous with absence of corruption
3. DS Institutions hard won edifices constantly under construction and not God gift from the past
4. First generations of African leaders had developmentalist ideology

15

Autonomy and Growth

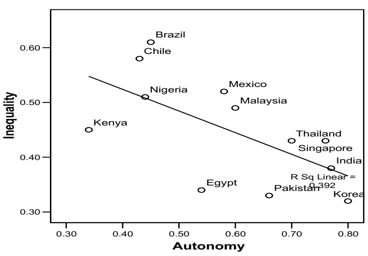
Figure 7.1: Autonomy and Growth



16

State Autonomy and Inequality

Figure 7.2: Autonomy and Inequality



17

Towards a Democratic Developmental States in Africa: Lessons from Asia

1. Institutions Matter in Development
2. Human Capabilities: The Drivers of the Developmental State
3. Human Capabilities: The drivers of Development in the 21st century
4 Anchoring the Democratic Developmental States in Africa on Social Policy
5. Anchoring developmental states in Africa on democratic governance

18

Towards a Democratic Developmental States in Africa: Lessons from Asia (ctd)

5. Maneuvering under Globalisation: Lessons from Asia
6. Increasing the levels of Africa's savings

19

Conclusion

20

THANK YOU

21

DRAFT – NOT FOR CITATION
FROM MALADJUSTED STATES TO
DEVELOPMENTAL STATES IN AFRICA

Thandika Mkandawire,

UNRISD, Geneva

Introduction

The first challenge in thinking about the role of the state in the development of Africa is to redress the many institutional and structural imbalances that adjustment and the "lost decades" have produced. I will argue that the combined effects of the various reforms of the 1980s and 1990s were to produce maladjusted states. The slew of reforms has at best, produced an anemic regulatory state unlikely to perform the required functions of a developmental state. Because of the way institutions have been rationalised, designed and allocated tasks there has been a tendency to present them largely as constraints on social actors (especially the state) and not as transformative instruments.

Misadjusting the African State

The maladjustment of the state in Africa has taken place in two phases.

Downsizing the state

During the first phase of adjustment reigning in the state was a central preoccupation of institutional reform. The anti-state position was driven by two arguments: one largely based on neoliberal "public choice arguments" and the other based on a neo-Weberian perception of the state and society. Both pointed to the impossibility of effective states that would serve any developmental purposes in the process of economic development. The "Public choice" view was first applied to the African states by Robert Bates (Bates 1981) who argued that the anti-agricultural bias of African states could be explained by the rational pursuit of "rents" by groups who would benefit from import substitution strategies pursued by African states. Such rents could be created by "distorting" the markets (through credit rationing, tariffs, foreign exchange allocations etc). In policy terms, this view of the state was strongly expressed in the World Bank's "Berg Report" which attributed the failure of agricultural to monopsonistic positions of marketing boards and the distortions of the domestic terms of trade against agriculture as a result of overvalued exchange rates and high prices of domestically produced industrial products. What was to follow from this diagnosis was spelled out thus:

> "It is now widely evident that the public sector is overextended given the present scarcities of financial resources, skilled manpower, and organizational capacity. This has resulted in slower growth that might have been achieved with available resources, and accounts in part for the current crisis" (World Bank 1981: 5)

Significantly this conclusion led to a wave of downsizing of African states as donors embarked on a systematic destruction of public institutions through retrenchment and the starving the state of necessary funds. By the end of the decade, the state had been reduced to the colonial "mise en valeur" proportions to maintain law and order and to ensure export of primary commodities. A World Bank study (Schiavo-Campo 1996), noting that among developing countries, Sub-Saharan Africa has the lowest government employment as a percentage of the population, had the following observations. The study, which measured the share of the number of civil servants for 100 people... showed that the average ratio for sub-Saharan Africa (1.5) is less than that of Asia (2.6) or of Latin America (3.0). Interestingly, Mauritius and Botswana—the best-performing countries in terms of growth and with bureaucracies touted as efficient—have more than three times the African average: 5.5 and 5.8 respectively. In the 1997 report the World Bank admitted that some countries' efforts to create the recommended minimalist state "sometimes tended to overshoot the mark" [World Bank, 1997 #2181]. This the Bank says without the slightest hint that it is the Bank's ideological overzealousness that has pushed these countries over the limit. The report itself was hailed as the Bank's change of mind and point to a "post-Washington consensus" policy regime. However, for African states, the message was simply that they should wait until the capability of the state was right. What Africans were being told was something like this: "Yes, the state has played an important role in the Asian development experience and there is no doubt it can play an important role in Africa. However, since we have weakened your state because of our regrettably excessive anti-statism and your overzealousness in downsizing, your states nor longer have the capacity to play a developmental role. So until such a time as your states acquire the requisite capability, you will have to wait".

Collapse of Public Investment in Physical and Human Capital

Together with the downsizing came the collapse of public investment and public services. In the 1980s it became fashionable to argue that public investment "crowded out" the private sector. It was also assumed that the market could identify economically viable and socially beneficial projects on its own. When private investment failed to respond to the retreat of the public sector, the World Bank argued that (a) there had been overinvestment in Africa and that what mattered was efficient use of existing capacity; and that (b) new theories suggested that the focus on physical investment amounted to "capital fundamentalism". What mattered for growth were good policies and human capital. This was said when the lessons from Asia as well as Africa's own experience in the 1960s and 1970s clearly pointed to the importance of higher levels of investment.

This anti-investment argument was extended to such things as infrastructure. As a consequence, public investment in roads and transport networks collapsed in Africa. Tony Blair's Commission for Africa report describes what happened:

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> Despite its clear benefits, African governments and development partners sharply reduced, over the 1990s, the share of resources allocated to infrastructure—reflecting its lower priority in policy discussions. In retrospect, this was a serious policy mistake, driven by the international community, that undermined growth prospects and generated a substantial backlog of investment—a backlog that will take strong action, over an extended period, to overcome.

Something similar happened to higher education. In 1986, the World Bank came up with an analysis that suggested that (a) the rate of return of investment in primary education was higher than in tertiary education; and (b) governments should cut expenditure on higher education. Many donors, including private foundations that had supported higher education, bought into this argument. The consequences for higher education were devastating. Ten years later, the World Bank began calling for "revitalizing universities" (World Bank 1997) this apparently because the World Bank realized that "education for all" would require teachers, and that its new focus on "good governance" demanded an educated local elite. Part of the much-bemoaned "brain-drain" can be squarely blamed on this wanton destruction of institutions of higher learning and the acquiescence by African governments to a voodoo calculus about rates of return.

"Good Governance and institutional Reform

Almost eight years after the "Berg Report" the World Bank issued another report *From Crisis to Sustainable Growth* (World Bank 1989), which categorically declared: "Underlying the litany of Africa's development problems is a crisis of governance. By governance is meant the exercise of power to manage a nation's affairs" (World Bank 1989: 60). And since then the issue of "good governance" and "institutional reform" has become part of the Pavlovian punditry about Africa's crisis. In Neo-Weberian writings the argument was that for all its size and ubiquity the African state was a "lame Leviathan" (Callaghy 1987). The argument now was that African states were based on patron-client relationships that drew from African culture and peculiar path modernity was taking in Africa.

For a while economists at the Bank and other aid agencies treated the "governance" turn with hesitation viewing it as a distraction from the key message of "getting prices right". In addition, the formulation did not suggest exactly how this would relate to the corpus of neoclassical economics that underpinned the stabilization and structural adjustment programs. In *Adjustment In Africa* (World Bank 1994), the World Bank argued that adjustment was in fact working but also noted that the response of private investment to adjustment had been "disappointing". Significantly the report did not pay much attention to the governance issue and "Getting policies right" remained its core mantra. Overwhelming evidence contradicted this report and suggested that in fact adjustment was not working but BWIs kept on moving the goal post and always found one thing or other to argue that policy makers had not done as instructed and had been slow is abandoning their retrograde ways. However, after some time the "policy failure" argument simply ceased to make sense and it could no longer be argued that in good faith that developing countries, especially the Latin American ones, had not implemented the putative "right policies". In light of this failure of the "get policies right" injunction a new question arose: "Why is that when the recommended policies are put into place (often under the guidance of –

and pressure from – the International Monetary Fund and the World Bank), the hoped for results do not materialize quickly." (Clague 1997a: 1). The answer was: "institutional weakness". We noted how the earlier argument by the World Bank that "Good Governance" was given look warm reception. This time around the reception was different. In 1998 Wolfenson declared that the World Bank has "ignored institutional infrastructure, without which a market economy simply cannot work" (Wolfensohn 1998: 11-12).According to Stiglitz, who was then Chief economist at the Bank: "The post-Washington consensus was aimed at the creation of institutions that helped markets (e.g. legal framework and institutions, property rights, competition policies, and contract enforcement" the (Stiglitz 1998).

This time the New Institutional Economics as formulated in the seminal work of Douglas North provided the answer to policy failure suggesting a seemingly obvious point, namely that poor legal systems and inadequate contractual enforcement deter investment and credit. This new approach provided a formulation of the "Good Governance" agenda that could be reconciled to neo-classical economics It also dovetailed neatly with the "new growth theories" and their attempts to take on board once again a wide range of "determinants" of and included in their cross-country regression equations proxies of the rule of law, financial institutions, intellectual property law, etc. which are mainly the outcome of the institutional set-up of the country. In this approach institutions were overarching structures shaped by "path dependence" and the unintended consequences of the pursuit by individuals of their own interest while the other. They also provided the kind of constraints that would facilitate transactions and reduce unpredictability of individual choices and behaviour.

The first pillar of this new argument was the need to ensure property rights. It should be recalled that property rights included protection of the market-sanctioned returns so that something like "rent control" or inflation or state revenues from seignorage were a tantamount to the violation of such rights.

The second pillar was the need to lend credibility to policy. Given the irreversibility of many investment decisions, predictability was important in encouraging private investors. One way of insuring this was through the reduction of the discretionary space of the state. The theory informing this choice drew from a seminal paper by Nobel Prize winners Finn Kydland and Edward Prescott[1] which argued that the central problem of policy was its credibility: fixed rules are preferable to discretionary ones because they increase credibility while discretion leads to "time inconsistency" which arises as policymakers may renege on commitments made in earlier period. It this approach rational agents use uniquely correct economy model and take into account all the available information when forming expectations about the future and making decisions. Correct policy respects the "fundamentals" of new economic theory. From this model the need to ensure credibility and the risk the problems of time inconsistency and policy reversals,

[1] For a nontechnical presentation of their argument see (The Royal Swedisg Academy of Sciences 2004)

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it was logically necessary to create insulated institutions[2]. The problem for government then was" How could they make private sector agents believe that the policy rule they announces in time t would be actually be carried out in time? Presumably, the rules were more credible if they were endorsed or even enforced by outside institutions. Governments could delegate authority to someone whose motives already enjoy credibility (read IMF) or deliberately surrender of authority and responsibility the authorities of an independent central banking system. Rule-based policies were thus strongly recommended to reduce the risk of recidivism Indeed conditionality "provide (d) the theoretical underpinning for the widespread notion that an IMF agreement is akin to the Good Housekeeping Seal of Approval for government policy, increasing the attractiveness of a country to foreign investors" (Gordon 1993: 112) [3].

Failure of institutional reforms

In light of these intellectual and policy shifts, the 1990s was therefore the era of "institutional reform". Virtually all donor agencies were now involved in supporting institutional reform and capacity building. A whole set of institutions were set up—independent central banks, stock markets, legislation to secure private property, public-private partnerships, New Public Management, etc. Not only were institutions set right, but politics also had to be set right through democratization. Already by the beginning of the millennium, there were increasing doubts about the "institutional fix" and the institutionalists began to lose ground. While many countries had, under the aegis of the international financial institutions, introduced major institutional reforms, the economic recovery remained elusive. This prompted the new question, *"Why is it that even when countries adopt the recommended polices and the right institutions, economic growth does not take place?"* One answer was "geography" which now provides support to investment in infrastructure. My argument is that the institutions peddled by the international financial institutions were the wrong ones, partly because of their disembedness, "monocropping" through the one-size-fits-all institutional design, and "monotasking" that insisted that all institutions should be harnessed to the protection of property rights.

Foreign Control and disembeddedness

One of the things that happened in the 1980s was the fall from grace of African ruling elites in the eyes of the donors. Informing the new agenda on institutions was a political economy analysis which suggested that local elites would never adopt good policies willingly, as such policies would go against their economic interests by undermining their bases of patronage and

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[2] Note, however, that the insulation and autonomy was only with respect to national institutions and politics as these autonomous institutions were essentially beholden to outside institutions as they are often compelled by SAPs to adhere to certain operating practices such as refusal to finance government debt or were simply based on operating guidelines of credible Western central banks or by employing central bank staff directly from these institutions.

[3] The IMF's own perception of the importance of its conditionalities was couched in this language: "Clearly endorsing IMF conditionality is a means by which borrowing countries establish the credibility and predictability of their policies...Markets want proof not only of the technical merit of policies but also of the authorities' will to sustain them. IMF financing vouches for this will, and conditionality helps countries signal their determination to act predictably, in accordance with prior commitments"(International Monetary Fund 1997: 82). See also (Dhonte 1997). As it turns out the catalytic effect IMF policies proved illusory (Bird 1997a;b)

(International Monetary Fund 1997). Hajivassilou found that between 1970-82 there was a significantly negative correlation between IMF support and new private sector lending (Hajivassilou 1987) clientalism or rent-seeking. In the context where local technocrats were viewed as having no moral commitment to the task of economic development, there were two logical ways of proceeding. One was to attempt to circumvent or undermine institutions dominated by local elites and which were deemed as irretrievably infested by rent-seeking and clientelistic relationships. In many cases, new institutions were created. The other was conditionalities. And so the 1980s and 1990s was the era of untrammelled impositions of externally concocted policies and institutions.

Monocropping

The assumption that "Good Policies" were known, a highly dubious proposition[4], and that there was one isomorphic mapping between the policies (or tasks) and institutions has -- drawn from notion that in perfect markets there is only one optimum to which all economies must move if they are not to end in non-Pareto optimum situations -- led to "institutional monocropping" through the imposition of what Peter Evans described "ideal-typical versions of a particular sub-set of supposed Anglo-American institutions" (Evans 2004). The World Bank has premised most of its initiatives on privatization on the Anglo-Saxon model presumably on "best practice" assumptions since Anglo- American common law tradition is more conducive than the civil law tradition towards economic development (La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1999)[5]. In the case of Africa, World Bank has published studies claiming that "formal rule bound governance" (FRBG) was more entrenched in Anglophone countries "consistent with the emphasis which the British placed on building a foundation of law during the colonial period"(Levy 2002). Consequently, the World Bank has invested considerable efforts in setting up stock markets despite the evidence that in none of the more recently high performers have such arrangements played a crucial role[6].. Since this singular truth maps monotonically into one type of institutions, the whole idea of context specificity and path dependence is jettisoned as countries simply borrow best practice from the Western countries.

