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AFRICAN DEVELOPMENT

Lessons from Asia

A Round Table Discussion with Esom Alintah, Michael Davies, Christopher Delgado, Loum Diagne, Jeffrey Herbst, Linda Lim, Shem Migot-Adholla, Jo L. Platts-Mills, Gustav Ranis, Michael Roemer, Vernon W. Ruttan, C. Peter Timmer, and Africa specialists of USAID and Winrock International

Winrock International

AFRICAN DEVELOPMENT: LESSONS FROM ASIA

Proceedings of a seminar on Strategies for the Future of Africa sponsored by the Africa Bureau, U.S. Agency for International Development and Winrock International at the Radisson Plaza Lord Baltimore Hotel, Baltimore, Maryland, June 5 to 7, 1991

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Abbreviations

ADC	Agricultural Development Council
AIDS	Acquired Immune Deficiency Syndrome
AMSCO	Africa Management Services Company
APDF	Africa Project Development Facility
ASEAN	Association of Southeast Asian Nations
CDC	Commonwealth Development Corporation
CFA	Franc de la Coopération Financière en Afrique
CIRES	Centre Ivorien de Recherches Economiques et Sociales
CRSP	Collaborative Research Support Program
DFA	Development Fund for Africa
EC	European Community
EPZ	Export processing zone
ESF	Economic Support Fund
FDA	U.S. Food and Drug Administration
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
GTZ	German Agency for Technical Cooperation
HIID	Harvard Institute for International Development
IDA	International Development Association
IDRC	International Development Research Centre
IMF	International Monetary Fund
JCRR	Joint Commission on Rural Reconstruction
LDC	Less developed country
NIC	Newly industrialized country
OECD	Organization for Economic Cooperation and Development
OGL	Open general licensing
PBS	Public Broadcasting System
R&D	Research and development
SADCC	Southern African Development Coordination Conference
SAFGRAD	Semi Arid Food Grains Research and Development Program
SSRC	Social Science Research Council
UN	United Nations

Introduction

This book is the proceedings of a workshop sponsored by the Africa Bureau of USAID and Winrock International. Its goal was to explore lessons of relevance to sub-Saharan Africa that may be learned from the successful postwar economic development in much of Southeast Asia. The workshop brought together external experts on Asian and African development with senior AID officials and Winrock staff to discuss these issues. Before the workshop, the invited speakers and panelists were given a set of questions for each session and asked to structure their remarks around them. Presentations and discussions were taped and edited to produce this book. While the text is not the customary scholarly treatment, we hope that it conveys the excitement and energy of the dialogue in the workshops.

Gustav Ranis set the appropriate tone in the inaugural address by noting that comparative analysis of the economic performance of countries is "more an art than a science." Assessing economic performance depends on subjective insight and experience as much as on objective facts and scientific theories of development. Since it is an art, there naturally are differences of opinion among experts. But as Ranis also points out, some people carry this process even beyond art into "religion." One of the difficulties of this field has indeed been the propensity to interpret the successes of Southeast Asia as evidence proving the validity of whatever economic ideology one happens to hold. As Linda Lim notes, Lee Kuan Yew, the president of Singapore has been photographed in the smiling company of Gunnar Myrdal, Milton Friedman, and John Kenneth Galbraith!

A striking feature of the workshop was the broad agreement among the experts about the facts of the Asian success stories. They agreed about the facts even in cases where perhaps many did not like the facts, as in the case of protectionism discussed below. This is a true test of objective interpretation and a welcome relief from the practice of inventing facts—what Norman Mailer has called "factoids"—to support one's "religion."

On literally the last day of the workshop, we read a laudatory review in *The Economist* of a new book by Robert Wade on the Southeast Asian experience.[1] Shortly after the workshop, AID and Winrock were able to arrange a lecture by Wade on the subject in which he responded to a draft of the workshop proceedings. Wade agrees with the consensus about the facts of Southeast Asian economic development, differing mainly in emphasis. A synopsis of Wade's lecture is included as an appendix to this book.

The workshop concentrated on the Asian countries of Hong Kong, Singapore, Thailand, South Korea, Taiwan, Indonesia, Malaysia, and China. These countries as a group experienced rates of growth of per capita income of 5.5% per year between 1965 and 1988, ranging from a low of 4.0% (Thailand and Malaysia) to a high of 7.2% in Singapore. Thus on the average, Singapore has doubled per capita income every 10 years, with a four-fold increase over the past 20 years.[2]

It was generally agreed that the special conditions of the small, historical entrepôts of Hong Kong and Singapore make them unsuitable full-scale models for Africa. Much the same is true for China, at the

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[1] Robert Wade, *Governing the market: Economic theory and the role of government in East Asian industrialization* (Princeton, New Jersey: Princeton University Press, 1991).

[2] The "rule of 72" provides a convenient means of appreciating the significance of these numbers. To obtain the doubling time, simply divide the (compound) rate into 72.

opposite end of the size scale, even though its GNP growth rate over the past 20 years has been the second highest in the world (Botswana has been first). Also, for somewhat less obvious reasons, certain Asian countries, notably India, Pakistan, and Sri Lanka, were excluded from the set even though they have been moderately successful. The concern here was about the sustainability of growth and perhaps the danger of "wrong lessons" (which may be one of the few hints of religion in the text).

The major conclusions of the workshop can be summarized in terms of four sets of issues:

The major ingredients of success in Asia.

How Africa differs from Asia.

What Africa can do to achieve higher levels of sustained economic growth.

How can AID best help Africa?

What were the major ingredients of success in Asia?

First, it is important to understand, there is no one Asian model. There are countries ranging from city states like Hong Kong and Singapore to giants like China; resource-poor countries such as Korea to resource-rich countries like Malaysia and Indonesia; countries with homogeneous ethnic groups like Korea to countries with high levels of ethnic rivalry and tension like Malaysia. One of these, Hong Kong, followed laissez-faire policies; most had extensive state intervention. In some, the high-growth sector was dominated by large firms, in others, by small and medium firms. In some, agriculture provided savings, in others cheap food; while in still others it provided export earnings. Nevertheless, despite this diversity, there were several important commonalties.

Governments and societies had a long-term perspective. Over and over again, a clear distinction was drawn between African leadership scrambling day-to-day to find budget resources to pay civil servants, and Asian leadership, which planned in 5-, 10- and 25-year horizons. While there was much discussion of political and economic stability, what was really stable was (1) a continuous vision of the importance of economic growth and development and (2) a pragmatic, long-term strategy for implementing that vision. Success breeds success. Korea and Taiwan could look at the success of Japan. Malaysia, Indonesia, and Thailand could look at the success of Taiwan and Korea.

An educated labor force and well-trained policy makers and other professionals were fundamentally important. All the Asian success stories put substantial resources into education and training. The result was an unskilled labor force that was literate and numerate, a well-trained bureaucracy, and over time, as the economies became more sophisticated, a broad capacity in science and technology.

Macroeconomic stability was crucial. All of the Asian countries learned how to keep public expenditures in line with public revenues. Thus, government deficits never mushroomed, inflation rates were relatively low, and exchange-rate depreciation was gradual. All this created a stable financial environment for private investment decision making.

While Asian economies demonstrated different approaches to the relationship between the private and public sectors, they all viewed private sector growth as central to economic growth. Some countries emphasized import substitution (and protection); some (particularly Korea) used indicative planning and substantial moral suasion to get the private sector to behave the way the state wanted; parastatals were frequently part of the landscape; many had an activist industrial policy; some countries used taxes and subsidies to shift the incentive structure (for example, to encourage regional development in Thailand and agricultural development in Indonesia). But the bottom line was that all governments were highly pragmatic, and market prices were used to guide public interventions. Finally, all governments recognized the crucial role of the private sector as a partner rather than a rival to be distrusted or feared. This was true even in Indonesia and Malaysia, where the ethnic majorities created special incentive structures to encourage ethnic Indonesian or Malay entrepreneurs and to limit ethnic Chinese entrepreneurs.

All the Asian counties, with the obvious exceptions of Singapore and Hong Kong, invested heavily in increasing agricultural productivity through support for rural infrastructure, research and extension, fertilizer subsidies, and price support systems. Rapidly increasing agricultural productivity helped establish the basis, through lower food costs and exports, for the later export-led growth stage.