Monotasking

One remarkable affects of adjustment has been its failure to stimulate investment. Institutional perform many roles some intended and some unintended. In the new view "underlying differences in the credibility of policy announcements are differences in the institutions of policy making" (Clague 1997b). Institutions are now assigned the task of encouraging or attracting (mainly) foreign investments. And so surprisingly, the elements picked

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4 History and Africa's own recent past suggest that the policies being pursued under the aegis of the BWI are not the "good policies" associated with economic development and structural change. As Dani Rodrik (2002) notes: "The few instances of success occurred in countries that marched to their own drummers—and that are hardly poster children for neoliberalism. China, Vietnam, India: all three violated virtually every rule in the neoliberal guidebook, even as they moved in a more market-oriented direction."

5 The researchers concluded from their regression analysis that "countries that are poor, close to the equator, ethnolinguistically heterogeneous, use French or socialist laws, or have high proportions of Catholics or Muslims exhibit inferior government performance, and that larger governments tend to be the better performing ones." (La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1998)

6 The World Bank has strongly denied it proposals on corporate governance favour any particular model however, as Ajit Singh, Alaka Singh and Bruise Weise argue, the actual recommendations the Bank has made leave little doubt that the preferred model is the Anglo-Saxon one.

up from NIE were those that related to attracting foreign investment: reinforcing property rights, regulating markets, to promote competition (levelling the playing field) clamping down on corruption, bolstering political credibility, enhancing the administrative capacity of government agencies, transparency. This has had serious implications for the design and functioning of institutions in Africa. Virtually everything was to be harnessed to this task of ensuring private property.

Ultimately "Good governance" has been reduced to something whose primary task is to serve the market just as earlier "development administration" was aimed at serving "development plans". The most emblematic case of monotasking has been the reforms in the statute and mandate of Central banks. Under the reforms regime "inflation targeting" has become the operational objective of central banks as monetary policy focuses almost exclusively on keeping inflation low, often at the expense of growth and employment creation. These restrictions of tasks of central banks deprives countries a major instrument for accelerating economic and social development. Even democracy is defended because it is good for property rights, a position buttressed by econometric studies suggesting that property rights are more sure under democracies than autocracies (Clague, Keefer, Knack, and Olson 1996)[7]. As a consequence central liberal and egalitarian (civil) components of democracy are shorn off the governance agenda. Tuozzo observes with respect to Argentina has resonance the African situation:

> "This rationale has led to the prioritization of certain normative values above others, making democratic institutions more concerned with elements of `performance' and `effectiveness', whilst elements of representation, fairness and equality have moved into the back burner. The prioritization of goals produces complex tensions and incomplete institutional initiatives that only partially address governance problems in Argentina. Since the Bank believes that to govern is to manage the economy effectively, it sustains a managerial view of governance processes that may have detrimental implications for the unfolding process of democratic consolidation." (Tuozzo 2004: 106)

"Transparency" is intended more to ensure "global legibility" of local financial practices than to facilitate democratic oversight which has in many cases been circumscribed by the ring-fencing of many economic institutions. In such a context even the notion of transparency so

[7] This turn in argumentation is a recent one. Both the historical and conceptual analysis has often suggested that when the propertyless are the majority there is always the danger that numbers can be used against the few propertied classes. As Przeworski and Limongi note "the idea that democracy protects property rights and we think a far fetched one". (Przeworski and Limongi 1993). The case for democracy is that it ensures the rule of law which presumably encourages investment. However it should be noted that what matters for investors is predictability and not accountability " and it is not clear that an authoritarian regimes cannot provide a framework for a predictable set of contacts" (Bardhan 1999): 95 . This after all has been the main attractive feature of authoritarianism to business. In more recent case Glaeser and associates (Glaeser, Porta, Lopez-de-Silane, and Shleifer 2004) observes with respect to China:

> "With respect to policy, our results do not support the view that, from the perspective of security of property and economic development, democratization and constraints on government must come first. In many poor countries, such security came from policy choices made by dictators. The economic success of East Asia in the post war era, and of China most recently, has been a consequence of good-for-growth dictators, not of institutions constraining them. Indeed, the Chinese example illustrates this point forcefully: there was nothing pre-destined about Deng, one of the best dictators for growth, succeeding Mao, one of the worst."

germane to the notion of accountability is subjected to the exigencies of this technocratic vision of policy markets and the perceived needs of the markets. Since accountability was important in ensuring “congruence between public policy and actual implementation, and the efficient allocation and use of public resources” (World Bank 1992: 13-4), even institutions of society were perceived in this narrow sense “The Bank’s promotion of civil society is linked to its promotion of accountability, legitimacy, transparency and participations it is these factors which empower civil society and reduce the power of the state” (Williams and Young 1994: 87)

Monotasking has even sought to reduce the functions of such institutions as the judiciary to the task of protection of private property. According to a World Bank lawyer judicial reform is part of a larger effort to make the legal systems in developing countries and transition economies more market friendly. (Messick 1999: 118). It was important that an independent and credible judicial system be set out to assure that private contractual arrangements are respected. Confidence in the enforceability of contracts was also crucial to the reduction of unreasonable delays, high costs and uncertainty in enforcing agreements. It should also be stressed that this understanding of the function of law dovetailed neatly with a political economy analysis that sought to reduce discretionary practices by the state (Tshuma 1999). The Word Bank Report of 1997 clearly spelled out this understanding of the law and development. Its involvement with law reform was confined to law to governance aspects related to development. Aspects of the judiciary that serve the function of property rights receive better funding from the donors.

Consequences on Monocropping and Monotasking

(a) *Wrong institutions*

The problem of monocropping and monotasking was not only that it unnecessarily restricts the range of institutional arrangements possible by rendering institutions one-dimensional but also that it most cases it insisted on institutions that were neither necessary nor sufficient. One major problem has been that of misplaced abstraction. However other researchers have challenged both the accuracy of the portraying of real “Anglo-Saxon” economies and the assertion of superiority of the model because (a) even among Anglo-Saxon countries, the real economies are not similar nor are they anywhere close the studied Chicago School model (Brautigam and Knack 2004;Carruthers and Halliday 2007;Ohnesorge 2007); (b) there is no evidence that civil law has been any hindrance to industrialization and that indeed some of the most dramatic cases of industrialization have been inspired by lessons from German. Indeed among most of the high performing developing countries the so-called “Rhein model” in which the banks were closely involved with industry has been extremely successful in ensuring long term investments (Ohnesorge 2007) (c) that in “Anglo-Saxon” countries informal, out-of-court arrangements have been important in accounting for the flexibility of the system. Caruthers and Holiday argue “Anglo-American commercial life unfolds outside the law as well as within it. And the variability of 'law in action', as opposed to 'law on the books', should never be underestimated. Furthermore, commercial predictability can be achieved outside the law as well as within it[8] (Carruthers and Halliday 2007: 272). This is particularly the case in developing countries where enforcement of whatever laws exist may be quite weak. And where, consequently, preoccupation with legal forms and structure may be misplaced.

Many of the specific institutions included in econometric studies to justify the privacy of institutions among determinants of growth do not seem to have played the role assigned to them in the new success stories such as Taiwan, South Korea or, even more spectacularly, China. The experiences of these countries do not suggest that these institutions were important as theorized or that where they were, they did not assume the form suggested by their proxies. Or as Evans puts it, "the star performers in terms of sheer economic growth during the last ten years—e.g., China, Vietnam, and Malaysia—exhibit institutional patterns that are embarrassingly hybrid relative to the monocropping ideal" (Evans 2004: 35). Daya Shanker (2003) argues that in China most of these institutions such as "rule of law", financial institutions independent judiciary, property rights etc. are underdeveloped or take a form diametrically opposite to the ones presumed in the literature[9]. Indeed the contrast between India and China in this respect compels Bajapa and Sachs to raise the question: "…why can India not match China or even outpace China in attracting foreign direct investment, given India's superior conditions regarding the rule of law, democracy, and the widely spoken English language" (Bajpai and Sachs 2000: 3). Hausman and Rodrik note

> "China achieved phenomenal growth rates without formally enacting private property rights—something that would have seemed impossible to many economists had the Chinese miracle not taken place. India barely reformed its incredibly cumbersome trade and industrial regime before its economy took off in the 1980s. And even after more ambitious reforms were enacted in the early 1990s, the Indian economy remained among the world's most protected."

In a similar vein Donald Clarke (2002), considering the "property rights" hypothesis, notes the contradictory fact that, on the hand, China has attained high growth rates while on the other the institutions by which rights are enforced, in particular courts, are perceived to be weak, and thus rights are perceived to be unenforceable[10]. In looking at the experience of Japan, Aoki argues that that there was much more serendipity in institutional design or choice than is often imagined and that there was unintended fit or complementarily between the evolving

[8] Ohnosorge argues that "comparative studies of regulatory styles and administrative law suggest that 'rules' are really not the answer – that successful regulatory systems mix rule, discretion and judicial review to varying degrees, and that discretion is both inevitable and …. Rule of Law advocates that forget this fact in the effort to provide the tightly rule-based environment that will maximize predictability and certainty for the private sector are not only out of touch with the realities of regulation and administrative law in actual existing market democracies, but are selling a one-sided and potentially unsustainable vision." [Ohnsesorge, 2007 #3951: 82

[9] And with respect to security market regulations the necessary institutions are probably better in some Latin American countries than are a number of high performing countries. This is probably the case with the stock markets in South Africa, Kenya, and Zimbabwe. Egypt.

[10] Note that it is perception, which determines whether persons are willing to invest and make deals, that counts for purposes of the Rights Hypothesis. .

organizations and the institutional framework in the emergence of which the government had played a central role[11.] ". One should add here that many of recommended institutions are also based on a misreading of the practices in the West which are often drawn from ideal types. The insistence on them rather the ones that the developed countries actually had is something tantamount to what Ha Joon Chang "Pushing Away the Ladder (Chang 2002)

Institutional incoherence

The literature on institutions underscores the significance of the "match" between formal institutions and local social, political, economic, and cultural settings. It also stresses the importance of complementarities within institutional systems. One major preoccupation of earlier discussions of institutions and development was around the duality of "modern-tradition", "capitalist-pre-capitalist", etc and the implication of such dualities on development. In the debates of the 1960s there were also concerns that national institutions might be "overdeveloped" because they were specified for non-national tasks or were empowered by foreign actors. The concerns about the institutional dualities, together with those about nation-building and about specificities of underdeveloped economies, were to be abruptly brought to an end by a "monoeconomics" that was essentially negative towards analyses that suggested different economies or sectors within economies would be driven by anything other than neoclassical utility maximization. Instead the existence of such dualisms and segmentation were attributed to such artefacts as policy "biases" by states which had favoured or succumbed to urban interests and created market distortions that had blocked agrarian transformation. The much long awaited unification of the modern and tradition could be ensured by reliance on the market and a "level playing field" provided by non-intervention.

Consequently, in much of the analysis we have no detailed information on existing institutions, Instead, institutions in Africa are often studied not for what they are but for what they are not (Ake 1996) The consequence of this *tabula rasa* approach being that institutional reforms often involve throwing away the proverbial baby with the bathwater or grafting of institutions on to a body whose rejection mechanisms are poorly understood. This is the feature of the current modular view of institutions whereby "best practice" parts can be easily added on to existing practices. (Roland 2003). At independence Africans set up a whole range of institutions to address the problems of their colonial past, their developmental aspirations and needs have "nation-building". Many of these institutions may have been wrongly designed or poor copies of the original Metropolitan institutions or have simply overlived their original intention. They do however constitute part of the landscape or "initial conditions" that must serve as the point of departure for serious reform.

Recent reforms have introduced a new form of dualism partly as a result of the insulation of the new institutions from the broad developmental agenda, the "monocropping" and from the highly restrictive agenda (monotasking) set for these institutions and such a dualism differs from the institutional layering in which the old and new are fused by processes of mutual adjustment

[11] In contrast, it turns that out the institutions that have mattered in countries such China, – the Chinese family networks, repressive laws, a highly restricted stock market and a banking system still tethered to a central planning view of enterprise success – are not exactly what is being recommended in the new literature [Shanker, 2003 #2765; Clarke, 2002 #2768].

DRAFT – NOT FOR CITATION

and accommodation. The new dualism manifests itself in the professionialisation and ring-fencing of those elements of the state designed around the "monotasking" on the one hand and the in formalisation of institutions addressing other aspects of the economy. With respect to law improved protection of property rights of a few is accompanied by increased social security of the many, greater criminalization of their neighbours and insecurity of the property – both individual and collective.[12]

In the political sphere, the new institutional reforms has sought on the one hand democratization while on the other seeking to create "authoritarian enclaves" that remain outside the oversight of democratic governments. Institutions intended to address issues of local development and those designed to facilitate "global governance" not necessary work well together. One consequence has been an institutional dualism within governments – with one part aimed at donors being visible, modern and often equipped with the latest technologies for managing digital information and another poorly equipped, demoralized and often resentful of the other and often carrying the heavy tasks of development – rural clinics, basic administrative services etc.

In the area of finance, most of the institutions that the World Bank is insisting upon are overly specified and extremely expensive[13]. One reason is that these institutions are set up to attract foreign private investment whose demands for legal codifiable and court-verifiable information may simply be too rigorous that domestic capital. Thus it is doubtful that stock markets that meet the standards of American pension funds are the appropriate ones for providing capital to local capitalists. The needs and perceptions of domestic investors may be quite different from those of the foreigners and the standards set up may be too restrictive for them...[14]

The incoherence can arise not only because the new and old institutions obey different logics but also because new institutions may establish new winners and losers and therefore be subject of contestation. One important lesson from experiences of countries like China where transitional institutions were to enable the compatibility between efficiency enhancement and political and economic interests (Qian 2007). This also suggests that in borrowing any institutional package one should bear in mind that often "best practice" packages that highly idealised are often shorn off of every contestation that may characterise them in their countries of origin.

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12 On increasing violence and informalisation in Latin America " (Kruijt 2002:)where, as in Brazil," urban social tranquility rests on the permanence of a state of siege" (Gledhill)

13 This is a general problem of the "Good Governance" which imposes standards far beyond what is needed or possible at the low levels of development.(Chang and Peter 2000;Fritz and Menocal 2006;Grindle 2004)

14 Thus in the case of China, ethnic Chinese investors have entirely different perspectives that pay much less attention to the variables that enter the stand measures of "high quality institutions".[14]As the Singapore's Minister of Information observed:

"Investment and trading conditions are very complicated, with a weak legal system and unsettle frameworks for investments and currency exchange…China has never been a civilization with a tradition of the rule of law above the rule of men…The overseas Chinese…are relatively untroubled by the absence of legal and accounting framework (Cited in Pfeffermann 1997).

DRAFT – NOT FOR CITATION

Institutional instability and Institutional sclerosis

For Africa the 1980s and 1990s was a period of what Whitehead aptly describes as a "veritable cannibalization of the state apparatus" (Whitehead 1993: 1381) brought about by untrammelled experimentation with half-baked ideas about how markets performed in Africa. One important constitutive characteristic of institutions is stability that often creates the tension between conformity and change. Such stability can at times be a fetter on development while at times it can provide the kind of predictability that is valuable to economic actors. Indeed the World Bank argues that its choice of the procedural and institutional version of the rule of law is because it is supposed to guarantee stability and predictability which are essential elements of a climate where business risk may be rationally assessed and the cost of transactions lowered (Tshuma 1999: 84). People who work on institutions stress coherence and predictability while living room for flexibility and adaptability. However, there is a limit to the degree of flexibility and malleability before an institution seizes being one. Many of the new institutionalists claim they derive their inspiration from Douglas North who argued that institutions change gradually in response to relative price changes and to changes in transaction costs. One argument for gradualism and tailoring of changes to pre-existing institutions is that this economizes on institution building. There is therefore a contradiction between the perception that institutions (whose establishment is inherently gradual) would go side by side with what David Ellerman refers to as "Big Bangery", "shock therapies" and "counter-revolutionary" impositions (Ellerman 2005). The radical dismantling of existing institutions and rapid implantation of institutions from elsewhere do not pay attention to the injunctions of the theories about institutions and the importance of initial conditions. Because institutional reforms are often the result of passing fads and donor institutions, they lack the kind of anchoring that is key to Schumpeter "creative destruction". Instead what we have is "uncreative destruction" as donors move on immediately after the destruction without taking the time it takes to create new institutions.

In line with rational choice perspectives on what motivates individuals reforms were made to "incentivise" the civil service by introducing competition into public service provision (agentisation, the tendering of services etc) through the New Public Management approach (Bangura and Larbi 2006;Harrison 2005);. As had been noted, with respect to the introduction of New Public Management reforms in Tanzania and Uganda, such reform represented a "radical departure from the administrative logics" (Harrison 2005) that previously existed within Uganda's and Tanzania's bureaucracies. Furthermore, the reforms have been introduced into emaciated administrations—poorly resourced, or in Uganda's case all but entirely depleted by a long period of civil war and extreme authoritarianism" (Harrison 2005: 250). First-best (often textbook models) have not only proved costly but often simply are unimplementable in the real world and therefore highly ephemeral- And thus by the end of the 1990s, these experiments were being quietly shelved as their nonworkability became clear. The focus of the reforms on "efficiency" ignored other vital political considerations that have structured civil societies in ethnically diverse societies (Bangura 2006).

Restraining versus transformative Institutions

For late comers the "developmental role" role of the state is central. After years of touting the Asian economies as evidence of the effectiveness of policies the BWIs were pushing, the World

Bank had finally accepted in 1993 the overwhelming evidence that the state had played a central role in the developmental experiences of these countries and that credit rationing (the allocation of rents had been central) (World Bank 1993). However this concession to the Asian experience was immediately set aside, at least so far as Africa was concerned. First it was argued that "the fact that interventions were an element of some Asian economies' success does not mean that they should be attempted everywhere, nor should they be used as an excuse to resist needed market-reform" (World Bank 1993: 26). This view was buttressed by a number of academic publications that suggested the impossibility of a developmental state in Africa (Mkandawire 2001) In addition the "Asian financial crisis" of 1997 set to severe test the robustness of the Asian developmental state and reinforced the view that institutions matter but that only specific sets of institutions were appropriate. It was argued that the Asian crisis was the consequence of bad institutions – relationship banking, weak corporate governance structures and lack of competition – all excrescences of the developmental state. In such an insider-dominated system, there was no transparency and it was the result poor information that exacerbated the crisis. Thus in one stroke institutions that had accounted for the remarkable 30 year growth were dismissed as dysfunctional "crony capitalism".

What is even more damaging is that these reforms have simply led to the creation of institutions that undermine development efforts. In addition, the marriage of the literatures on rent seeking and on institutions has further reinforced the view of institutions as merely constraining mechanisms. Much of technical assistance has taken the form of strengthening watchdogs over the "spending ministries" which are crucial for development of human capital and infrastructure. Institutions are also enabling devices and are constitutive in the sense that they shape agency (e.g. by inculcating certain values) (Chang and Peter 2000). Students of developmental states have argued that many of the institutions currently being promoted by the proponents of the good governance framework may not be necessary for development (see for instance Chang 2003). Through monotasking, many institutions that have served the broad development agenda have been rendered impotent as developmental institutions. Institutions for strategically allocating rents, such as development banks and other institutions that make up a nation's innovation systems and extension services, have often been paralyzed or closed down.

Towards Developmental state

Regaining Sovereignty

The initial logic informing institutional reform militated against local ownership. The negative perception of the capacity and cultural foundations of the African states, adhesion to the "negative politics" of rational choice (Harrison 2005;Toye 1995;Williams and Young 1994) and the cavalier dismissal of the defining characteristics of Asian developmental states all led to the view that local elites could not be trusted to run, let alone create, developmental institutions. Now donors admit the importance of "ownership". Unfortunately, there is still a problem with this approach, because what they now wish for Africans to own is not what Africans themselves have come up with, but rather something that has been rammed down their throats.

Initially both the public choice view" and the neopatrimonialism s counselled for the establishment of institutions that would be insulated from domestic entanglements by either placing them directly under foreign institutions or by ring-fencing them with a whole range of conditionalities that would guarantee their "autonomy". The historical record shows persuasively that institutions' capability to learn and adapt is a major determinant of their appropriateness and efficacy. This is best facilitated by ownership of the process of learning and adoption. Berkowitz et al. (Berkowitz, Pistor, and Richard 2001) illustrate this proposition with the case of law when they argue that the way the law was initially transplanted and received is a more important determinant than the origins of the law (for example, English, French, German or Scandinavian). They attribute the failure of many technical assistance problems to the "transplant effect" that has led to the rejection of pre-packaged institutions. Furthermore recent history suggests that experimentation, "muddling through", deviations from the beaten path, and attention to local contexts and histories have played an important role in the cases of successful development. The literature on institutions is replete with words like context specificity, path dependence and history, all of which would suggest "concrete analysis of concrete situations".

Bringing the developmental state Back In

At best the reforms of the 1980s and 1990s produced what is at best an anaemic "regulatory state" which was designed as merely restraining social actors, especially the state. The state was denied most facilitative and transformative roles. It definitely lost any entrepreneurial roles it might have enjoyed earlier. One of the unfortunate consequences of this interpretation of both African capacities and the Asian experience was the downplaying of agency in the process of development. In a sense it all led to the conceptualisation of development as something immanent in the market system and not as what societies strive to achieve through strategically deployed efforts It also confined itself to dealing with *how* states should govern and not *what* they should be doing. Both history and economic theory clearly argue that states can do many things in the development process. They can influence private producers by providing incentives and enabling environment through a whole range of policies including fiscal, monetary, investment, and trade policies. State can assume regulatory roles by establishing the rules of the game and by ensuring that private gains are compatible to social objectives. States serve as mediators in conflicts among various social actors and interests. They can assume welfare roles such as redistribution of wealth and protections of citizens against the vagaries of nature and the market. Fifth, states assumes directly productive activities by assuming entrepreneurial role of taking on high-risk or high-capital projects And finally states can help resolve a number of coordination problems through planning. (Biersteker 1990: 480)

The institutions that are being called for are not ones likely to come up with policy options or capacities to meet the specific needs of individual countries. They are definitely not up to the urgent task of constructing the stable, developmental, democratic and socially inclusive social orders that have thus far remained elusive in Africa. Furthermore, these institutions differ radically from not only those behind the East Asia miracle and China but also from those of any successful case of development in modern times. Indeed, in the successful "late industrialisers" many of the institutions being pushed as prerequisites for development never served the functions attributed to them and they were assiduously avoided in all strategies of "catching up".

No wonder the insistence on these institutions today is thus considered tantamount to "kicking away the ladder", to quote the title of Ha Joon Chang's eye-opening book.[15].

Bringing Production Back In

Adjustment undermined countries capacity to mobilize resources and investment. All development efforts have sought to mobilize resources through all kinds of "forced savings". These have included measures to influence both patterns and levels of consumption, compulsory savings schemes (e.g. providence or pension funds), taxation, etc. In the liberal era all these were treated as "distortions". The new view was that high return on savings (interest rates) would be enough to generate the socially optimal savings to fund investments. Liberalization of financial markets would be enough to generate the savings and to ensure their rational allocation. No "later industrialiser" has followed this model. Indeed, one of the important lessons from Gerscherenkron was that "late industrialisers" would have different financial institutions from the more "laissez-faire" ones of the pioneers of industrialization.

Alice Amsden reminds that the developmental state not so much (if at all) by considerations of "market failure" but by conscious response to the realization that the country was not competitive in activities associated with high levels of income and requiring knowledge. In this productivist view openness to the world in not simply to attract foreign investment or to export more but to have access at world market prices ideas, institutions, capital, and goods and services, which ultimately makes the economy competitive in a wide range of goods .

The Private sector

One of the reasons for the failure of the first developmental efforts was the jaundiced view of the state towards the private sector. The 1990s witnessed a radical shift in attitudes of African governments towards the private sector. However under conditions of adjustments many governments had neither the carrots nor the sticks with which to steer the private sectors into developmentally static areas. Neoliberalism has tended to conflate being pro-market with being pro-business and fails understand that be being globally pro-capitalist does not ensure the capitalists in individual country situations. Investment by the private sector would follow policy.

The standard set of new institutions are tethered to a minimalist economic agenda to facilitate open capital accounts, deregulated labour markets, arms-length finance etc, and are hostile to industrial policies and financial arrangements that clearly facilitated rapid growth and industrialization elsewhere. In many ways, these new institutions were actually designed for the wrong type of investments. The literature on foreign investments is quite consistent in arguing that what developing countries need is foreign direct investment which not only brings in finance for new "greenfield" investments (rather than merely acquisitions and mergers) but also technology and access to foreign markets. The incentives and institutions appropriate to these types of investment are not the same as those required by portfolio investments, which are the ones around which much of the institution-building in Africa has evolved. The incentives for foreign direct investments tend to be sector- and location-specific and may require a much more

[15] See (Chang 2002)

interventionist state policy. Most significant they demand a pro-active policy towards business. Mkandawire and Soludo (Mkandawire and Soludo 1999) argued that one of the problems of Africa has been the antibusiness political culture. SAP, with its obsession with rent-seeking and its deprivation of the state of any means for engaging with business actually continued with the same policies despite its ideological affinity with pro-capitalist ideology. The World Bank now acknowledges and argues "In focusing on improving the business environment it is important to make the distinction that Rodrik and Subramaniam make based on their analysis of India's growth revival since 1980 "pro-market" and "pro-business" reforms."(Ndulu 2007: 21)

Managing Class and ethnic conflicts

The period of adjustment has also been a period of violent conflicts and "failed states". One source of the conflict has been the weakened capacity of the state to mediate social conflicts and to sustain the various "social pacts" that gave African a modicum of peace. Development is an inherently disruptive process, raising what the Germans refer to as the "Social Question".

Bringing Social Policy Back In

Social policy has an important role in the development process. One is that addresses issues of intrinsic value – populations quell-being, social inclusion etc. However in the context of development social policy has many instrumental roles. To name a few, it can help resolve the political explosive "social Question" that arises with rapid social changes as populations are dislocated, urbanized, differentiated etc. Social policy is closely problems of developmental states because to "catch up" the developmental state must have what Abramovitz and others (Abramovitz 1986;1995) refer to as "social capability" which includes a number of things upon which social policy has an important bearing - human capital, social institutions, social cohesion and social adaptability and flexibility. One important aspect of "catching up" is the building up of human capital.... Knowledge is a public good and markets are notoriously unable to handle such goods in a socially desirable manner. Social policies can help address market failures in the more directly productive process of skill formation.

The "Big Push" argument has called for the mobilization of investment resources by the state for a whole range of reasons – the view that the myopic view of private individuals would not provide for the kind of long-term funding did not require for rapid change, nor would the time preference of individuals allow for the "sacrifices" required for increasing savings. Hence the prevalence of various schemes of "forced savings". Pensions may induce "forced savings" that are in one way of mobilizing resources in economies with poorly developed financial markets. Thus in countries such as Singapore and Malaysia, the high savings was partly accounted for by the governments' ability to extract forced savings through high social security contribution. Provident funds have been employed by governments to promote a variety of economic policy objectives such as boosting savings and managing effective demand for macroeconomic policy purposes.

Reconciling Democracy and development

The theorizing about developmental states has only marginally concerned itself with issues of democratization and is only now coming to terms with “democratic developmentalism”. There is a vast literature on “developmental states” that says very little about democratization, except perhaps to point out to the oddity of “democratic developmental states”. The theorizing about developmental states has only marginally concerns itself with issues of democratization and is only now coming to terns with “democratic developmentalism” (Sklar 1996;White 1998). However For some such a proposition was almost an oxymoron (Leftwich 1996a;b). Outside the Latin American literature which problematised the “developmental states” by stressing the “bureaucratic authoritarian” features of such states and the socially exclusive nature of their policies, the “developmental state” literature rarely talked about problems of democratization and human rights (Collier, David 1979;O'Donnell, Guillermo 1978). Even in the case of Latin America, as O’Donnell pointed out, the topic of democracy seemed at the time “surrealistic” (O'Donnell 1979 286). Much of the literature on Asian developmental states tended to consider their authoritarian character as simply one aspect of “the autonomy of the state”, which was somehow made bearable by its “embeddedness” and its spectacular success in development. The African literature focused on how to make authoritarian regimes stronger. More “enlightened” and more developmental. Indeed, the high economic growth rates achieved by authoritarian regimes were used to support the view that the suspension of human rights was the price one had to pay in the process of development. This was part of the “full belly thesis” (“you can’t eat democracy”) or the vale of tears that had to be crossed before the promised land of economic well-being. States themselves often claimed there was a sequencing of rights, with the “right to development” taking precedence.

One most trumpeted feature of development states was the “autonomy” of the state from special interests. The state bureaucracy was often seen as pursuing its developmental project unencumbered by local politics with its myopic focus. Indeed the quintessential developmental states have tended to be authoritarian. Following from this some has questioned the wisdom of insisting on democratic governance in the context of underdevelopment... It was this same logic about the trade-off between democracy and development that was used to justify authoritarian rule in much of Africa because the task ahead called for sacrifices that could only be imposed by a strong state. And some authoritarian regimes did achieve high rates of growth. But many failed. And two of the most cited success cases were Mauritius and Botswana - both democracies.