At a key point in their development (and the exact timing differed between different countries), Asian countries turned to exports as the engine of growth. Each of the countries followed different paths. Singapore and Hong Kong were entrepôts that quickly turned to manufactured exports. Malaysia and Thailand first developed their export agriculture. Taiwan developed its domestic food production before turning to manufactured exports. Indonesia used its oil wealth as well as agriculture. However, in all of these countries (except Indonesia), particularly since 1980, exports grew faster than GDP as a whole and were a leading sector of the economy.

Dr. Wade's comments on the discussion mainly emphasized: (a) the high and enduring degree of protectionism in the Asian countries and management of its potentially adverse effects; (b) the crucial importance of agricultural development as a leading sector in the early stages; and (c) the importance of a skilled labor force and other forms of human capital development, further discussed below.

What is different about Africa?

There was less consensus on how Africa is different. Most participants agreed that the Asian success could not be attributed to cultural differences such as Confucianism. While certain elements of Asian cultures were important (strong family ties, respect for education, high levels of performance orientation), many of these elements are also present in Africa. However, the role of Chinese, Indian, and other ethnically distinct entrepreneurs in the economies of Asia—and, indeed, Africa, is a subject that deserves much more research.

Rapid population growth and a substantial debt overhang are important but not insurmountable obstacles in African development. The rapid rate of population growth not only increases the denominator (reducing over 5% GDP growth to 2%) but also leads to a population that is made up of 50% dependents and substantial social pressures, particularly with respect to employment. The high level of debt greatly complicates the job of macroeconomic balance.

Africa has a richer resource base than most Asian countries. This is not an unmitigated blessing. Several participants argued that the lack of natural resources forces societies to make more difficult choices and to channel their energies into the most important resources—their brain and muscle power. A rich resource base can act like a substantial inflow of foreign capital (the "Dutch disease" syndrome), and it can discourage labor-intensive exports. Clearly, however, a rich resource base can make growth easier if it is used carefully as it was in Thailand, Malaysia, and Indonesia.

Political structures are different in Africa. Somehow, in Asia, governments were the embodiment of the state and thus were viewed as having legitimacy. This made governments more autonomous and able to focus on national and long-term issues. In several countries (Taiwan, Korea, and Singapore), the presence of an external threat helped to focus energies. While governments used their power to dispense favors, and corruption was far from unknown, their legitimacy was rarely challenged. In Africa, two main governmental styles arose. In some countries, such as Nigeria and Kenya, the government used its control of economic assets to ensure its sustained political control. Political power was used less in the interest of the nation and more in the interest of the government. In others, where a charismatic national leader arose (Tanzania, Ghana, Zambia), the leader was caught in the grip of a socialist ideology and wasted his influence in unprofitable pursuits.

The structure of agriculture in Africa is very different. Asian agriculture, because of a long history of investment in rural roads, irrigation, and, later, fertilizers, seeds, and research, is integrated into the national economies. Consequently, it has been able to concentrate production in vast areas of intensive, highly productive monocultures. In Africa, on the other hand, the lack of such investment has resulted in highly extensive and diversified agricultural systems based on self-sufficiency for household food needs. Most of the African agricultural experts agreed, however, that this contrast is due to the differences in investment and development—not to cultures, physical resources, or climate.

Can Africa be transformed?

Will Africa benefit or be penalized as a late-comer? If African countries are to follow the example of Asia and grow through exports, a real question that needs to be addressed is the future of the world economy. Primary product exports seem to be continuing down a path of slow decline (0.5% per year since the 1920s). The development of trade blocs, the emergence of Eastern Europe, neo-protectionism in developed countries, the competition from the Asian countries, all may make exporting more difficult in the 1990s than it was in the 1970s and 1980s. However, several points should be noted.

The late-coming Asian countries (Thailand, Singapore, China, and Malaysia) all experienced high rates of growth of export earnings in the 1980s despite substantial declines in the terms of trade (30% for Indonesia, 26% for Malaysia, 18% for Thailand, and 16% for China).

There are many more markets now than there were in the earlier period. Not only are there the USA and the EC, but also the NICs themselves, a resurgent Latin America, and Eastern Europe, though protectionism is growing.

There seems to be a rapid shift in export commodities as wage rates rise with growth, causing entrepreneurs to seek new investment opportunities in low wage countries. Taiwan is the leading investor in Madagascar. There has been a movement of textiles and light labor-intensive manufactures across South Asia from Taiwan, Hong Kong, and Singapore to Sri Lanka and the Asian subcontinent.

All the participants agreed that private sector enterprise must play a leading role in African economic development as it has in Asia. The discussions by local and foreign entrepreneurs working in Africa focused on major constraints in this process. The foreign entrepreneurs emphasized the lack of commercial law and fair and effective legal enforcement, the lack of skilled labor, deficient roads and other infrastructure, and governmental interference as major constraints. The African entrepreneurs emphasized, in addition, the lack of capital as their major constraint. They believe there are many good business opportunities open to them if they can obtain the equity and loan capital they need to seize these opportunities.

Curiously, the entrepreneurs did not emphasize the economic policy environment as a constraint as much as the economists perhaps would have hoped. They tended to regard it more as problem to be managed as part of their business.

What is the appropriate role of agriculture in Africa's transformation? Nearly all of the participants agreed that agricultural development must play a leading role in Africa as it has in Asia. The Asian experience points out the importance of agriculture and the rural economy as a source of savings, a source of labor, and a producer of cheap food that allows wage rates to be kept low. However, several participants felt that the development of agriculture in Africa may be somewhat more extensive than in Asia, mainly because Africa has more agricultural land per capita and less irrigable land than Asia.

How can AID help Africa transform itself?

Concentrate: pick a winner. The clear message from the participants was to find a selected number of potential winners and provide sufficient resources to enable these countries to take the risks needed to shift gears. This would not only provide a demonstration that success is possible, but would also have spillover effects in terms of investment and regional trade. The example alluded to was AID's assistance to Taiwan in the 1960s.

AID can help, but the key problem is finding an African government willing and able to make the choices needed to accelerate its growth.

Once such a set of governments is found, the next problem will be finding the balance between long-term and short-term investments.

All of the participants agreed that one of the major opportunities for AID assistance is in three crucial areas of human capital development. First, primary education is essential; a literate and numeric citizenry and labor force that can read and count is an indispensable pre-condition to development. Second, a skilled, highly productive, labor force must be developed. One of the participants put this need most forcefully when he said that it will be impossible for Africa ever to compete in the light-manufacturing export market without the same highly skilled labor as in Asia.

The third area is the need for advanced, doctorate level, US-based education for the future leaders of Africa. The work of the Agricultural Development Council (a predecessor of Winrock) in Asia was cited by several participants as a model that should be adapted to meet African requirements. In this model, senior social scientists from developed countries were stationed in Asian institutes and universities. They carefully selected and provided financial support for future leaders to receive advanced education in the USA. On return to their home countries (and nearly all did return), they were provided with further support through a collegial network to help advance their professional capabilities and careers. The result was that many of the leaders of the Asian countries today (including the president and several other senior officials of Taiwan) were ADC fellows.

Most of the participants agreed that investment in physical infrastructure—roads, ports, agricultural inputs and outputs, etc.—is vital. While AID cannot do this alone with its limited resources it could participate collaboratively with other donors such as the World Bank.

One of the participants noted that the subject of population growth was hardly mentioned in the discussion. The consensus response was that this problem is so obviously important that everything possible should be done to control it.

What are the next steps?

1. Set up more formalized lines of communication between AID and the private sector, both African and expatriate.

2. Develop a research agenda for understanding the lessons from Asia in a more particular and specialized way.

3. Strengthen linkages between AID and U.S. academic institutions, particularly with respect to issues of African economic development.

4. Develop communication links among AID, African governments, African civil society, Asian businessmen and officials, etc., so as to spread the prosperity gospel.

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David Seckler and Richard Cobb

Wednesday evening, June 5, 1991

Keynote Address: Taiwan as a Classic Model of Asian Development Success

Speaker: Gustav Ranis. Chair: Richard Cobb

Cobb
Let me introduce the co-host from the AID side, Scott Spangler, who is the assistant administrator of the Africa Bureau.

Spangler
I think there's no more fascinating intellectual problem than how you make a country grow. I have spent the last 25 years trying to figure out how to make a couple of companies grow. I never did quite get that figured out, but in the next 48 hours you all are going to tell me how to make a country grow.