Much of this analysis has tended to confuse autonomy with capacity. A strong case has been made that the state can only translate its autonomy into effective capacity by being “socially embedded” or at least being associated with “developmental coalitions” that may or may not be mass based or democratically constituted. What has mattered in developmental states is not so much their despotic powers but their infrastructural powers defined as ‘capacity of the state to actually penetrate civil society, and to implement logistically political decisions throughout the realm’. Michael Mann’s (1993). It is the ability of the state to persuade key players to adhere to its developmental agenda. We should also recall that even the most elementary forms of democracy require a certain zone of autonomy within which political decision- making can take place. Politics must be "differentiated" from the overall structure of power and the system of social inequality as a whole" [Rueschemeyer, 2004 #4542: 77]. Quite a number of democratic states have qualified as developmental states. The Japanese developmental state in the was able to coexist with democratic political institutions. The Late industrializing Nordics were also developmental democratic states. And in Africa the most remarkable "success stories – Botswana and Mauritius – have been democratic developmental states.

Addressing Globalization

One important issue that developmental states have to address is the establishment of a strategic link with global markets. This does not involve simply liberalizing trade but involves identifying sectors likely to be competitive within a reasonable period and with the broadest positive externalities with the economy as a whole. Historically, this has involved sectoral policies and specific financial arrangements of such sectors. Central to success is an investment – export nexus that has produced the necessary dynamism in the export sector. The sole instrument permitted by neoliberal policies – devaluation is a totally inadequate tool. It often has only led to a one-off increase in exports as a result of existing producers switching from domestic to external markets. For years UNCTAD has argued for an investment-trade nexus on that grounds that it not trade but the accumulation of physical and human capital that is fundamental for economic growth. Even in the "liberal developmentalist model" of Chile there is overwhelming evidence that the strategy of export orientation was only sustainable because a whole range of public interventions at the sectoral level were applied to reorient producers toward export markets. These interventions were devised to address pervasive market failures in the financial sector, and in the distribution and insurance markets (Kurtz 2001).

Many of the institutions that have elsewhere used to support the investment-export nexus – development banks, trade banks, etc were dismantled in the adjustment era. One consequence is that African countries have low capacity to translate a favourable international environment into growth. More specifically, while earlier commodity booms were associated with the expansion of domestic manufacturing activities, currently the response has been greater consumption of imported manufactured goods.

Regional Integration.

On the weaknesses of the early efforts at development was narrow nationalism. Quite early in the process of industrialization by import substitution it became clear that the size of most African economies was so small that they could not go beyond the most rudimentary levels of industrialization on the basis of the domestic market. Consequently, there was much talk about regional integration to allow for deepening of the import substitution strategies. Paradoxically the most articulate statement of the need for regional integration came out a year before the "Berg Report" with diametrically opposed perceptions of both the economic crisis and solutions. However, the plan was to be completely sidestepped as each African state individually sought arrangements with external funding institutions.

DRAFT – NOT FOR CITATION

We noted that one of the consequences of adjustment was the neglect of infrastructural investment and maintenance. And today poor infrastructure is cited by the private sector as one of the constraints on their undertaking investments in the export sector Low Resource Mobilization Capacity.

One feature of earlier periods of the post WW2 period is that it allowed much more policy space to individual states. Alice Amsden characterisation of this period as of "laissez faire" not for markets but for states captures the spirit of the period. While for the economies of the North it allowed extensive fiscal interventionism that underpinned many welfare regimes, in the South it allowed various forms of market interventions that allowed for protection of nascent industrialization, selection allocation of resources to priority sectors and greater national ownership of the development process.

The current debates on trade – the Doha Round – have demonstrated quite clearly that the developed countries are not bin a hurry to create a global order that is shaped to facilitate development.

What Prospects?

Africa's natural resources

Africa has vast resources that should facilitate its development endeavours. We have already how during the last few years, the improvements in terms of trade and increased investment in mining have improved growth rates in Africa. One major weakness of the strategy in Africa was the assumption that the capital equipment and intermediate products for industry could be acquired through continued export of primary products. Consequently, there were no efforts to push for exports of manufactured goods, despite declarations that one of the objectives of import substitution was the diversification of exports. One should contrast this with the Asian case in which some, if not all, of the foreign exchange required for industrialization was to be earned by the industrial sector itself. African policy makers were persuaded they could exploit their "comparative advantage" in natural resources to eventually transform the production base and export structure. Projections made by the BWI encourage this view, in defiance of the robust view of Prebisch's thesis on the secular decline of terms of trade for products. One effect of this dependence on raw materials was the extreme vulnerability of African economies to external factors. We ought to avoid this error by operating as if we were informed by Prebisch. One of the disturbing effects of maladjustment is that while in earlier period of growth, such improvements were associated with expansion of the manufacturing sector, the current expansion seems to have a slow catalytic effect

Better Human resources

One of the achievements of the post-colonial state was in the education field. Although African governments were faced with enormous pressures to reduce expenditure on tertiary education, many continued and today Africa has much better human resources than at independence. To be sure huge amounts of these resources are now outside the continent. Experience from elsewhere suggests that with carefully designed policies and with improved economic conditions it is possible to access these human resources and even induce a reversal of migration.

Collapse of the Washington World

One of the amazing outcomes of the intellectual hegemony was the production of a whole generation of economists that could think beyond stabilization. This is a much serious outcome than is often understood. It is interesting to note that the East Asian countries eschewed the employment of economists with neoclassical training.

Ideological shifts

We should always bear in mind that developmental states are not a goal in themselves but an institutional instrument for attaining rapid growth. So what matter is the collective will to development. The drivers of such a will have included nationalism, militarism etc. In much of Africa early attempts were driven by nationalist aspirations to "catch up" and to build a nation. Anti-capitalist sentiments and variations of socialism played a central role. I believe nationalism is till an important driving force and there is a renewed interest in development. Part of this may reflect responses to globalization. Perhaps one of the most important changes in Africa has been the growing accountability of African leaders to local constituencies. This has been partly been the result of democratization but also the result of the kind of clientalism that thrived under the "Cold War". One noticeable change in this respect is that African leaders now talk in terms of the growth of their economies and there is kind of healthy competition on economic performance.

New Global players

Globalization and the mergence of new economic powerhouses such as China, India and Russia are providing entirely new economic opportunities. They are definitely provided possibilities for African countries relaxing some of the ties they have had with their erstwhile colonial powers that pace and patterns of economic growth have not provided the requisite external environmental for the economic growth of African economies.

The Way Ahead

The need for originality

First we should bear in mind that there are no fix "prerequisites" for the establishment of a developmental state. One important message from Gerschenkron and from the Asian experience is that among .'Prerequisites' are substitutable. This explains partly why even among the East Asian developmental states there are huge differences. Woo succinctly reminds us of Gershenkron's message:

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> Forty years ago Alexander Gerschenkron…argued that originality and creativity in development came not from copying, followership, or 'one-size-fits-all' dictums based on western experience, but from inventive and iconoclastic deviations—sudden industrial leaps forward, skipping over Rustovian 'stages', carving out new sequences, reinventing the role of states and markets, or transforming apparent developmental disadvantages into 'advantages of backwardness' (Woo 2007: 2).

In many ways the discovery of the developmental states has tended to produce its on mystification of a non-corrupt, dedicated, omniscience bureaucracy that selfless and patriotically manages economic transformation of their societies. The all good things go together has sought to associate the Asian growth miracles with whatever one thought was good – transparency, accountability, autonomy, non-corruption etc. Against such an idealized view the developmental states Africa's attempt to constitute or reconstitute developmental state must seem a non-starter.. The fact is that the Asian experience ought to raise a different question: why is high economic growth compatible with a wide range of "baddies" – corruption, bureaucratic, authoritarianism, cronyism, nontranparency etc? In thinking about developmental states in Africa we must avoid the idea of monocropping and "best practice" packages they are often highly idealized and shorn off of every contestation that may characterize them in their countries of origin.

Secondly we should also bear in mind that developmental states are not fully formed as such. The definitely are not the idealized developmental state that is omnipotent and omniscience. Some of the "developmental state" literature has tended to read, post factum, every practice of the developmental states, as deliberately designed to serve developmental goals. I argued in my paper on development states the following:

> "As formulated, the definition of the "developmental state" runs the risk of being tautological since evidence that the state is developmental is often drawn deductively from the performance of the economy. This produces a definition of a state as developmental if the economy is developing, and equates economic success to state strength while measuring the latter by the presumed outcomes of its policies. It has led to myopic concentration of analysis around success to the neglect of the "trial and error" nature of policy-making even in the most successful cases. If a developmental state is not be deified into some kind of omnipotent and omniscient leviathan that always gets what it wants, then the definition must include situations in which exogenous structural dynamic and unforeseen factors can torpedo genuine developmental commitments and efforts by the state. This allows room for poor performance due to exogenous factors, miscalculation or plain bad luck. At times, a government's political will and technical capacity may simply prove inadequate to fend off exogenous forces. " (Mkandawire 2001)

Developmental states are built over many years by trial and error, intelligent emulation and borrowing, inventing new country specific innovations etc In looking at the experience of Japan, Aoki (1997) argues that there was much more serendipity in institutional design or choice than is often imagined. He also says that there was an unintended fit or complementarity between the evolving organizations and the institutional framework, in whose emergence the government had played a central role. No wonder even among the "East Asian Development States" there are huge variations.

Finally developmental states and the institutions they create are, *ex definicione*, multitasking. Precisely because "good institutions" are hard to come buy in the early phases of industrialisation late industrialisers have sought to economize on their use by make them perform multiple tasks. The universal banking that lay behind the financing of industrialisation in Germany and later in Japan is, as Gerschenkrom suggested, such an adjustment. The same is true of the multiple roles that Central Banks have played among later industrialisers in the development process. Rather than producing isolated and ring-fenced institutions, development also require the maximum exploitation of synergies among different institutions through facilitating coordination It is in this role that the developmental states comes into its own.

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Introduction

What do we mean by "Africa"?

By "Africa" many speakers often mean we mean Sub-Saharan Africa, excluding the Republic of South Africa. Despite their geographical location and their membership of the African Union, the countries of north Africa are rarely considered "African".

The SSA countries cover a rich diversity of culture, geography, and historical background. These countries can be described in terms of their varying levels of per capita income, human development index, quality of infrastructure, size or sophistication of their private sector, export performance, and other economic indicators. Most countries have natural-resource based economies, including some of the world's great exporters of oil and minerals. They include Namibia, with a population of 2 million, and Nigeria with 150 million people. Clearly, Africa defies quick generalizations. Thus, "Africa" is a term describing a large and diverse number of countries. Yet, all of them have a number of common characteristics:

- Poor human development indicators (see UN HD Index, progress towards the Millennium Development Goals)
- Very young population, high birth rates
- Low per capita income (PPP or otherwise), and high levels of inequality
- Predominance of agriculture for livelihoods
- Low levels of productivity, hence low level of wealth generation and competitiveness
- Manufacturing a small percentage of GDP, and even lower percentage of exports
- Very large potential or proven deposits of oil or minerals

In terms of regional economic groupings, the countries of Africa fall into one of several trade zones, including SADC, COMESA, ECOWAS, and the East African Community. Given the small size of individual African economies, the future economic development of the continent will depend very much on the effectiveness of the regional economic groupings.

Africa's development experience and challenges

Historical background

The long colonial experience, which can be defined to include the slave trade that began in the sixteenth century, dragged Africa into the global political and economic system on most unfavorable terms. It destroyed great African civilizations. Ultimately, different African nationalities were melded together into administrative units, mainly for the convenience of the colonial powers. These were subsequently to become the new African States in the post-colonial period.

The colonial powers did not form the colonial states with a vision of ultimate independence for them; in fact, for some, there was no intention of ever handing over power to the colonial people (esp. where there were significant European populations, e.g. Kenya, Rhodesia, Portuguese territories, Algeria, etc.). Therefore, they actively discouraged indigenous leadership and national integration.

Partly because of this background, the first challenge faced by the newly-independent African countries was to turn States into nations. A nation, as distinct from a mere State, is a cultural entity, a community of peoples with a shared set of values and aspirations, and with a national identity, who think of themselves as one. States may be created over night; nationhood develops over a long period of time. All African countries, with the exception of a few, like Botswana and Lesotho, still grapple with the challenge of going beyond Statehood to nationhood. Some, like Tanzania and Zambia, have been relatively successful. Others, such as Congo and Sudan, have been torn apart by inter-ethnic strife.

Independence for Africa was a scramble, just as colonization had been a scramble. It was related to other international events such as the European exhaustion following World War II, the British losing their Indian Empire in 1947 (Mahatma Gandhi, etc.), the increasing assertiveness of the colonial people who had fought the war on the side of their colonial masters and seen battle, opposition of colonial subjects to racial discrimination, demands for economic justice and meaningful self government, support of the United States and the Soviet Union (for their very different reasons) for the anti-colonial movement.

The modern independent States of Africa came into being between 1959 and 1965, except for Ghana (1957), the former Portuguese territories (mid 1970s), Zimbabwe (1980), South Africa (became non-racial in 1995). Then, so did the Asian States of Malaysia and Singapore. In fact, Malaysia started off behind Ghana and Nigeria, and in fact sent researchers to Nigeria to learn how to develop its oil palm industry.

Early efforts at "the developmental state" in Africa took mainly the form of state-owned enterprises. Some of these, like the Uganda Development Corporation, the Press Group in Malawi the ICDCI in Kenya, achieved impressive results. Others were far less unsuccessful, as with the parastatals in Zambia and in Tanzania, especially in the latter years of President Julius Nyerere's socialist Tanzania.

What has fundamentally separated the Asian and the African countries has been their divergent political history. Many African countries experienced some period of military rule, soon after independence. Some had to deal with major political challenges. For example, in early 1966, the Nigerian government was overthrown by the army, and the Prime Minister and other prominent persons were murdered. Soon, there were mass killings of Ibos in the north, and then the tragic Biafran war of 1967 to 1970. We have had similar upheavals in Congo, Uganda, and elsewhere. Civil strife undermined the development of democratic norms of political governance and weakened the effectiveness of public administration.

The oil related economic crises of the 1970s and the1980s took their toll on all weak economies, eroding government revenues and weakening public sector performance. As a result, African countries became more dependent on donor funding, which compromised their policy independence.