Cobb
Next let me turn to the co-host from Winrock International, Bob Havener, who is the president and chief executive officer.

Havener
We appreciate AID making it possible for us to co-host this seminar. We are going to learn as well as, I hope, make contributions to the process. David Seckler on our staff and Dick Cobb on yours deserve particular thanks for having brought us together and laying the

groundwork for the discussions for the next day or two. I'm particularly pleased about the presence of the outside participants like Gus Ranis, Peter Timmer, Vern Ruttan, and others who have come to share the insights that they have brought from a lifetime of work in international development. They have been scholars. They have been practitioners. They've been participants in the process, and their insights will help us to think about new ways of approaching the problems of development in Africa.

Pierre Antoine and I have just returned from Addis Ababa airport after visiting eastern Africa. We were among the lucky ones to be able to fly out on the last flight that left.

"The decision has been made that governments cannot do all things and deliver goods and services to all people and that they are going to have to privatize some way."

I've been visiting Africa for about 25 years now, visiting with governments there, talking about agriculture development and national development. In the last year, I have visited about 18 different countries in Africa, talking to policymakers, administrators, USAID missions, World Bank officers, and others. There are changes occurring that are different from what I have seen over the last 25 years. I hope they are real. I hope they are favorable.

The first observation is that agriculture is back on the agenda of many African countries—concern about food security, concern about the productivity of the agricultural sector, concern about whether or not agriculture can play a role as the engine of economic growth. That's an important question for many African countries.

Second, among the things that I have heard for the first time in the last few years is that Africans are going to have to solve the problems of Africa. We can be helpful, we can bring capital, expertise, knowledge, skills, but the problems of Africa are basically going to have to be solved by Africans in Africa. I count that to be a healthy idea and a positive evolution.

Third, there is a recognition that the public sector has failed to solve the problems of African development, that governments are not very good managers. Most African governments and most practitioners of development in Africa are now saying we have to find ways to privatize. They have no idea, by and large, what that means—the ingredients and components thereof, how incredibly difficult that is to do where the infrastructure and the heritage and other things are not necessarily a part of the national governments. But at least the decision has been made that governments cannot do all things and deliver goods and services to all people and that they are going to have to privatize some way. Almost without exception, they are now talking about decentralization of government; that overcentralized governments have been unable to either make good policy or deliver goods and services to their citizens.

Finally, there is a recognition that democratic accountability is going to be an essential part of development in Africa. They don't call it democratic pluralism. They don't call it democracy in the same sense that we do. But they do say that accountability of African governments to their citizens is necessarily going to be a part of the development process.

So I take all four of these things that I hear now in Africa—that I didn't use to hear—as being terribly important and really quite optimistic signs for future African development.

On the pessimistic side, Pierre and I were attending a meeting of Global 2000 in Tanzania a couple of weeks ago. Former President Carter was there and addressed the group. He pointed out two things that ought to challenge us considerably. One, he said that for the last 20 years, per capita production of cereals in Africa has declined. That's certainly the long-term trend, though there's some variation around the norm.

Second, he pointed out that in the last 3 years there were 30 serious confrontations—civil wars, border wars, or other confrontations—in the nations of Africa in which more than 10,000 people lost their lives, and that the loss of life and property in Africa is a serious deterrent to development. If we are serious about African development, we and they have to be serious about ways of diminishing the internal and inter-regional and international strife that goes in that part of the world.

The representative from the EC at those meetings gave seven reasons why Africa is now being marginalized on the world stage. They were fairly strong reasons. He talked about Europe in 1992, about the North American trade association group of Canada, Mexico, and the United States, about the opening of Eastern Europe, and about the Middle East crisis and America's resolve to do something about solving that set of problems. He has told the Africans, "Nobody cares about Africa any more, unless you care about Africa. No one's going to pay attention to Africa any more, unless you pay attention to Africa."

"If you look at the methodology of comparing countries, either within the region or between regions, it is, of course, an art not a science"

I don't quite agree with him, but the postulates that he put forward as to why Africa is now being marginalized on the stage of trade, development assistance, and capital transfers are all serious concerns for those of us who think about African development. That ought to be on our agenda as we wrestle with the problems of development in Africa.

Africa is going to be the testing ground of whether we really can know enough to be helpful in development and can bring the resources to bear to be helpful in development and be sensitive enough to be listened to in development. I hope we can work together in the next couple of days to set a framework in which we might be able to move ahead.

Cobb

By way of setting the stage, this is what we are going to try to do over the next 2-1/2 days. We are going to start tonight with a discussion of Asia. Then we will spend tomorrow morning looking at what happened in Asia. What can we learn from the sectoral and macro policy experience there? What was the role of foreign capital and management? What preconditions were in place? And what advice comes out of that Asian experience for African governments?

Then in the afternoon we will to try to focus the conversation exclusively on Africa in terms of what can be done to transform that continent. What critical differences or similarities might there be coming out of Asia? Is it feasible to follow some of the strategies that were put forth in Asia with regard to Africa? We want to look later tomorrow at the economic and social context in which decisions are made and risks are taken and the setting for democracy that should or should not be in place for Africa. We also want to talk about what it's going to take to stimulate private-sector investment. That will take us to Thursday evening.

We want to try to bring some closure to all this on Friday. What are the lessons that we can take away, the key constraints that we need to concern ourselves with as we propose an agenda for Africa over the next 10 years? What specific implications does this have for AID? We need outside help as well as insiders who know the system for this. What changes in U.S. government policy are going to be necessary? And what next steps are going to be important for the Africa Bureau and Scott's agenda in moving forward the policy and program agenda based on what we have learned here.

Now, let me turn to our keynote speaker, Gustav Ranis, who is Professor of International Economics at Yale and who has an impressive list of articles and books that he has published on Taiwan and Japan looking at comparative policy and technology choice. He has lived and worked in Pakistan. He was a director of the Institute of Development Economics there in the late 1950s, and he has worked with the National Academy of Science and most of the major bilateral and multilateral organizations involved in Asia. He has also, I understand, had experience in Ghana.

Ranis

To present a keynote to a sophisticated group of people like this is no mean task. The subject of what happened in Asia, Taiwan in particular, and how relevant it is to Africa is, of course, one about which it is difficult to be conclusive. But our task here is a challenging one because if you look at the methodology of comparing countries, either within the region or between regions, it is, of course, an art not a science. There are much more precise ways of doing economics. We can do so-called econometric models where everything is very precise and every country is a point in the regression and it's very respectable. You can get promoted. But when you are finished, what have you got in terms of wisdom?

Since this is an art rather than a science, I think each of you will come away from these two days with different views as to how much we have accomplished. I don't think we are going to solve the problem, but maybe we will have stimulated each other in terms of what are some of the critical issues that ought to be looked at in the context of each country. We can't talk about Asia as a whole, or Africa. Every country is different. We are going to commit a lot of crimes in the process. But I think it's a lesser crime than some of the other crimes that are committed in economic science.

I'm going to talk about what I consider to be key features of Taiwan and Asia. I'm going to talk mostly about Taiwan because anybody's who's worked on even the Four Dragons knows there exist tremendous differences between Korea and Taiwan, etc.

Most important is the question of initial conditions. Something can be done about some, and some by definition nothing can be done about. Taiwan was, we all know, very small, labor-abundant, natural-resource poor, and quite rich in human resources when the curtain rose after World War II. The Japanese colonial period had left behind a fairly literate population There was not much access for the Taiwanese to large industry, but the Japanese permitted small-scale activities to go forward, which some people in the economics profession call Z goods or off-farm industrialization and rural industry.

There was also a fairly equal distribution of the land left by the Land Reform of 1905 and then a further land reform of substantial size and impact in the early post-war period. Something like 75 percent of the land really changed hands, government and other lands being distributed to tillers. So you had a fairly equal distribution of assets.

Another part of the colonial heritage is that the Japanese put a lot of infrastructure into the rural areas for their own reasons. If you are going to be a colony, it's best to be a Japanese colony because they cared about food and they put a lot of infrastructure into the rural areas—irrigation, roads, and so on, which is an important part of the precondition that Taiwan was blessed with.

They also had institutional infrastructure. The so-called farmers' associations had been Japanese instruments for their own purposes, but they were there for the new Taiwan government to utilize, for its own purposes, which is important in terms of decentralization.