Throughout the first 20 years of the post-independence era, the private sector continued to play a marginal role. Only Kenya and Cote D'Ivoire developed an indigenous business class, active in manufacturing, commercial agriculture, and the financial sector. Some countries, like Tanzania and (to some extent) Zambia, chose the socialist path. Profit was a dirty word and private investment, domestic and foreign, was discouraged.

Only recently has the consensus emerged in Africa that the private sector can be the "engine of growth" and governments have begun to cultivate domestic and foreign enterprises in an effort to create employment, grow the tax base, and change the structure of the economy.

In short, the basic differences in the circumstances of otherwise similar countries in Asia and Africa, like, for example, Malaysia and Ghana, which led to their very different growth paths, appear to be:

- The state of political evolution, the degree of political stability and development orientation of the political leadership
- The effectiveness of public administration, and especially it capacity for national development planning
- The size and sophistication of the national private sector
- The level and nature of the collaboration between the government and the private sector

Today, the time is right for policies designed to promote sustained long-term growth in Africa, within a new paradigm in which the roles of government and the private sector are mutually reinforcing.

Our task today is to examine what a more productive relationship between government and business would look like in the African context and consider the extent to which lessons from Asia might be applicable to the African situation; in other words, what are the prospects for the Developmental State" in Sub-Saharan Africa? Our working assumption is that the Development State is a worthy objective. The reasons for that assumption are fairly self-evident and need not be argued at length; they have been well discussed by other speakers at this forum.

Promoting the Developmental State in Sub-Saharan Africa

To understand how best to bring about the developmental state in contemporary Africa, we should start by answering several questions:

- For does the private sector need from Government, if the private sector is to play its role in achieving sustained growth and development?
- What should be the agenda of the African developmental state, and what can Government and business do together to implement the development state agenda?
- How can Japan and other international partners assist Africa in achieving SGD through deliberate policies?

1 What Business Requires from Government

Irrespective of their size or ownership, businesses fundamentally require similar things from government. The role of government is to provide the necessary enabling conditions so that enterprises, using their skills and resources, can pursue opportunities and attain growth.

The desired conditions are listed below:

a) Predictability
b) Direction and Commitment
c) Fairness, clarity and effectiveness in the application of rules
d) Attractive, and growing, markets
e) Accessible, affordable finance
f) A low-cost business environment
g) Investment incentives
h) Business Development Support
i) Public-Private sector partnership

1.1 Predictability

Predictability is the basis of business confidence. Business firms must have a basis for planning their activities and always wish to avoid sudden, unfavourable change in the political or economic environment in which they operate. Businesses are most willing to operate and invest in an economy in which the "rules of the game" are well known and not subject to arbitrary or unpredictable changes.

Predictability includes, primarily: political stability (i.e. well established rules for political governance); macroeconomic stability; and policy consistency, all within a well understood institutional framework.

Business appreciates a moderate, predictable tax regime. Such a regime, backed by credible enforcement, is conducive to good compliance. In many of the African LDC countries, the top rate of income tax came down from 50% in the early 1990s to 30% in the mid-1990s. Value added tax has been kept within the 16-20% range. Excise taxes levied on mobile phone services, alcohol, tobacco, and petroleum products, though still high, have remained mostly unchanged. This predictability in the tax regime has contributed to the rising business confidence within the region.

1.2 Direction and Commitment

Business performs best where government has a clear Vision for the country's economic future, provides leadership for the attainment of that vision, and shows its commitment over a long period of time in terms of its own investment in the necessary infrastructure, institutions, skills and capabilities. This ideal, which may sound utopian in the Sub-Saharan African context, has been key to the rapid growth of Malaysia and Singapore in South East Asia.

The national Vision should not be simply the ideas of one "great" man, or of a small group of thinkers and planners, however intelligent. It should be the shared Vision of government, business, and society. The Vision should be supported by a mission and clear strategies for its achievement. Additionally, Government should provide the resources (including people, skills, technology) to implement these strategies and thereby achieve the mission and national Vision.

Countries in Eastern Africa, with the support of the UNDP, have taken a first step in this area by developing a series of broad national development strategies, such as Vision 2025 (Uganda), Vision 2025 (Tanzania), and Vision 2020 (Rwanda).

However, the process of developing the national Vision has not gone far enough among the three countries above. Only Rwanda includes the development of entrepreneurship and the private sector as one of the pillars for growth. Uganda's Vision focuses on anti-poverty initiatives and social expenditure and is the basis of Uganda's Poverty Eradication Action Plan (PEAP). While important, addressing poverty alone does not drive economic transformation.

Having developed a Vision, leaders should build ownership for the Vision among citizens and to demonstrate national commitment to its achievement through action. Specifically, businesses should actively participate in the fuller development of the national Vision to include private sector development as the engine of sustainable economic growth, and thereafter to contribute meaningfully to the development of the national economic strategy.

1.3 Fairness, Clarity And Effectiveness In The Application Of Rules

In many African LDCs the challenge is not the absence of clear rules but rather their inconsistent application, often associated with weak public sector capacity or with corruption. An efficient, well functioning public service is essential for business to operate well. Typically, the public service is under-resourced, in terms of skills, motivation (especially, pay), equipment and facilities, to deliver services to the private sector.

Corruption ranks high among the reported investment constraints in virtually all Sub-Saharan countries, mainly because of its perceived unfairness, and the feeling that other people are "getting away with it"; and that business people are forced to pay bribes to government officials, just to be able to do or to obtain services to which they are legally entitled. The chief areas of concern for business are tax administration, public procurement, the judicial system (delays, outcomes), land registration, and immigration.

What business people require is to have clear rules that are fairly and consistently applied and a legal system that can be trusted. This requires strong and well managed public institutions.

1.4 Attractive and Growing Markets

Above all else, entrepreneurs seek business opportunity; the larger and the more profitable, the better. In the LDC African context that means business would like government to promote economic expansion, thus increasing domestic demand, and to help open up regional and global export markets.

Domestic manufacturers need support to grow, which may include moderate import tariffs and strong measures to deal with such problems as the importation of substandard and counterfeit products. Domestic firms would also like government to help them gain better access to regional export opportunities and to benefit from regional trade partnerships such as COMESA and SADC.

In addition, business needs government help to improve the ability of domestic firms to supply global markets, which would also require measures to reduce the cost of production in the domestic market.

1.5 Accessible, affordable finance

Access to finance always ranks high in virtually all countries, and especially in low-income countries, where the pool of domestic long-term savings is small, the institutional framework for collateralization and contract enforcement not fully developed, and financial systems less efficient.

Lowering the cost of finance is related to improving access. Prevailing interest rates in African LDC economies are significantly higher than in more developed countries, due to limited financial depth, high lending risks (actual and perceived), and lack of effective competition in the financial sector.

Governments have provided assistance though, for instance, loan-guarantee schemes, often targeted at SMEs. Equity funds have been used only on a limited scale as a source of capital for expansion.

Successful government interventions in SSA LDC countries have included: subsidized long-term credit lines (e.g. EIB Apex, funded by the EU), export credit guarantees, and low-interest finance for working capital. On the whole, however, these schemes have benefited medium and larger companies. Smaller firms have tended to be excluded due to high collateral requirements and insufficient documented credit history. Entrepreneurs and firms need to be enabled to improve their access to finance, through reforms in the policy framework that allow them to collateralize their assets.[1] Long term, policies to promote savings mobilisation are also required.

1.6 Reducing the Cost of Doing Business

With increasing global competition, only the most efficient and innovative producers will ultimately survive. Business needs government to help reduce the cost of doing business to enable enterprises to compete. Government can do so by enabling the provision of the following:

- Simplified and business-friendly regulation, through regulatory reform, streamlining government bureaucracy, and making government more efficient and business-friendly. This is particularly important for small firms which typically bear the brunt of the regulatory burdens.

[1] Hernando de Soto, The Mystery of Capital

- A skilled and productive workforce. Firms often cite low labour productivity and lack of specialized skills as major issues for competitiveness, and look for government assistance through a sound system of basic education, vocational training institutions, and tax incentives to promote industrial training. The private sector itself must collaborate with government in helping to define course content, setting standards, providing apprenticeships, and strengthening the guilds and professional bodies that oversee the training and certification of skilled personnel.
- Good infrastructure, including available, affordable power, inexpensive and reliable transport infrastructure (ports, railways, highways, air transport). For manufacturing operations, the ideal is to have serviced land, in the form industrial parks.

Numerous investment climate surveys have been undertaken in sub-Saharan Africa by the World Bank, the World Economic Forum, and national research institutions, with remarkably consistent results across countries, and those findings are generally confirmed in interviews with business people (see Table 1).

In Uganda, for example, the main challenges affecting economic activities were, in order of priority: (i) access to financing (ii) corruption (iii) inadequate supply of infrastructure (iv) tax rates and (v) inefficient government bureaucracy. Other important challenges included high cost of finance, electricity problems, macro-economic instability and tax administration including taxation complexity and high rates of taxation[2]. Results from other countries were similar.

Many of the reported investment constraints are symptoms of other problems: infrastructure problems, for example, may be the result of lack of planning and low government investment over several decades, and complaints about corruption reflect generally weak institutional capacity.

World Bank[3] and other survey findings show that businesses in LDC African countries tended to focus on measures to improve their efficiency, through improving their internal capacity and a lobbying for a more efficient or favourable operating environment. Only a small number of firms were looking at gaining advantage through

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[2] Uganda Investment Climate Assessment Report 2004

[3] 2004 Investment Climate Assessments for Kenya, Uganda, Tanzania, Zambia,

commercial and technical innovation. Few of those were looking for, or expecting, government help.

Table 1: Country Rankings for the Most Problematic Factors for Doing Business

Most Problematic Factors	Ranking of Constraint by Countries			
	Tanzania	**Zambia**	**Uganda**	**Mozambique**
Access to financing	2	1	1	1
Corruption	4	2	2	3
Inadequate supply of infrastructure	1	3	3	4
Tax Rates	3	4	4	6
Inefficient government bureaucracy	8	8	5	2
Poor work ethics in national labour force	7	6	6	7
Policy instability	11	11	7	11
Tax regulations	5	9	8	9
Inflation	10	7	9	8
Inadequate educated workforce	6	10	10	5
Crime and theft	9	5	11	10

Source: World Economic Forum, Global Competitiveness Report, 2007-2008

1.7 Investment Incentives

Countries with a poor investment climate often feel that they cannot attract investment without a generous package of incentives. In reality, investment is best stimulated by attractive business opportunities in a good business climate. Investment incentives cannot be a real substitute for addressing other business constraints such as insecurity, poor infrastructure, and cumbersome bureaucracy.

Most countries have a general package of investment incentives, often targeted at foreign investors. The purpose of investment incentives is usually to draw the attention of foreign investors to the opportunities available in the country and to help new arrivals with the initial costs of establishing their businesses.

Invariably, countries competing for investors tend to offer similar incentives to those provided by their peers.

Uganda's standard incentive regime was changed in 1997 to end the 5 year income tax holiday for new investments and introduce accelerated depreciation instead. At the time, the business community saw the change as a reversal of policy; however, the government allowed firms that had obtained tax holidays to retain them until their 5 year term expired. Furthermore, all the incentives were made part of the Finance Act, instead of being administered on a case-by-case basis. For example, all imported machinery was made free of duty and value added tax, where previously investors had been required to apply specifically for a tax waiver on importation of equipment.

Uganda's experience of automatic incentives has been positive, with few complaints over alleged discrimination among investors. Investment levels have steadily grown, driven in part by the pro-business attitude of the government, and also by the opportunities created by the privatization programme, and the liberalisation of sectors such as telecommunications and banking.

The use of administered, discretionary incentives has generally become unfashionable, for a number of reasons:

- In effect it favours new investors over existing investors.
- It requires government employees, who do not usually have the necessary competence, to evaluate investment proposals to determine their suitability for incentives Administration of the incentives can be complicated, cumbersome, and open to abuse.

Starting in 2003 the Uganda government, frustrated by what it saw as the slow private sector investment response to its investment regime, and keen to attract large investors in sectors considered strategic, reverted to the policy of giving special incentives to selected investors. Unfortunately, none of the targeted projects has so far succeeded. As seen in Box 5 some investors have abused the government's generosity.

The overall assessment of the Uganda experience is that special incentives have not significantly increased investment. Selecting winners was always bound to be difficult; governments are prone to give in to the most clever or aggressive lobbyist rather than the most deserving investor or project. Furthermore special incentives, once given to one investor, tend to elicit demands from other potential investors for equally generous terms, on a scale that the government can not afford.

Box 1: Abuse of Discretionary Incentives in Uganda

In 2004, the government gave a comprehensive package of incentives, including a 25 –year holiday on income tax and a 17-yr holiday on Value Added Tax, to encourage an investor, BIDCO (from Kenya) to established a US$ 120 million palm oil project. Other edible oil producers complained, alleging unfair treatment. The BIDCO project has been very slow in its implementation. Tri-Star Apparel, an investor in garment manufacturing targeted at the United States market under the Africa Growth and Opportunity Act (AGOA), received US$ 15 million in government guaranteed loans from the government but closed with huge losses after 5 years and failed to repay the loans.

What kinds of investment incentives should government offer to be assured of a serious response from business?

- First, the incentives should be offered to establish capacity in sectors or industries where the country can realistically establish a strategic position. Selection of "strategic" sectors should be based on a thorough analysis of the country's comparative advantages and a cool assessment of the available opportunities.
- Second, the incentives should, as much as possible, not favour chosen firms but be equally accessible to all investors in a given sector. The incentive package should be widely publicised to attract the most suitable investors.
- Third, if a specific project is to be promoted, the project specifications and package of incentives should be developed by government and a transparent procurement process should be used to select the most capable and competitive bidder.
- Fourth, targeted incentives aimed at promoting investment in neglected regions of the country should be accompanied by measures to provide the factors, such as infrastructure, that are required to make the target regions more attractive to investment. Special Economic Zones, especially with appropriate infrastructure, can provide an attractive environment for manufacturing firms.
- Fifth, Government should consider taking up equity in projects that promise high returns but require a large amount of capital. In that case, the project should be selected through a transparent process, and evaluated in accordance with sound commercial principles.
- Lastly, tax incentives should be time bound and, once given, should not be withdrawn.

1.8 Business Development Support

Special programmes for Business Development Support can help companies to build necessary capacity to compete in domestic and international markets. Such programmes can make a significant difference to small and medium sized firms seeking to grow, by enabling them to access training, procure consulting services, develop new products, improve marketing, and innovate. An example of such a programme is the Matching Grant Scheme and the Technology Innovation Scheme in Tanzania.

Box 2: The Matching Grants Scheme and the Technology and Innovation Scheme in Tanzania

The Private Sector Competitiveness Project (PSCP), a US$ 40 million five-year project, was developed through a partnership between government and Tanzania's private sector represented by the Private Sector Foundation. The overall objective of the PSCP is to create sustainable conditions for enterprise creation and growth.