I'm a great admirer of Simon Kuznets. He talked about three elements of initial conditions that are important to making countries grow. One is the initial organic nationalism that exists. The people feel they belong to a kind of entity that in other countries first has to be created. I think that there was clear ethnic homogeneity. There were some problems between the mainlanders and the Taiwanese including some bloodshed. But basically, there was great homogeneity and the fear of the mainland, which led to a cementing of links among the people on the island.

"Like most developing countries, they started out with the seemingly inevitable inward-oriented, import-substitution phase."

Secularism is another element, which has to do with this worldliness. This worldliness has been a feature of Asian development quite aside from some comments that have been made about the spiritualism of Asia, which I think are quite misplaced.

The third element is egalitarianism, not after-the-fact egalitarianism, but egalitarianism as equality of opportunity, equality of access, especially educational access—the history of access to education, meritocracy, if you like, on a competitive Imperial examinations model, which is a Chinese import.

Those are the major initial conditions. What did the Taiwanese do with all this? Like most developing countries, they started out with the seemingly inevitable inward-oriented, import-substitution phase. People in the Chicago school might say it was a mistake, but empirical evidence indicates that everybody makes that "mistake." The question is how much and for how long, not whether you have to have it. At least I would make that empirical statement. And the

Taiwanese, I think, had a mild version of that much-maligned import-substitution phase.

From the beginning they were worried about inflation because they saw what had happened in the mainland. So from the beginning, they were worried about stabilization as the first prerequisite of doing anything. And they had interest rate reform in the 1950s; that is, real positive rates of interest even at that point. They did not squeeze agriculture in the way that most import-substituting regimes do. There was some discrimination but much less so. They realized that the agricultural sector must be permitted to play its role—its resources have to be used elsewhere, but it's a question of how you go about it. You don't want to squeeze the cow so that it stops giving milk; you have to be willing to let the cow give milk. That's the nature of the development process, and I think they realized that early. Looking back on it, it was clearly a policy that in fact did try to maintain incentives in agriculture while at the same time moving resources from agriculture into other pursuits. Something like 30 percent of the total savings of the society were from agriculture, if you take the whole period from 1950 to 1970.

The well-known fact is that after this relatively mild import-substitution phase of the 1950s, they shifted into an outward-oriented regime in the early 1960s. This was a major structural change of the kind that's now being called structural adjustment packages of one kind or another, the famous 19 points that are well known in the literature.

Again, the sequencing is interesting: after stabilization, interest rate reform, exchange-rate reform, unification of exchange rates, trying to maintain a more realistic exchange rate. They never permitted the expenditures of government to outrun the tax base. Whenever they began to have a little deficit, they would have a tax reform. I assume that it's now possible to talk within AID about taxes; it wasn't during the previous administration. And in a sense the possibility of maintaining a reasonably balanced budget, and sometimes even surpluses, was a policy that they went on pursuing throughout the 1960s and since. As you probably know, in more recent years they have been running surpluses.

That means, unlike many developing countries, the political economy of Taiwan was such that when times were good, they would use the resources for development. When times were bad, they did not try to replace, through deficit financing or monetary expansion, the resources that might not be available. It is a very different kind of picture than is typical for Latin America.

So you had major structural changes going on in the early 1960s, and the sequencing of the changes were such that they maintained protection to some extent. They went from quantitative controls to tariffs, but they maintained a fairly protective environment. In fact some protection is still there today, but the shift was one that permitted kind of halfway houses, export processing zones, as well as export-related rebates of import duties. So they kept the domestic economy protected while becoming competitive to the outside first, and then later, and only gradually, reduced domestic protection. The domestic consumer was considered a captive audience. They could be kept captive for some time. Only more recently have they begun to liberalize with respect to imports.

"Farmers' associations and their demands for infrastructure were listened to rather than squelched. They moved to higher value and more labor-intensive crops and then to rural industry, both favored by the strength of rural infrastructure."

They also did not make the mistake of some Latin American countries of liberalizing the capital account before they had liberalized the commercial account. Only now are they really liberalizing foreign capital inflows and outflows.

I'm not suggesting in any way that they did everything perfectly. There were lots of mistakes. Every society makes mistakes. But the sequencing was sensible by international standards.

There were important institutional and organizational changes as well. Take the farmers' associations, which were really bottom-up cooperatives, not imposed from above. Yet, you had at the same time a fairly strong central government. You probably know the story about the JCRR working with the farmers' associations both for credit purposes and for the diffusion of technology in agriculture and very importantly in nonagriculture in the rural areas as well. Many people don't realize that Taiwan's first boom was agricultural. The second boom was new kinds of crops, moving from rice and sugar, which had been the main crops, into mushrooms and asparagus, and then the processing thereof, before the big industrialization drive that we all know about in textiles, etc. This was again done through overall policies which encouraged the support of rural activities. Or to put it more precisely—by not discriminating against rural activities. It's not so much that they tried to foster rural nonagricultural and agricultural activities, but that they did not discriminate as much against them as the typical developing country does. For example, power rates were the same in Taipei as they were in rural areas, which is unusual. Usually urban areas are benefitted by more favorable power rates or by the infrastructure. The infrastructure heritage I have already mentioned. They maintained that kind of balance with respect to where infrastructure was to go, and again farmers' associations and their demands for infrastructure were listened to rather than squelched. They moved to higher value and more labor-intensive crops and then to rural industry, both favored by the strength of rural infrastructure.

The growth of nonagricultural activity in rural areas is very important in the Taiwan case. In most developing countries, something like 15 to 20 percent, 25 percent if you are lucky, of the income of farm families comes from nonagriculture, while 75 percent or more comes from agriculture. In Taiwan, nonagricultural income for rural families rose from 30 percent to 80 percent of the total.

This is important from several points of view. It permitted farmers, especially the small farmers and the poorest farmers, to be absorbed in efficient productive activities in rural areas. So agriculture and nonagriculture could reinforce each other in the rural areas. That is a part of the story that is not given much attention. What is relevant to Africa is the strength of this interaction between agriculture and rural nonagricultural activities and rural industry, which was part of the process of mobilization of the rural areas.

It's also good for income distribution. Because when the smallest and the poorest participate more than proportionately, you are not only creating employment but also improving the distribution of income. You had laborers bicycling into the export processing zones and going home at night. That was part of the picture, but they were also producing things for the domestic market.

This was efficient, labor-intensive activity. Of the total output, labor income was about 60 percent going up to 80 percent in the rural industries, while the international norm is maybe 40 or 50 percent. So you had labor-intensive, efficient production both for the domestic market and in the export processing zones (sometimes in a subcontracting relationship to larger scale urban industries).

"Unlike in many developing countries, 5 percent of GNP was devoted to education, with heavy emphasis on primary education, and, at the secondary level, heavy emphasis on vocational education."

As you probably appreciate, some of these small rural industries in other countries do not have much of a chance. First they get hit by colonial imports, which discriminate against them, and in the post-independence period, they get hit again by the urban import-substituting industries, which compete with them unfairly instead of working with them in a complementary fashion. This was much less the case in Taiwan.

It is important also to refer to Taiwan's educational policy. Unlike in many developing countries, 5 percent of GNP was devoted to education, with heavy emphasis on primary education, and, at the secondary level, heavy emphasis on vocational education. Seventy percent of total secondary education in the 1960s was devoted to vocational education. In other words, there was not the usual fear of getting one's hands dirty, but applied, if flexible secondary education for the majority. You can, of course, make mistakes in vocational education too, for example, training people for last year's needs. Education was focused on cognitive skills on the nonacademic side of the house.

Another indication of this kind of flexibility is that when the labor surplus came to an end and wage rates began to rise at the end of the

1960s—a new situation for Taiwan—educational emphasis shifted toward science and technology and engineering. The same year that wages began to rise, you had a shift from 6 to 9 years of compulsory education, science parks came in, and R&D was encouraged. R&D is now 1.5 percent of GNP, which is high by LDC standards, and three quarters of it is private. There was a continuous flexibility and pragmatism.

I'm not suggesting, of course, that Taiwan is without problems today. Its labor shortage has meant wages are rising. They now have to look elsewhere for their labor supply. They are investing elsewhere, which is part of the normal kind of product cycle. They are now investing in Indonesia, Thailand, and other near-NICs. They are also letting in some unskilled labor even though that's politically a difficult matter. They have pollution problems, too much savings. They are having a lottery in the stockmarket and real estate and so on. There is no place that doesn't have its problems, but a lot of developing countries including sub-Saharan Africa would like to have those problems.

Two more comments before I leave Taiwan. One is a word on the state and the market. The way it's usually put in the literature, sort of a religious literature on both sides, is probably a mistake. We have to ask ourselves what kind of state and what kind of market? In a sense, the Taiwan state was always viewed by the citizens as kind of a platonic state, and the citizens worried about their obligations to the state. While a Latin American citizen will say, "What do I get from the state? What do they owe me?" The Taiwan citizen is more likely to ask, "What are my obligations?"

With respect to the market, we ought to ask ourselves, is it a monopolistic market? Is it a competitive market? Then we can decide what mix of the two are appropriate. I think that the state in Taiwan, if you talk about it in political science terms, was a very autocratic state—a military government basically and a one-party system. But if you ask about participation by people in decision making, it's a fairly democratic state. So it requires a different kind of definition of what we mean by the state, and decentralization is a very important component of this.

The Milton Friedman view of Taiwan is quite wrong. To say that they went to free enterprise completely, that this is an example of markets in operation, is wrong. It is not that. It's a question of the state using its power intelligently and selectively, moving from across-the-board interventions of the kind that are usually invoked during import substitution to selecting intervention spots in a more vertical fashion, if you like. It has always been a self-denying kind of state intervention rather than a textbook laissez-faire country. Indeed, there are no textbook laissez-faire countries. It is a question of whether the state is much more effective in picking its spots carefully and utilizing the entrepreneurial resources that are there. I think that's the story of Taiwan, a very flexible accommodation to the more natural changing comparative advantage of the system.

"Nothing is as important as mobilizing agriculture to get the generation of savings and activity in the rural areas started."

The other thing I want to say is a word on foreign aid since that's a subject that I presume you are going to turn to over the next 2 days. The role of foreign aid in Taiwan is a textbook case of being there with a ballooning effort at a critical time to reassure the authorities—this is the early 1960s—that if they made major structural changes, with advice and financial help, there would be a buffer in terms of foreign exchange resources and revenues. But also by telling them at the same time that we are going to get out of the aid business, that is, we are going to be out of Taiwan within 3 or 4 years. I think we made the announcement in 1961. There was a big ballooning and in 1965 aid, except for military aid, ceased. Both those things are healthy, both the notion that AID wasn't going to be in there forever and the ballooning and buffering of difficult changes in getting to the end of the tunnel.

It should also not be forgotten that when import substitution ran out of steam in the late 1950s and early 1960s, there were many people who wanted to continue with import substitution on the Latin American model—import substitution of capital goods or raw material processing or of durable consumer goods. Like everywhere else, the businessmen were running to the government saying, "What are you going to do for me now?" The answer was export, rather than some new kind of import substitution. This was very much helped by the timely availability, but not without end, of foreign assistance.

Let me now get into an area where I'm going to seem heroic and I hope not too foolhardy. That is some preliminary comments on African relevance or irrelevance. Question one—and this is a big issue—are African soils inherently worse than Asian soils in terms of having an agricultural revolution? Is the rainfall less reliable and irrigation more difficult? I read some of the materials that were sent to me, and I take it that AID and Winrock feel that, at least in the mid-belt of Africa, the answer is no. A green revolution can be brought to Africa. Of course, that makes a lot of difference. If there is a belt here that can be brought to generating agricultural savings and surpluses, this would of course be of tremendous importance. Nothing is as important as mobilizing agriculture to get the generation of savings and activity in the rural areas started.

A second question often arises about human capital organization and institutional infrastructure: is it weaker? It is hard for me to pontificate on that. Educational levels are certainly lower. Organizational capacity, what the Japanese call "social capability," is probably not the same as it was in Taiwan in the 1950s. But there's nothing that can't be addressed through education and other policies.

The question of individual property rights used to be a big concern. I take it that that's no longer viewed as a major problem, that property rights are coming to be established in Africa. I think it's a function of population growth. I'm not saying that Africa is a labor-surplus continent, but it's moving in that direction. So the notion that neither Japanese-nor Mexican-type of technology change, using the Hayami-Ruttan definition, can work there is probably incorrect. So the Esther Boserup type of world is probably not something we need to worry about.

Another issue that comes up a lot when you talk about the applicability of Taiwan's experience in the 1960s and 1970s to today's Africa is, what about the international economic environment? Isn't it much worse today? And therefore, what's the point of trying to be like Taiwan? If you are successful, you can get clobbered by neo-protectionism, aid fatigue, end of the Cold War, whatever—some of the things that I have mentioned earlier. On that score, Africa really should be much less concerned than the prophets of doom and gloom would have it be. That is to say, for an individual country, it is always possible to find a niche, especially for a relatively small set of countries. If you ask that question about mainland China—if mainland China today became Taiwan—some people might say, my God. Somebody would have to react to that level of exports. Well, it hasn't happened, although China is moving. And I don't think that it would be a problem even if all of sub-Saharan Africa suddenly adopted policies that would make it into a potential industrial exporter. That's a long way off. The first priority, in my view at least, would be the generation of rural agricultural and nonagricultural activities, and then moving into exports of a nontraditional variety over time. I think the fear of being clobbered is misplaced. There's a lot of possibility for finding niches not only inside countries, but also in international trade, such as trading with other developing countries.

Taiwan, as it moved up the ladder, began to trade more with other nearby developing countries, rather than always trying to penetrate the advanced countries. So this notion of the fallacy of composition is exaggerated. People like Gerschenkron and Boserup have pointed out that you have advantages from being a latecomer, and you can learn from the mistakes as well as the successes of others. We noticed for example, that Thailand, Indonesia, and Malaysia are certainly now coming along, and in spite of the unfriendly international environment, doing very well, thank you. So there's no reason not to do the right thing just because you might get an unfriendly hearing outside.

Also, sub-Saharan Africa in general, does not, in spite of what I said about increasing population pressure, have the same heavy population pressure on the land as Asia, and I'm not sure that's not an advantage. I also think that the kind of rural industry that was destroyed in Asia through colonial imports and then again destroyed through import substitution is probably less far along in Africa. So there is a good deal of potential for what I consider to be an important area using appropriate goods and appropriate technologies for

African markets as well as for other developing country markets as you look down the road.

Latin America is also looking at Asia now. Years ago whenever you went to Latin America and talked about Asia, they would say we don't want to hear about that. There's nothing relevant to us. Nowadays, there is a request every 2 months from Mexico or Peru or Brazil to learn about the East Asian experience. And they have a handicap in that they have been at import substitution much, much longer.

"I'm talking about real structural adjustment programs, which the country itself owns and believes in, which outsiders can then support."

The African countries are still in the early stages. Some of the rent-seeking activities that spring up under import substitution really become encrusted. It's hard to break these habits. I think Africa doesn't have quite that same resistance to overcome. They don't have the strong unions of Latin America, which are often associated with political parties. Some of it, of course, exists, but it's weaker, it's less encrusted. The wage gaps you find in Latin America between unskilled labor in rural areas and unskilled labor in the urban industries are smaller. In Asia the gap is about 20 to 30 percent. In Africa I'm told on the average it's about 80 to 100 percent. In Latin America it's sometimes several hundred percent. The origin of these gaps is also different. In Africa it starts from the top down, from expatriates being displaced by Africans. Salary differentials are large, and they are larger than they should be, but not as large. Therefore, the ability to absorb labor is probably not as seriously handicapped by these wage gaps in Africa as they have been in Latin America.

Some of these statements, I'm sure, can be challenged, but that's certainly my view. Jerry Wolgin has pointed out that the underground economy is much larger in Africa, relatively speaking, than in Latin America. And therefore, in spite of the bad news out of Africa, I agree that probably there's much going on in the underground economy, which would make it a little more optimistic than the official data would lead us to believe. There's a resiliency there.

I have seen it in Ghana and elsewhere among the market women. There's a lot of vitality there. That's something that certainly can be built on. It's more so than in some of the Latin American countries.