The project aims to enable the private sector to respond better to potential market opportunities through measures that will ensure a sensible reduction in the cost of doing business and, among others, will improve financial services, expand access of MSMEs to skills training, technology, and business development services. The project's progress in achieving this objective will be measured by the increase in the number of formal enterprises, the increase in the value of titled land relative to untitled land, and growth in sales and assets of firms participating in the project. The higher level objective to which the project contributes is the achievement of significant and sustainable economic growth in Tanzania (8 – 10% per year), which in turn will lead to sustained poverty reduction.

The project supports the government programme through three mutually reinforcing components: (i) strengthening the business environment (ii) developing enterprise competitiveness and (iii) improving access to financial services. The second component, which promotes the development of productive capacities of firms by improving the capacity of the private sector to respond to viable opportunities in domestic regional and international markets. The project also aims to strengthen the Tanzania Private Sector Foundation and includes four subcomponents namely (i) cluster competitiveness programme; (ii) Business Development Gateway (BDG); (iii) matching grants: Tanzania Business Development Scheme and Technical Innovation Applied Research Scheme (TBDS and TIAS); and (iv) Business School Linkage and CEO Scholarship Fund (BSL and CSF).

Source: http://www.pscp-tz.org

1.9 Public-Private Sector Dialogue

In all, the private sector requires a good working relationship with the government. Building on that good relationship, government and business can work together to develop a common Vision, implement agreed long-term strategies, remove constraints, improve the overall efficiency of the private sector. Government cannot reasonably be expected to provide all that business requires, without business itself making a contribution; businesses themselves must, ultimately assume responsibility for their own success or failure.

When business works through strong private sector organizations, rather than allowing individual companies to lobby for private benefits, the government tends to take the private sector more seriously and rent seeking behaviour is discouraged. The private sector should always insist that government engage with business through legitimate private sector representatives.

The success of public/private dialogue depends on the following factors:

High Level Political Support

Political support and demonstrated commitment at the highest level of government is always necessary, especially in the early stages of establishing policy dialogue. Top-level support is critically important in ensuring follow-up action on the agreements reached by government and business.

Institutionalization

The public - private sector dialogue, to be sustainable, should be formalised. One way to institutionalize the dialogue could be to pass legislation requiring consultation as part of the process of policy making and legislation[4]. To support the dialogue, a permanent Secretariat is required, encompassing all the public and private sector actors. In Tanzania, this is the role of the Tanzania National Business council [TNBC]. The role of the Secretariat would be to provide secretarial and research services and harmonize divergent and opposing viewpoints. In some countries like Bangladesh for example, there is a strong argument for creating the Private Sector Forum under the government machinery, within the Prime Minister's office. [5]

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[4] Leaders often view PPD collaborative efforts as risky ventures and end up unable to take advantage of innovative and creative solutions. For example in Uganda certain public sector officials have declined to embrace the national branding initiative (Gifted By Nature) simply because it is private sector led and hence they perceive it as something to which government resources should not be expended without legislative directive.

[5] Farooq Shoban and Shihab Ansari Azhar, *"The Bangladesh Private Sector Development Support Project: A Case Study in Public – Private Dialogue," Bangladeshi Enterprise Institute*

Capacity and Readiness for Policy Dialogue

A robust public – private sector dialogue requires that both sides be ready, willing and able to engage in purposeful dialogue. This requires, in the first instance, effective dialogue among the different players within the public sector, and among the different sectors and interests in the private sector. The public sector representatives need, at a fundamental level, to be convinced that a strong private sector in a strategic necessity for the country. The private sector needs to be represented by strong private sector associations, having legitimate authority to represent their members and adequate capacity for policy analysis. .

- The dialogue process is a long-term exercise, hence the need to avoid expecting quick gains or having unrealistic expectations, and instead to focus on building relationships founded on trust
- The dialogue must be driven by a common agenda which must be agreed upon by both parties. The agenda must focus on the productive sectors, with specific targets to be achieved over a given period under agreed circumstances.
- To be a credible and legitimate partner in the policy dialogue with the government the Private Sector must organize itself in such a way that it avoids capture by special interests and remains accountable to its members. It must:
    - Strive to develop advocacy skills that include the capacity for research and policy analysis, negotiation, persuasion and consensus building.
    - Prepare adequately on the issues to be discussed with the government to ensure productive dialogue.
- The public sector must be prepared to adjust the way it does business to accommodate private sector needs by among other things:
    - Sharing information with the private sector in a timely and effective manner.
    - Educating public sector officials about the importance of working together with the private sector.
    - Avoiding placing unreasonable restrictions on the private sector that may thwart the process of dialogue.
- There is a need to ensure that both sides have adequate capacity to implement their joint decisions or recommendations.

2 A possible agenda for the African developmental state, and the roles of Government and business in its implementation

2.1 Development of a National Vision and a National Development Plan

The starting point for the African developmental state must be the development of a national Vision. The government is responsible for leading this process and also for ensuring the active involvement of the private sector and civil society in defining and articulating the national vision. Government leadership is needed both at the political level and within the civil service, especially within the Ministry of Planning and key economic ministries. Primarily, it is a question of political will. It will be necessary to strengthen capacity for strategic planning within government, but governments can begin the process with the existing capacity, and then build upon it at the capacity needs are better understood.

The national development plan will be based on exploiting the country's comparative advantages, whether natural, strategic, or human resource-based. It will guide long-term public investment and will seek to build up sectors where private investment can achieve long-term growth and have the most impact on wealth creation. The development plan will be based on the realization that, ultimately, national competitiveness depends on the productivity of the firms and the citizens of a given country.

2.2 Specific Interventions for Private Sector-led Development

The actual program of action for private sector-led development must be developed through consultation and collaboration between the government and the private sector, and will depend on the circumstances of a given country. However, one can generalize about the likely priority areas. These will include:

- Investment in infrastructure, including public-private partnerships
- Improvement of the Regulatory Environment
- Industrial Park and Economic Zone Development
- Education and Skills Development
- Policies to ensure availability of inexpensive Finance, especially for long-term investment
- Specific measures to develop selected Strategic Sectors, e.g. agribusiness, education, Information and Communication Technology
- A policy framework for promoting the export of goods and services into regional and global markets

3 How Japan and other international partners can assist Africa in achieving Sustainable Growth through deliberate policies

First, Japan and other countries interested in assisting African development should use their international influence, and their membership of the World Bank, the IMF, and the African Development Bank, to promote policies that support the emerging consensus regarding the need to build productive capacity within African countries, to address Africa's acute infrastructure constraints, and to strengthen government planning agencies.

Second, Japan should support Africa's call for preferential trade arrangements to be continued beyond the current time frame envisaged by the World Trade Organization, in order to allow sufficient time for Africa to strengthen its capacity to produce tradable goods. Given that Africa's share of world exports is quite small, there is little justification in the claim that preferential access distorts international trade. At the same time, Japan can add its own support to current efforts by the African Development Bank and others to help Africa build its capacity to trade.

Third, Africa's friends, including Japan, should tailor their bilateral assistance to focus on areas needed to develop Africa's long-term growth capacity.

In its Country Assistance Strategies, the World Bank tends to support the priorities identified in the Poverty Reduction Strategy Paper (PRSP) of the respective country, and some bilateral partners, such as the United Kingdom, have prioritized health and basic education in their development programs. However, the PRSPs themselves are developed with considerable input from donors and reflect the current preoccupation of donors with poverty reduction. Laudable as that may be, the result has been that fewer resources are being invested in infrastructure and other longer-term priorities. Japan should redress the balance by focusing on areas that are important for sustained long-term development. A few examples of such areas are:

- Development of the infrastructure, including power, ports, rail transport, highways, airports, including urban water supply
- Provision of long-term investment finance
- Industrial skills training

Foundation for Advanced Studies on International Development

"Role of Government in Promoting Sustained and Accelerated Growth in Africa and Lessons from Asian Experience"

William Kalema

Kei Otsuka

1

Foundation for Advanced Studies on International Development

Agreeable Points

1. Private sector must play a leading role.
2. Importance of mission and visions.
3. Investment in infrastructure, such as roads, electricity, and industrial parks.
4. Promote industries which have comparative advantages. (I believe that this is the key to the "East Asian Miracle.")
5. Provision of basic education, vocational training, and consulting services for development of new products, improvement of marketing, and innovation (See Business Development Strategy on p. 13).

2

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Not Easily Agreeable Points

1. The future economic development will depend very much on the effectiveness of the regional economic groupings (p. 2) and regional trade partnerships (p. 7) – Why? What are the sources of the gains from trade?
2. Access to finance always ranks high in virtually all countries (p. 8) – How can the government avoid adverse selection and moral hazard so as to support "the most efficient and innovative producers" (p. 8)? (I believe that the critical lesson from East Asia is that formal credit is provided to enterprises which have a record of successful innovations.)
3. Public-Private Sector Dialogue (p. 14): Strong source of rent seeking by "the most aggressive lobbyists," particularly if "strong private sector organizations lobby." What types of market failures can be reduced by this partnership?

3

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A Few Questions

1. What are the industries in Uganda, which have comparative advantages?
   - Agribusiness? ICT? or what?
2. Why is the price of chemical fertilizer so much hither in Uganda than in Kenya?
   - Why has the road between Kampala and Mbale been always under construction?
3. Why not promote metal-processing industrial clusters in Kampala, such as Katwe and Kiseny, which look so promising to me?
   - Did you recommend the government to provide training programs for these industrial clusters?

4

What Africa Can Learn from Asia's Economic Development Experience

The Example of Nigeria's Economic Reforms from 2003 to 2007

Nasir Ahmad el-Rufai
Member,
Nigeria's presidential economic team 2003-2007

February 2008

1. Africa's Development – Past Efforts and Recent Performance

- From the mid-1950s, Africa and Asia were the world's laboratories of economic development experiments with different results.
- Asia, with Japan setting the pace, generally adopted what is now called the developmental state model with great success while Africa followed different paths with disastrous outcomes.
- Initially it was thought that what Africa lacked were infrastructure and capital, and when this did not work basic needs like education and health were added. When that failed, bad policies were blamed, followed by absence of 'institutions' and poor governance. (Moss, 2007). More recently, geography, natural resources, aid and conflict have been added to the list (Collier, 2007)
- Africa's lost decades of the 1980s and 1990s were the result of these experiments and other events in global politics and economics which we had very little control.
- In the 2000s, African development practitioners have learnt both from bitter experience of the two lost decades, and began looking East to Asia's success and concluded that the following are necessary preconditions for development:
  - Macroeconomic stability and low inflation
  - Peace, security and social cohesion
  - Preventive healthcare, clean water and basic education
  - Basic infrastructure – electric power, communications and transportation
  - Sensible boundaries between the scope of the state and the market, and
  - Transparency in public finances and procurement helps everyone (Moss, 2007)
- Adherence to above principles and some luck (the rise of India and China, increase in commodities prices, Iraq and reduced levels of conflict in the continent) has led to renewed growth across the board and hopes that Africa will (finally) realize its potentials. (Goldman Sachs, 2008)
- Nigeria and South Africa are the largest economies in the Continent and their economic success and relative political stability are indicative of this general continental trend.
- Nigeria in particular has from 1999 began a process of political democratization and economic reforms drawing a lot of lessons from Asia and elsewhere – focusing on macro reforms and now on the verge of micro-reforms including the design of an industrial strategy for the nation.

2. Nigeria in 1999

With a population of about 150 million people and GDP second only to South Africa's, Nigeria is a key country in Africa. Its experiences in development are not only typical of Africa, but its recent resurgence also tells an African story of hope!

- **Post-conflict nation characteristics;** arising from fifteen years of military rule, with political tensions, international pariah status, and inter-ethnic suspicions. The endless and deceptive political transitions have led to total distrust and cynicism in governments. Incompetent and corrupt military rule became synonymous with the leadership of the MuslimNorth, leading to calls for secession.
- **High poverty levels:** an estimated 75 million Nigerians lived on less that US $1 per day – This translates into about 70% national poverty incidence and as high as 90% in some states.
- **Economic and Productivity Decline:** consistently low investments in education and health have depleted human capital within the country. Many Nigerian professionals left the country for Europe, USA and the Middle East. For instance in 1999, the Association of Nigerian Physicians in America (ANPA) had some 29,000 members. These are mostly Nigerian-trained doctors that have left for greener pastures!
- **Infrastructural Deficiencies:** Investments in power, petroleum refining, water supply, railways and seaports was virtually halted in the decades of military rule. Manufacturing capacity utilization had fallen to about 20% and the nation was running literally on standby generators!
- **Institutional Decay:** The systematic deterioration of institutions – civil service, the Police and Judiciary, social services, and even the military itself was the most damaging consequences of prolonged military rule. Our tertiary educational institutions were viewed as the enemy and targeted for destruction. Our traditional values – cultural, religious and family, were assaulted to near destruction.
- **Poor Economic Management:** High inflation, rapidly deteriorating exchange rates, criminally incompetent debt management and capricious management of the domestic treasury and foreign reserves characterized the period. Virtually every economic indicator was at it lowest level in the nation's history!
- **Corruption and Culture of Impunity:** Corruption was so widespread, the exercise of official discretion so common that the only certain rule in the conduct of government business is to know a general or "connected" person to the ruling military elite. The incentive structure was distorted – indeed made upside-down.
- **Low Investor Confidence:**Apart from the oil and gas sector, there was virtually no investment by foreign or domestic companies. Indeed, some foreign partners were divesting. Capital flight is rampant, indicative of low confidence of Nigerians in their own economy! (Okonjo-Iweala, 2005)

3. Nigeria - Challenges and Strategies 1999 to 2003

Following democratic elections in 1999, President Obasanjo focused on ensuring political stability - struggling a fragile entity of over 300 ethnic groups together amidst deep divisions created by prolonged and manipulative military rule. Other challenges were introducing and nurturing democratic practices and alleviating poverty, and tackling corruption. President Obasanjo correctly prioritized these ahead of far reaching economic reforms while signing on to an IMF staff-monitored programme during the period. He also got Ngozi Okonjo-Iweala seconded from the World Bank to set up a Debt Management office during the period.