Finally, the question of debt. I know that Africa's had a sad decade and it's heavily in debt. But some of these debts are forgivable. We know we can forgive and we have begun to start forgiving debt without running into the moral hazard question of who else wants to have debt forgiveness. There's a possibility of doing something here that isn't possible elsewhere. It's relatively small and one can make a special case for Africa, as is already being made.

But most important, I would say because the African countries are not so large, there's not going to be a huge demand for aid that you might get from India or Latin America or Eastern Europe, for that matter. It is possible, I think, to have a grand bargain of the kind that's now being talked about very loosely with respect to the Soviet Union. The grand bargain in Africa is a small bargain that is not going to be so difficult for donors to accede to. It is not that huge in terms of international magnitudes, if a country in fact wanted to have a major structural adjustment program.

The problem with structural adjustment programs is that the term has lost its meaning because everything is now "structural adjustment." We all know that some of these smell nicely and some don't smell so nicely, but they are all called roses. I'm talking about real structural adjustment programs, which the country itself owns and believes in, which outsiders can then support. That's the only way these things are going to escape the fatigue that is overtaking the business. The donor community should be a little more passive about it and help the country to formulate its bargains, what it thinks it ought to be doing, and then provide the kind of aid ballooning that I have talked about, which I think can be afforded in Africa.

And in spite of the problems that were mentioned earlier, I notice that AID's volume of money for Africa is going up while everything else is in decline. There seems to be a willingness on the part of AID to make money available through the Development Fund for Africa. And I know that the World Bank is paying more attention to Africa. So it should be possible for a country to come up with its proposal for policy change and decide what it wants to do and how. AID can be helpful in fashioning, let's call them, mini-bargains in Africa.

I end up by saying that the basic problem is an African problem. I have no doubt about that. I wish we had a more perfect world. In my perfect world, I would think that donors ought to be able to be more passive. I assume the State Department would not like that. Annual aid flows would, of course, continue. But for the major restructuring efforts, we would wait until a country comes to us and says, "This is what we want to do over the next 5 years," and then we agree to help them. That would be a way to spend our money more wisely and well and with a greater chance to increase the resources available for palpably successful efforts.

DISCUSSION

Ruttan
Gus, could you say a bit more about the relationship between political and economic development from the Asian experience? My own perspective is that in Asia, where development occurred rapidly, economic development in general preceded the liberalization on the political side, and the economic progress validated the political progress. Where the political progress has come too soon it has often been discredited by the failure of the economic side.

Ranis
You are suggesting that economic progress usually came first. I agree. Certainly this was true in both Taiwan and Korea. In China, they tried it the other way around and ran into difficulties. Of course the other extreme case is what's going on in the Soviet Union, where we have political liberalization without very much, until recently, economic liberalization. So the Asian experience would lead me to think that you can go some ways by building the economic foundations that permit you then to liberalize politically as well. That seems to have been the experience.

Then, of course, governments get very nervous when all of a sudden you get unions and demands for this and that and multi-party systems. So far I think they have managed to do this, especially in Taiwan, quite well; perhaps less satisfactorily in Korea. But those are the growing pains in countries that have been essentially repressed for a long time. They find it difficult to accept the change, but they are learning to do so.

Timmer
Could you talk a little bit about a comparison of the Philippines and Taiwan? You clearly avoided the Philippines in your discussion of Taiwan. It seems to me that that's one of the case studies that we ought to have on our agenda if we are going to have any kind of a transition to Africa.

Ranis
I wrote a paper on that, which I think was circulated.[1] So I didn't want to repeat it. Besides I think of the Philippines as being a Latin American country. They really have followed the Latin American pattern in almost every respect, and they have been left behind several times now, first by the gang of four, so-called, and now by the near-NICs. My view is that natural resource abundance, which the Philippines happens to have, can be your enemy. It's a curse. It's part of a generalized version of what economists call the Dutch disease. Large natural resources tend to relax people, and it doesn't focus their attention on human resources, which is what the East Asians did. They had to abandon natural resources early in the game to focus on human capital, science, technology, R&D, etc.

The Taiwanese are very practical. For a long time they resisted our emphasis on intellectual property rights. Now they are beginning to come on board because they are worrying about intellectual property rights relative to Taiwan. It's just part of the game, but it's all shifting. Countries that have natural resources, one would think, could use them to help finance the new emphasis on human capital. But politically, the tendency is to take it easy and not make tough

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[1] Gustav Ranis, *"A comparison of the import substitution experience in the Philippines and Taiwan"* (Unpublished paper prepared for the Department of State, Washington, D.C., 1987).

changes because you have the resources to pay for keeping things as they are.

Diagne
I would like you to speak a little more about planning. I would like to know more about all the Asian countries that came along after Japan, after those four dragons. How have they profited from the development of Japan and Korea?

Ranis
The major difference between Korea and Taiwan is that in Korea you have more planning. The Economic Planning Board in Korea is an instrument that in fact allocates resources. But even there I would think that official planning is exaggerated as a contributor to development. Certainly in Taiwan the Economic Planning Council, which has changed its name as many times as AID over the years, has really been doing indicative planning in the French style, rather than centralized planning. Of course, government enterprises are there and one should not get the notion that the government has only been involved in overheads and everything else has been in the private sector. That is not the case. There have been a lot of new government enterprises over time, diminishing but still substantial.

But in terms of really trying to plan the economy, none of these countries have done it. Hong Kong is probably the closest to a true laissez-faire country. Even there it's not true, but it's closest. Singapore has been quite interventionist, but not in the sense that you are thinking of. Of all the four, I would say that Korea probably came closest because they put into the Economic Planning Board not only the long-term forward-looking functions, but also the finance ministry's functions. Usually the finance ministry does things, the planners write books; the power is really with the finance minister. That's a little less true in Korea. But in general, 5-year plans and all that, if that's what you have in mind, are more hortatory documents, indicative documents, guiding fiscal, monetary, other macroeconomic policies, some investment by the government, but not in a real overall planning sense.

On the second part of your question, I think what's happening in Thailand, Indonesia, Malaysia, is that they followed import substitution initially. Malaysia came to it later for other reasons, but all three did it. Then, more recently they have begun to shift into export orientation, not in a monolithic way—every country bounces around—but clearly over time.

The trend is toward liberalizing various markets in a certain sequence. The important thing is not only the steepness of that trend, but the predictability of it. The direction is there. The private sector can understand that. Even though there may be some aberration, basically they are not going to be surprised by the next minister of finance reversing everything. That kind of a stop/go policy you often find in Latin America. As you go back to noninterventionism then you open up again to interventionism; it gives you the worst of both worlds. The private sector can't plan. The government is not consistently doing anything. They are avoiding that much more since the 1970s and 1980s. That's why they are being successful, unlike the Philippines, which I think is still in the old mode, in the Latin American mode.

Timmer
I'm not sure whether you meant to be dismissive of indicative planning, which you talked about in the hortatory sense, but it seems to me it does provide guidance on where the government is headed.

Ranis
I wasn't trying to be dismissive. It's very important. I thought the gentleman was thinking about a different kind of planning rather than indicative planning.

Bork
You indicated that you thought donors should be more passive. Are you speaking about Africa in particular or generally?

Ranis
In general wherever major structural changes are required, I think it's important. I have seen a lot of so-called structural adjustment packages. They used to be called program loans. Unless the country itself is convinced it's the right thing to do, they will sign letters of agreement, they will sign all kinds of documents, but they'll fall off the bench sooner or later. Then, of course, there's the question of

what do we do? Do we delay? Do we not delay? We have to keep on going. The State Department wants relations to continue. As a consequence, you begin to lower the value of the currency. They know you need to spend the money. You know you want to spend the money. So you pound the table early on. Then later at the end of the fiscal year, you give them the money because you don't want Congress to say, how come you didn't spend the little money we gave you? So you have this kind of vicious circle, which everybody is involved in. It's not just AID. Even the World Bank, which doesn't have the same congressional problem, does that. When the time comes, push the money out because after all you want to stay on good terms with the recipient country, and you want to be viewed as a success in your own organization.

The credibility of the process has been severely damaged by the eagerness to lend. I think that if you really want major changes, you are going to have to abandon normal country programs. I know in the real world you have to have some on-going country programs for lots of "presence" reasons. But for the big bulges, I think they ought to be reserved for major change and not called structural adjustment loans when they are just pushing money out.

Bork
Could you give some general ideas of what you suggest as effective means before the bulge comes—while you are waiting?