- In April 2003, President Obasanjo directed a small team of officials to meet with the chairperson of his Honorary Investor Council, Baroness Chalker in London to review a draft governance strategy for his second and final term as President of Nigeria. The draft strategy was fine-tuned, and with the coming on board of Dr. Ngozi Okonjo-Iweala as Minister of Finance, the Economic Team (ET) was formed.
- The ET fleshed out the Chalker paper, debated robustly to identify what has made Indonesia – a huge nation (250 million people) with many ethnic groups, ran for decades by the corrupt Suharto military regime, and recorded rapid economic development while our Nigeria stagnated.
- Where did we go wrong? What did other nations do right? Our discussions entailed examining data from nearly a dozen countries, (most of them Asian), x-raying the Washington Consensus, and introspectively factoring in Nigeria's experience in the last few decades.
- We identifiedsix characteristics found in common in all the successful nations we studied. What was depressing was the finding that the nations that failed – like Nigeria, were inconsistent in the observance of, or totally ignored compliance with these six golden variables:
    - Stable, legitimate governments
    - Pragmatic, tolerant societies
    - Rule of Law, protection of property rights
    - Investments in human capital – education, healthcare
    - Investments in physical capital – power, transportation and communications networks
    - Sensible use of government and markets

This formed the basic philosophy of our homegrownEconomic Strategy document, the National Economic Empowerment and Development Strategy (NEEDS) and has influenced policy thinking since 2003. NEEDS has been updated and the NEEDS-2 draft completed by April 2007 for consideration of the successor administration. (El-Rufai, 2007)

We agreed with the political leadership that the overriding public goal of these reforms is to obtain debt relief from the Paris Club – a step, which most Nigerians believe, is the key to the nation's economic progress. This enabled us to keep everybody's eyes on the ball, and extract concessions from all stakeholders.

4. Nigeria's Reform Programme 2003-2007

The Nigerian Economic Reform Programme or NEEDS has four main components and each of the components was supervised by a member of the Economic Team under the leadership of the Minister of Finance:

i. Macroeconomic Reforms to achieve exchange and interest rate stability, to reduce macroeconomic volatility and reliance on crude oil earnings. This was led by the then Economic Adviser to the President Charles Soludo who went on to become the Governor of the Central Bank of Nigeria in 2004.
ii. Structural Reforms to improve domestic business climate, private sector development through improvedbudgeting, banking and trade reforms. These were overseen by the Minister of Finance, but with banking reforms largely left to the Central Bank.
iii. Public Sector Reforms to create a public service that of the right size, and well-remunerated and responsive resulting in improved service delivery. The privatization of state-owned enterprises and the deregulation of economic sectors to attract private investment and participation are also included in this component, which I oversaw.
iv. Oby Ezekwesili, who is now Vice President for Africa at the World Bank, led governance Reforms. The sub-components here include the war against corruption and money laundering (EFCC), procurement reforms, revenue and public expenditure management reforms, and the Nigerian Extractive Industry Transparency Initiative (NEITI).

The 12-person Economic Team met twice every week – for 90 minutes every Wednesday with the President, Vice President and select cabinet and sub-cabinet officials, and for two hours in the afternoon in the Ministry of Finance. Each component supervisor arranges sub-committee meetings separate from these. My Public Service Reform Team meets every Thursday at noon for two hours, to debate issues, parcel out tasks, and monitor progress of implementation.

The Economic Team also met regularly with the leadership and members of the national legislature and judiciary, and with State Governors in the National Economic Council. We also met from time to time with industry groups, trade unions and civil society organizations to discuss policy issues, implementation challenges and other matters of mutual interest.

The Economic Team also collaborated with the Nigerian Economic Summit Group – a private NGO to host the Annual Economic Summit in which business leaders, government and civil society meet for three days to review progress and challenges of implementing the economic reform programme.

5. Reform Outcomes

The introduction of an oil price based fiscal rule worked well in not only eliminating volatility, but also enabled the accumulation of healthy savings and foreign reserves. The savings were used to settle with the Paris Club, as well as undertake investments in much-needed physical infrastructure – seven new power stations and standard gauge West-North railway system.

Fiscal and monetary prudence led to macroeconomic stability, moderate inflation and increased private sector participation in the economy. Economic performance improved and Nigeria got a BB- credit rating – same as Turkey and Brazil.

Over 100 state-owned enterprises were privatized between 1999 and 2007 raising substantial revenues for government while eliminating the subsidies and operational support that these enterprises enjoyed. The deregulation of the telecoms sector raised over $1 billion in license fees, over $5 billion in investments and creation of over 60,00 jobs. This also led to increase of working phones from about 400,000 in 2001 to about 46 million at the end of 2007!

The compensation structure of the public service was reviewed, monetizing all previous 'non-cash' benefits. Salaries were also increased by 15 per cent with a plan to increase pay by 10 per cent annually for ten years to bring public service within 75% of private sector pay levels. Over 35,000 civil servants were severed and benefits paid to them after training in entrepreneurship and small business management.

Banking reforms led to the enactment of new legislation increasing the autonomy of the Central Bank. Banking consolidation occurred smoothly reducing the number of banks from 89 to 25 but with expanded capital base of at least $200 million each. Similar consolidation has occurred in the insurance industry. The stock market has boomed in response as most of the recapitalization funds were raised from the NSE increasing its turnover and liquidity.

Trade reforms have been equally successful with Nigeria finally joining the ECOWAS Common External Tariff (CET) in 2006. This not only simplified our tariff bands but also substantially reduced the average tariff from 25 to 17 per cent. The reform of the Nigerian Customs service is going on.

Governance reforms have led to the prosecution and conviction of over 150 cases of corruption, money laundering and advance fee fraud between 2003 and 2007. A procurement commission was created to entrench due process mechanisms in all public procurement plugging annual losses of over $300 million in inflated contract prices and over-invoicing.

An audit of oil accounts from 1999 to 2004 was completed and published (www.neiti.org) while the NIETI Act was enacted to entrench transparency in all extractive industries in Nigeria. Corruption has reduced by every known measure – Nigeria is out of the bottom 10 of the Transparency International index by 2006. Goldman Sachs Growth Environment Score shows Nigeria recording the second highest improvement (next to Zambia) in the world. (Goldman Sachs, 2008). Perceptions on bribery, leakage of public funds and money laundering have improved significantly during the period. (Kaufmann et al, 2005).

6. What Japan Can Do

It is important to recognize Africa's history, diversity and endowments but not be tied to this past and present. Many African nations are small and unviable, and only getting the regions to be successful can help such nations. Japan can help by offering interventions in design and development of reform programmes, sector policies and micro-economic strategies.

Throughout Africa, what we need are infrastructure, better governance, private sector development and improved skills. (AfDB, 2008). Japan can help directly engaging with countries and regional economic blocs as appropriate to accelerate provision of some of these.

In doing so, Africa needs its own Japan – a significant country in each of Africa's sub-regions that blazes the trail in development. Japan can help by identifying such a country (or a couple of countries) to work with in charting a developmental state path and supporting that with aid, technical assistance and improved trade relations. Such a partnership, if successful can then be 'copied' by other African countries.

Africa's development will be realized only when we build stronger eliminate conflict, use aid better and improve our terms of trade. None of these can happen unless governance is improved and we strengthen state capacity to deliver basic services, protect persons and property and regulate markets. Japan can help in these areas by appropriate changes in aid and trade policies in line with the suggestions above.

Japan's experience in industrialization – identifying potentially competitive industries, designing and implementing policy measures that create domestic and global industrial champions, etc., are very useful for Africa. As Africa's natural resources, public sector and businesspersons look increasingly eastwards, it is an opportune moment to offer this experience to our sub-regions and select countries where the greatest impact will be felt in the continent.

7. What Africa Needs to Do

By the year 2030, Africa will have a population of about 1.5 billion – about the same as that of China and India. But Africa is much larger in size than China and consists of 53 countries with far greater diversity than China and

India. This means greater challenges in providing infrastructure and basic services.

No one can help Africa unless Africans are ready to help themselves. This means learning from our past successes and failures, and those of Asia and Latin America. The successes of Asian countries, as well as Botswana and Mauritius show it can be done. The recent example of Nigeria indicates that it is difficult but not impossible to develop homegrown, but viable development trajectories.

As summarized in a recent African Development Bank High Level Panel report, (AfDB, 2008):

> "African can make faster progress and take its rightful place in a globalized world. The fundamentals are in place in many countries. Performance is better now than over the last three decades. Commitments of support are substantial. It is up to Africa and its leaders to seize and benefit from this window of opportunity."

Africans must move away from blaming our current situation to our colonial history or the lost decades. It is time to take responsibility for our future and forge a consensus among elites that our countries must move on and make our lives better. No one will do it for us.

Africa Can Learn from Asia

From Reforming to Developmental State

Example of Nigeria's Economic Reforms 2003-2007 and After

Nasir Ahmad El-Rufai

OUTLINE

- Africa: Past and Recent Performance
- Nigeria: Country Situation in 1999
- How Did Nations Grow in Asia?
- What Did Nigeria get Right, and Wrong?
- NEEDS: Design and Implementation
- NEEDS and After – The Outcomes
- What Next? – Developmental State?

Africa's Economic Performance

Table 1: Macroeconomic Improvements in Sub-Saharan Africa

	1970s	1980s	1990s	2000s
GDP growth (%)	4.09	1.7	2.28	4.76
Inflation (%)	13.06	18.99	131.04	13.28
Current account balance (% of GDP)	-4.61	-6.99	-6.04	-3.82
Fiscal balance (% of GDP)	n.a.	-3.72	-4.41	-3.19
Public debt (% of GDP)	24.99	63.27	101.69	83.97

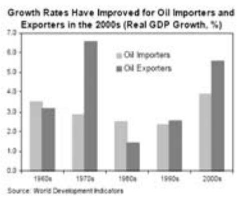
Source: World Development Indicators

Corruption is reducing…

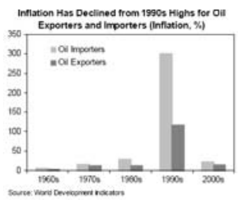
	2000 Score	2007 Score	Change
Ghana	3.5	3.7	0.2
Senegal	3.5	3.6	0.1
Tanzania	2.5	3.2	0.7
Uganda	2.3	2.8	0.5
Mozambique	2.2	2.8	0.6
Cameroon	2.0	2.4	0.4
Angola	1.7	2.2	0.5
Nigeria	1.2	2.2	1.0
Country Average	2.4	2.9	0.5

Note: A higher score represents improvement. Source: Transparency International

Growth Rates Improving…



Inflation is declining…



Stock Markets are booming…

	Market Capitalisation (US$ billion)	US$ returns (%)	Turnover ratio (%)	Turnover growth (%)	P/E ratio
Botswana	3.9	59	2.4	32	17.6
BRVM[1]	6.5	12			
Ghana	1.7	4	3.4	53	10.5
Kenya	11.4	n.a.	15.6	60	25.5
Malawi	n.a.	99	n.a.	n.a.	n.a.
Mauritius	3.6	67	6.0	-0.9	12
Namibia	0.5	33	4.6	204	8.5
Nigeria	32.8	40	14.0	27	21.3
Tanzania	0.6	n.a.	2.3[2]	n.a.	n.a.
Uganda	0.1	n.a.	3.1[2]	n.a.	n.a.
Zambia	1.0	22	0.7	-5.7	12.1
Zimbabwe	26.6	n.a.	n.a.	n.a.	n.a.
SSA average (excl. SA)	90.7	42	5.8	52.8	15.4

1. Regional stock exchange serving Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal and Togo.
2. 2005 data.
Turnover and P/E ratios are for 2006. Turnover growth and US$ returns refer to the period from 2005 to 2006. Sources: WDI, Global Financial Data, National stock exchanges, Bloomberg

Countries are being rated…

	S&P Rating	Moody's Rating	Fitch Rating
Benin	B		B
Botswana	A	Aa3	
Burkina Faso	B		
Cameroon	B		B
Gabon	BB-		BB-
Ghana	B+		B+
Kenya	B+		B+
Lesotho			BB-
Mali	B		B-
Mauritius		Baa1	
Mozambique	B+		B
Namibia			BBB-
Nigeria	BB-		BB-
Senegal	B+		
Seychelles	B		
Uganda			B

Source: Bloomberg

Nigeria

- Situation in 1998 resembled a post-conflict nation,
- Legacy of US $300 billion of wasted natural resource revenues, and
- Restive populace with high expectations of 'dividends of democracy'.

Background - 1999

In May 1999, President Obasanjo's democratically-elected government inherited key development challenges.

Macroeconomic instability…

	1999	2000	2001	2002
	(in percent of GDP)			
Total Revenue	30.7	45.0	46.9	36.4
Total Expenditure	38.0	38.6	50.2	40.7
Fiscal balance	-7.4	6.4	-3.3	-4.2
	(in percent of GDP)			
Total Debt	106.3	89.2	81.3	87.9
External Debt	81.8	69.1	62.2	67.2
Domestic Debt	24.5	20.1	19	20.7
	(in percent of GDP)			
Total Debt (in billions of US$)	37.3	39.0	38.8	40.5
External Debt	28.7	30.2	29.7	31.0
Domestic Debt	8.6	8.8	9.1	9.5

Source: IMF (2001; 2003; 2005), and Federal Government of Nigeria

Human Development lagging…

	Nigeria	South Africa	Low-income countries
GNI per capita, Atlas method (current US$)	430	3,670	507.02
Immunization, measles (percent of children ages 12 to 23 months)	35	81	63.45
Improved sanitation facilities, urban (percent of urban population with access)	53	79	60.56
Improved water source (percent of population with access)	48	88	75.09
Mortality rate, infant (per 1,000 live births)	101.4	54	79.52
Mortality rate, under 5 (per 1,000)	196.6	67	121.59

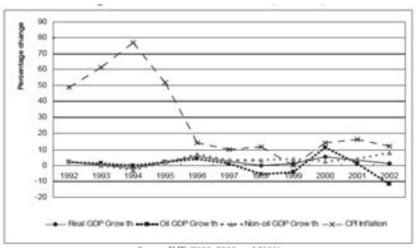
Source: World Bank (World Development Indicators, 2004)

Infrastructure is inadequate…

	Nigeria	South Africa	SSA	LIC	HIC
Electric power consumption kW per capita (2001)	82	3,793	456	317	8,421
Road-to-Population Ratio 1000km per million people (1995-2001)	1.1	8.5	2.6	--	--
Paved primary roads – percent of roads (1995-2001)	30.9	20.3	13.5	16	92.9
Telephone – Mainlines per 1000 people (2002)*	6	107	15	28	585
Access to sanitation – percent of population (2000)	54	87	54	43	--
Access to safe water – percent of population (2000)	62	86	58	76	--

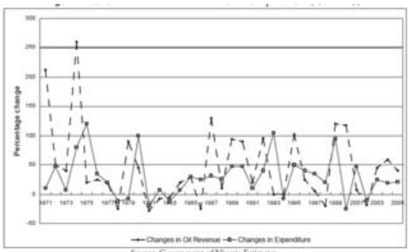
Source: World Bank (World Development Indicators, various years)

Growth has been near zero…



Source: IMF (2005; 2003; and 2001)

Dependence on Oil Revenues…



Source: Government of Nigeria Estimates

Support to SOEs

	Investment Grants	Operational Subsidy	TOTAL
(in millions of naira)			
Steel mills	1,711.4	1,040.0	2,751.4
Coal company	283.6	20.0	303.6
Oil refineries	6,998.0	599.6	7,597.6
Mines (solid minerals)	4,919.8	46.7	4,966.5
NEPA, power sector	3,858.4	431.1	4,289.5
Chemicals	504.0	5.0	509.0
Railways	283.6	595.1	878.7
Ports	500.0	218.9	718.9
Airports	1,625.6	629.9	2,255.5
Telecom	8,300.0	3,100.9	11,400.9
Sugar	506.0	6.0	512.0
TOTAL	29,490.4	6,693.2	36,183.6
Total GDP			5,339,000
as percent of GDP	0.55	0.13	0.68

Source: Office of the Accountant General of the Federation

How Do Nations Grow?