Ranis
While you are waiting, you can encourage countries to come to you with programs for the next 5 years. I hope that we don't always have to do 1-year or 2-year things, but can talk about a 5-year change. Where they are considering major policy changes, the repercussions have a 5-year dimension at least. So they ought to be assured of 5-year resources as well. I would say be generous when you are sure you have a real program, but don't push money out if you are not sure. Especially when you have scarce amounts of money, which I think is now the law of the land and probably will continue to be, it would be much more effective to have that demonstration in a country. You know, you sense in Ghana something like

that, from what I hear, that you have a program and it works and you are willing to support it.

I would also think that passivity does not mean that you don't help on the technical side to prepare the program, if they ask you. It doesn't have to be sitting back in the office and saying call me, you have my phone number. But basically, not to feel that large amounts of money should be pushed out every year, but to save that for the major decision periods and also to preserve AID's resources that way. The African Development Fund lends itself at least by name to that kind of thing. It's a fund and it shouldn't be viewed as an annual program to be allocated because we are friendly with every country in the region or want to be friendly. We used to call it presence programs in the old days. You always want to be present. I'm sure the State Department would insist on that, but in addition to presence, we should reserve funds for special occasions.

Spangler
Gus, I would like to bring you back to this question of which comes first, political progress or economic progress? In the African context, with the possible exception of the Rawlings' government in Ghana, every totalitarian government has a miserable economic record. The only positive economic record I can think of, Botswana comes to mind, are democratic governments. I understand why, if you look at the Asian models, you say that political liberalization followed economic progress rather than the other way around. Is there something different about Africa, that maybe we should look for the reverse, that we have to have political liberalization before we are going to have economic progress?

Ranis
If I had my druthers, I'd like to have them go hand in hand. What I have seen is that once you have some economic progress, the dynamics of that will lead to democratic change over time. I don't mean superimposing our view of what a democratic system is. There was a 20-country study done recently at Harvard by Jack Montgomery. He came to the conclusion that the most likely outcome is to have something start in economics first, which will then loosen up the political side. I don't think there's a law of nature that it has to

be that way. I would rather have them walking on two feet. I do think that you can't have too much of a gap between them because neither works very well alone. The Chinese haven't worked very well. The Russians haven't worked very well. You are going to have to have some kind of balance. But if you talk about the need for one leading sector, my guess is that economics probably should be the leading sector with the politics to come, rather than the other way around. But that's just an empirical observation. I don't have a theory that it has to be like that.

Lim

One can't be too definitive about which comes first. There are very different models. Malaysia is a perfect example of a country that has been a democracy all the way through. One can make good arguments for why the fact that it was a democracy and where the ruling party had its power base in the rural areas, that development took on a particular character that not only had fast growth, but also rather good distributive consequences.

"China, in spite of the government's centralization, has begun to operate a little bit like the East Asians, not only in agriculture but also in the inability of Beijing to control nonagriculture."

I don't think the northeast Asian cases of authoritarian regimes are necessarily the only answer. One can cite all kinds of other cases like Thailand, which had its most rapid growth after it elected a democratic government in 1988. It doesn't have one now because, some people say, the growth was too fast and too corrupt, and they didn't do anything to manage it.

But even in the Philippines after Aquino took power, they did exactly what Gus said. The donors came in and said, we'll give you all this money if you have all these policy changes. And they were very successful until politics intervened. Again, you could say that Aquino was too soft and too democratic and didn't centralize her power enough, but it's clear that for a couple of years they were growing very well with labor-intensive consumer goods for the domestic market as well as for exports. So it's not a one-to-one correspondence. You have to look at the specific historic positions in each case.

Ranis
Twice in the Philippines, once in the mid-70's and again during the early Aquino regime, I think the ability to reform was hurt by outsiders being too kind. In the first case it was the commercial banks. In the second case it was official donors.

Seckler
I was surprised to find that communist China has about the same GNP growth over the past 20 years as Korea, Singapore, and so on, by the official World Bank statistics. Of course, we are talking about Asia. If we can believe these statistics, we have to think about that as some kind of a success story in terms of growth of GNP. My question is how does that fit in this? Are those GNP statistics incorrect?

Ranis
I'm not sure I know which period you are talking about.

Seckler
1968 to 1988.

Ranis
If you take the entire period from 1950 to 1990, I think you would find a different story. What you are getting there is the huge increase in agricultural productivity with a change in the system. In the 1980s, that's in large part what you'll find. I'm not maligning that, it's a good record.

Timmer
It looks now like two-thirds of China's economy is no longer under the control of Beijing. It's very outward-oriented. It's getting price signals and incentives from Hong Kong and beyond. After Tienamen they managed to crank it down only 3 or 4 percent.

Ranis
What you are saying is that, since 1978, China, in spite of the government's centralization, has begun to operate a little bit like the East Asians, not only in agriculture but also in the inability of Beijing to control nonagriculture. But there's still the question of whether there's not a constraint on all but the regions that are in the

open border areas. The rest of the country is still not in that kind of mold and large-scale industry is generally still highly inefficient and running huge losses.

Timmer
Eighty percent of China's economy is on border regions. That is, it either has ports or faces south.

Cobb
Thanks very much Dr. Ranis. I think you have moved us into tomorrow morning's discussion already.

Thursday morning, June 6, 1991

What Are the Key Lessons from Asian Development Success Stories

Panel: Michael Roemer, Peter Timmer, Vernon Ruttan, Linda Lim. Chair: Marge Bonner

Bonner

We have four speakers this morning. What we will do is run through the four speakers, have each of them give their presentations, then we'll open it up for discussion. Let me ask Mike Roemer if he would start off.

Roemer

I listened with interest to Gus's balanced, fair, and perceptive talk last night. He made a point that I want to emphasize: we are dealing with more of an art than a science. I think he also may have alluded, at one point, to religion. There is a lot of religion in this business, unfortunately. I think this piece from the Heritage Foundation is all religion and no science.[1]

I would like to ask, what is the Asian model? and submit that there is no Asian model, that there are many Asian models. It's important

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[1] Edward L. Hudgins and Bryan T. Johnson, *Why Asia grows and Africa doesn't, Backgrounder no. 756* (Washington, D.C.: The Heritage Foundation, 1990).

Questions posed to the panelists

1. What were the stages of development that Asian successes went through? Did they all begin with rural development? What were the economic, social, and cultural characteristics of these phases?
2. What was the role of the state? Did these states follow laissez-faire policies, and if not, how did the state and the private sector interact? What were the conditions (political, cultural, institutional, and economic) that made for effective state performance?
3. What were the key macroeconomic and sectoral policies followed by the Asian success stories?
4. What was the role of foreign capital, management, and know-how?
5. How dependent was subsequent development on the "green revolution?" Given that most Asian countries have much higher population densities, much higher levels of irrigation, and monocultures; given that Africa populations are sparse, does it make sense for Africa to follow Asian strategies of emphasis on rural infrastructure and technology change?
6. What were the key preconditions for growth of manufactured exports?
7. What two pieces of advice would you give African governments?

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before we get too far into the discussion to think about what the elements of the Asian model are and what the Asian model is, and to think what elements of this Asian model apply to Africa if any. I want to make the comparison along four dimensions. First, factor endowments, particularly natural resources, a point on which Gus and I have a disagreement, but that's probably the only disagreement we have that's fundamental. Two, the extent to which governments versus markets determine the allocation of resources and, much more crucially, dynamize the economy. Three is the familiar favorite, the inward-looking versus outward-looking strategy. Finally, a much more difficult area to talk about, and I'll be skittish about it, is the character of the regime that is managing development, or trying to.

Let's start with the natural resource base. I first of all want to rule out Hong Kong and Singapore as having any relevance to Africa on the grounds that they have no hinterland. There's no agriculture.

There are no natural resources. The fundamental problem for almost all developing countries other than a few city-states is the transition from large agricultural bases, often unproductive ones, to, first of all, probably more productive agricultural bases and then next to industrial societies. Hong Kong and Singapore don't face this problem and therefore have little to say, I think, for anything to do with Africa. I will, however, probably contradict myself and later use them as examples.