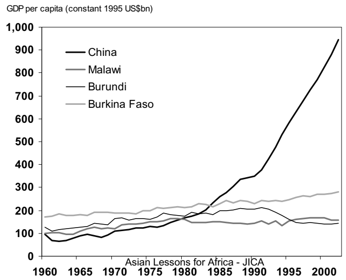
- **Studied - Japan, South Korea, Taiwan, Singapore, Malaysia, Indonesia, Hong Kong, Botswana, Thailand, India and China:**
- Stable, Legitimate Governments
- Pragmatic, tolerant societies
- Rule of Law: Protection of Rights
- Investment in Human Capital
- Investment in Physical Capital
- Sensible use of Government and Markets

The Drivers of Growth

- Macro-Drivers:
  - Demographics
  - Openness
  - Investment
  - Debt
  - Inflation
- Micro-Drivers:
  - Education
  - Cost of Business
  - Legal Framework
  - Political Climate
  - Infrastructure

→ Growth Environment Score (GES)

China Poorer than SSA as Recently as 1980



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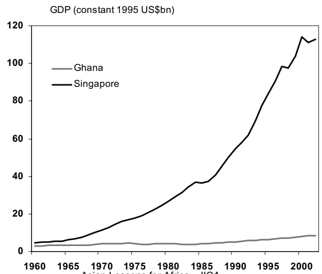
19

Ghana Was as Well Off as Singapore in 1960



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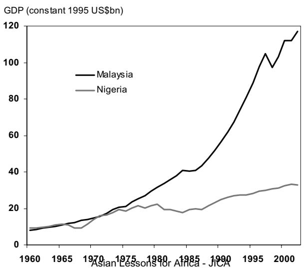
20

Malaysia versus Nigeria



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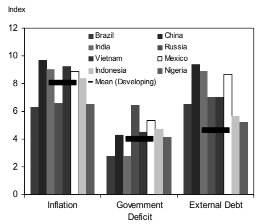
21

Nigeria Scores Well on the Macro Policy Measures



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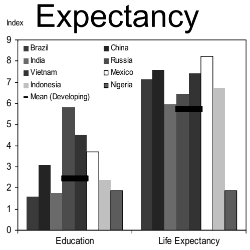
22

But Education Score is Relatively Low, As is Life Expectancy



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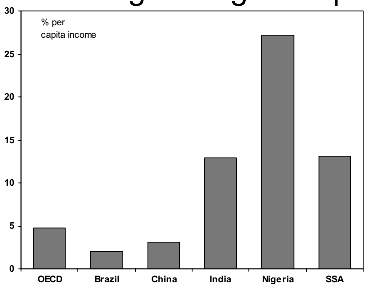
23

Cost of Registering a Property



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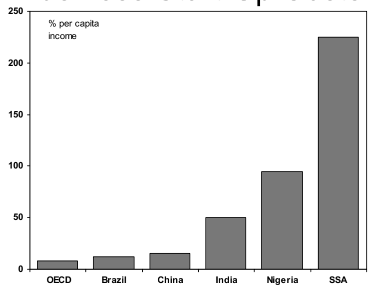
24

Business Start-Up Costs



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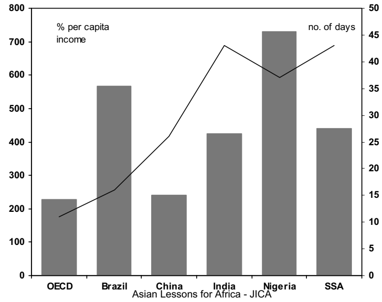
25

Cost of Enforcing Contracts



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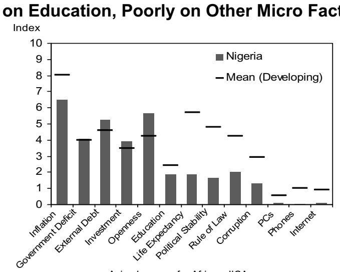
26

Summary: Nigeria Scores Well on Macro, Less well on Education, Poorly on Other Micro Factors



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27

NEEDS

- **The Starting Point of Reform:**
  - **'Evolve a slim, facilitating government that does not try to do everything, that lives within its means, and does more with less'**
- **Objectives:**
  - Wealth creation, employment generation, poverty reduction and value reorientation
- **Components:**
  - Macro-economic management and Fiscal Responsibility
  - Improved Governance and Anti-Corruption
  - Privatization and Deregulation of Economy
  - Public Sector Reforms: Budget, Civil Service Reforms
  - Entrenching reforms through legislation and institutions

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28

Changes from 2003…

	1992-1998 (avg.)	1999-2001 (avg.)	2002	2003	2004	2005	2006 (est.)
(Annual percentage change; unless otherwise specified)							
Real GDP (at 1990 factor cost)	1.8	3.5	1.4	10.9	6.1	6.2	5.1
Oil GDP	0.9	2.9	-11.6	26.5	3.5	2.6	-1.6
Non-oil GDP	2.4	3.8	8.0	4.4	7.4	8.2	8.2
Inflation rate (year-on-year)	39.3	10.4	12.2	21.8	10.0	11.6	12.2
Money supply (M2) (% change)	…	35.0	21.6	24.1	14.0	16.0	…
Exchange rate (IFEM/DAS) (N/US$, average)	…	102.3	121.3	129.5	133.5	131.8	126.5
External reserves (US$ billion)	3.6	8.4	7.7	7.5	17.0	28.3	46.5

Source: CBN, 2006b; Federal Ministry of Finance (Nigeria), and IMF (2001; 2003; 2005)

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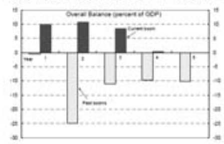
29

Impact of Fiscal Rule

An oil price rule led to better management of the oil wealth and a stronger fiscal position.



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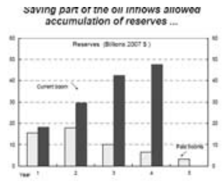
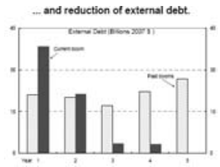
30

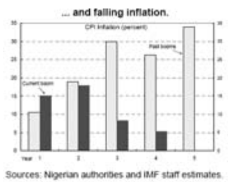
Reserves and Savings up…



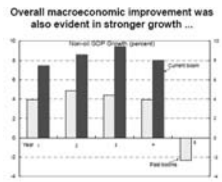
External Debt reduced…



Inflation reduced…

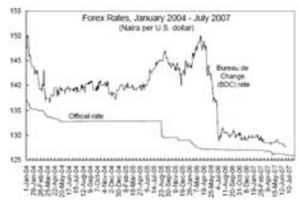


Non-Oil GDP grew…

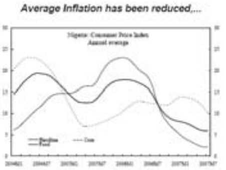


Monetary policy prudent…

Exchange rate stabilized…



Banking Reforms…



...the banking sector was consolidated,...

Financial Soundness Indicators, 2004-06

	Pre-consolidation		Post-consolidation
	2004	2005	2006
Number of banks	89	...	25
Regulatory capital to risk-weighted assets	14.6	14.3	25.8
Return on equity	27.4	7.2	1.9
Liquid assets to total assets	47.5	48.3	60.8

Source: Nigerian authorities.

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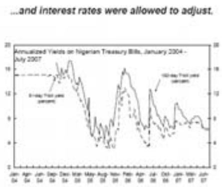
37

Monetary performance…



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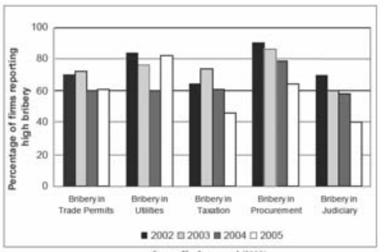
38

Bribery going down…



Source: Kaufmann et al (2005)

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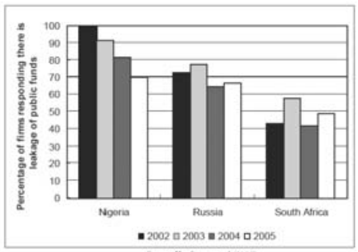
39

Leakage of Funds reducing…



Source: Kaufmann et al (2005)

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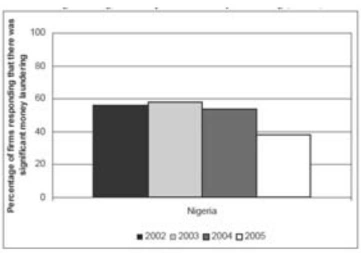
40

Money laundering declining…



Source: Kaufmann et al (2005)

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41

Stronger results from 2004...

	2005	2006	2007
Non-oil growth (percent)			
Actual	8.6	8.9	8.0
PSI	4.9	5.0	5.4
Inflation (year-on-year, percent)			
Actual	11.6	8.5	6.0
PSI	18.5	8.5	6.2
Official reserves (US$ billion)			
Actual	28.3	41.8	47.7
PSI	26.4	48.3	68.0
Debt (US$ billion)			
Actual	20.5	3.5	3.3
PSI	30.4	4.8	4.7
Non-oil primary fiscal balance (percent of non-oil GDP)			
Actual	-38.9	-44.6	-42.4
PSI	-41.4	-38.0	-37.9
Crude oil production (mbd)			
Actual	2.51	2.36	2.15
PSI	2.45	2.48	2.58
Oil price (US$/ bbls)			
Actual	55.3	65.3	67.3
PSI	54.2	60.5	58.5

PSI projections are the October 2005 request for the PSI (IMF Country Report No. 05/432). Current projections are used for 2007 "actual" data.

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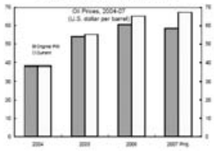
42

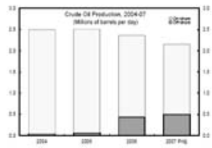
High oil prices helped…

High oil prices ensured export earnings and government revenue ...



Production disruptions mitigated

... even though oil production stagnated.



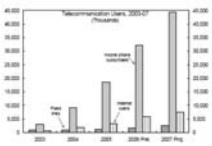
Improved environment…

The business environment was improved as a result of structural reforms...

Nigeria: Doing Business, 2005-06

	2005	2006
Registering property		
(days)	274	80
(procedures)	21	16
Trading across borders		
Time for exports (days)	41	25
Time for imports (days)	53	45
Enforcing contracts		
(days)	730	457

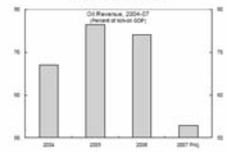
...and liberalization of services.



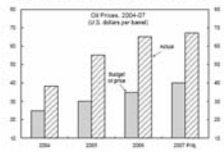
Sources: Nigerian authorities; World Bank, *Doing Business* Database; Business Monitor International; and IMF staff estimates.

Luck and Good Policies…

High oil revenues...

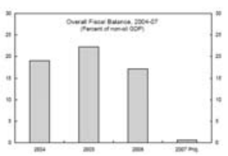


...combined with the prudent oil-price rule...

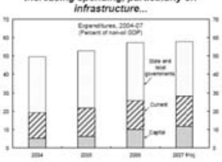


…always help the prepared!

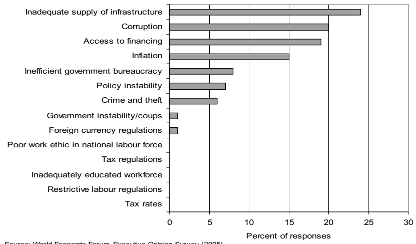
...created large overall fiscal surpluses.



Increasing spending, particularly on infrastructure...

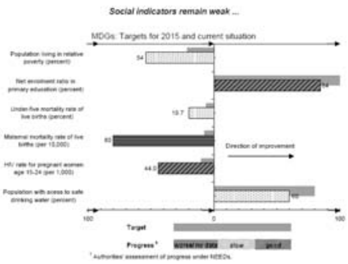


Most problematic factors for doing business



Source: World Economic Forum, Executive Opinion Survey (2005)

Challenges remain….



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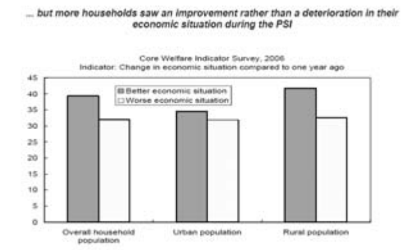
49

… but improvements evident



Sources: Nigerian authorities.

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50

What Next?

- After achieving macroeconomic stability, building healthy reserves, and being a nation free of debt, what next?
  - Destination Nigeria Project – FGN/KPMG/NESG
  - Subsidized lending to agriculture + textiles
  - Commercial Farmers from Zimbabwe relocated
  - Public investment in rail and electric power ($11bn)
  - Mortgage loan guarantees/Sale of 30,000 houses
  - Recapitalizing three Development Banks
  - Subsidized pricing of gas and other incentives

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51

Developmental State….?

- Industry clusters encouraged in the states
- Urban Development – Lagos Megacity
- Lagos as Regional Financial Hub, AFC as Africa's IFC with headquarters in Lagos
- Each of 36 States, FCT and 780 Local Governments studying One Product Per Local Government Programme with assistance of SMEDAN…..

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52

Final Thoughts…

- Africa is growing, and is now better-positioned to explore policy options than ever before.
- The Developmental State model in variants, which worked in Asia can be learned and adapted to some African nations.
- Some nations will benefit more from regional developmental strategies than others.
- A few nations (e.g. Nigeria) have already take tentative and unsure steps….. So this JICA study is timely and will help us get it right!

Asian Lessons for Africa - JICA 53

53

Thank you

Many of the figures, graphs and charts were extracted from publications by the IMF, Goldman Sachs, and the Brookings Institution. Details available on request.

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Asian Lessons for Africa - JICA 54

54