In terms of resource endowment, Taiwan is a much better example for Africa. It is in some respects land poor, and Africa's not land poor, but it's not as land poor as, let's say, Korea. Let me make two points to emphasize what Gus said. One, Taiwan is an example for Africa because it integrated agricultural development and industrial development and did it in a way that perhaps has been more successful than anywhere else in the world. This is something that countries like Kenya, perhaps Ghana, could learn a great deal from and could have done years ago if they had wanted to. Two, Taiwan emphasizes small-scale industry, but not in some sense of patronizing them, not the way India does, for example, but by actually integrating them into the export economy in a fundamental way. Small-scale firms were the base of the export economy for a long time.

To my mind, the countries in Asia that have the most to say for Africa are the ASEAN countries, particularly the ASEAN Four. Gus has ruled out the Philippines, and that's fair. The Philippines is not a good example for Africa, but the other three, Malaysia, Thailand, and Indonesia, have a lot to say for Africa.

Let's try to sort out what's important about those countries. They had natural resource bases in which they invested intensively and deliberately. They followed their comparative advantage long beyond the time when people like us 20 years ago advised them to move to other industries. Malaysia is a perfect case. Everybody said Malaysia could not survive on rubber and palm oil, let alone tin. Yet they invested in rubber and palm oil and they beat the market for years. They may be de-emphasizing it somewhat now, but they had a long period of natural-resource-based export growth, which was crucial for their development.

Thailand was somewhat different. Thailand emphasized rice and some other food crops as well. But Thailand became successful at exporting rice. Rice carried their development for a long time and enabled them to do certain things I'll mention in a moment. Indonesia, of course, had oil but not only oil. Don't think of Indonesia as an oil exporter because it also exports a range of other export crops including Africa's major export crops in which Indonesia is growing much faster than almost every African country—cocoa, tea, coffee, palm oil, and rubber, of course, which is more competitive with Malaysia. But in any case, Indonesia emphasized these crops and invested in them heavily to increase their productivity and lower their costs, and it has been successful in developing around them. So these countries emphasized natural-resource-based exports.

"I see an open foreign exchange regime as probably the one key policy for growth."

Second, they invested in agriculture, including nontradeable agricultural products or products that were consumed at home—another important lesson. They furthermore invested in education, infrastructure, and health. They did not invest only in import-substituting industries, as was the case in Nigeria with their oil boom.

These are important lessons for Africa. They are not hard to learn and they are not hard to do, except there is, as Gus pointed out, a political dynamic that works against it. Most countries in Africa could learn a good deal from these experiences. Nigeria certainly could. There are a number of interesting studies of Indonesia and Nigeria, which have a lot to say about this problem of resource endowment and how you convert it into growth, not only for other mineral exporters, Zaire, Zimbabwe, Zambia, and so forth, but also for Kenya and other East African countries with a reasonable endowment of land for export crops.

I probably don't need to say this for this group, but the benefits of exporting primary products are still there. We tend as economists to denigrate them. But they provide foreign exchange, which helps to avoid the kind of import constraints that have shackled Africa for the last 10 years, where real imports are declining, not growing.

They help to maintain open foreign exchange regimes. I see an open foreign exchange regime as probably the one key policy for growth. I'll explain why later.

When smallholders are the source of these exports, they generate employment and they generate an egalitarian income structure as the Taiwan case makes abundantly clear. Taiwan has the most equal income distribution, I guess, in the world right now. That is crucial. In some cases there are forward linkages from these kinds of crops into industrialization as happened in Taiwan and as is happening—perhaps inefficiently—in Indonesia in wood products. So there are lots of benefits from these primary exports. I think that we tend to run too quickly from agricultural exports in Africa to industrialization and I think we ought to run back the other way first and see what we can do with agriculture as an export crop, not to mention a food crop, before we abandon it. Those three countries help to show the way.

The second dimension was the extent to which governments or markets determine not only resource allocations but also the dynamics of growth. The case for market-led development is not a case for resource allocation. That's a one time shot. If we gain 10 percent of GNP, which is not insignificant, it is still only 10 percent once. And most of the studies show that 10 percent is an optimistic assessment of the gain from the movement from shackled economies to unshackled ones. What's important about market-led development is the competition it introduces and the dynamic that sets up change. We are talking about growth, not about static efficiency.

Here again the Asian model is mixed. We do not have an Asian model that says markets are the answer. Far from it. Hong Kong and Singapore certainly, but I have dismissed them already. They are entrepôts basically. They have to be open economies. They have to be competitive. They have zero choice. And they have no resources to fall back on if they don't do that.

Five years ago, if you had this conference, I think Korea would have been the first country people turned to. But there's been a revisionist history of Korea, which is probably closer to the reality than the original history we used to use (I'm one of the writers of that original history, so I say that somewhat humbly), which suggests that Korea was far from a market-oriented economy. It certainly had market elements and they were important, but look at the ways in which government really ran the show. Every large corporation in Korea that got credit got it through government banks and at very subsidized interest rates, generally zero or negative real interest rates for most of the period. There were times after reform in which those rates were positive, but not for long.

Second, access to imports has always been controlled, perhaps not so much in the 1980s, but if you have visited Seoul in the last 20 years, how many foreign goods did you ever see on the shelves of even the foreign supermarkets? The answer is damn few. In fact, some say none. And even though studies by reputable economists have shown that effective rates of protection, for example, are very low in Korea, and evenly balanced between industry and agriculture, there were, nevertheless, trade associations of manufacturers that actually did the importing. They were encouraged to control imports and they probably did control them. It's shadowy, but there was a lot of control of imports even when there apparently wasn't supposed to be any.

Third, the normal functions of government, especially taxation, were managed in such a way that exporters benefitted and nonexporters didn't. Export quotas were set for the big firms, and if you made your export quota you could get away without paying your company tax at the full rate. There were all kinds of implicit deals being made, but they all pointed in the same direction, singlemindedly so, and this was an important part of Korea's success. If you exported, you got all the goodies you wanted, including, by the way, access to some of those restricted domestic markets. If you didn't export, the government came down heavily on you, politically, economically, and financially. Moral suasion was important and in an authoritarian government, it isn't difficult to use moral suasion.

Finally, in Korea the basic exporters were large firms, not small ones. They were the Chaebol conglomerates. These firms were established by government as a way of controlling things, not as a way of loosening things up. The military felt comfortable dealing with large corporations and their heads because firm managers had so much to lose if they didn't follow the government and so much to gain if they did. This was the basic mechanism for Korean export growth.

Taiwan had elements of this, as Gus pointed out. But with small industries being a more important part of the export picture, it could not indulge itself in this kind of control and didn't try to. There are political scientists who have argued that the reasons that Korea went to the large firms and Taiwan to the small firms were both political. Korea was trying to control the economy and its people, whereas the Kuomintang government was trying to avoid having the native Taiwanese become economically powerful, and it suited them to have open markets, free entry, small firms, and to reserve the large firms for investment by the government, by the Kuomintang itself. Gus, if I'm wrong about this, I would be glad to hear it. But this is the story that I get from people who study Taiwan.

"The consensus is that outwardness does seem to lead to better development outcomes than the inward-looking, import-substituting regimes that were much more popular in the 1960s and before."

If you look to the ASEAN countries, they seem more like Taiwan than Korea, although they have their differences. One of the major differences is that these regimes are clientelistic. They are regimes based on support of groups that have benefitted from the controls, from rent seeking. They are rent-seeking regimes. And they are probably incapable of doing what Korea did because of their power base. In Korea, power seemed to flow from government to the large firms; there was a reciprocal support, but nevertheless government stayed in control. That's not so true in the ASEAN countries. There, it's fair to say, the economic powers have ways of constraining what government does, and certainly they have made the kind of bargains that have worked. Particularly in Indonesia, where the clientelism is rife, these are areas where the market has not really penetrated. The market has penetrated in foreign investment sectors and in the smaller scale sectors, but not so much in the large firms where the large expatriate Chinese groups dominate.

The third dimension is inward-looking versus outward-looking strategies. I think it is true that all the four East Asian regimes, plus the ASEAN Four, have now gone toward the outward-oriented regime. Korea is outward-looking because the regime forced its companies to look outward. The rewards were for exports. If you can get the rewards for exports, no matter how you get them, that's probably the key to rapid industrial development, certainly export-oriented development.

The ASEAN Four have become more outward oriented, mostly in the 1980s, for various reasons. They have pursued gradual reforms toward open markets. They have, however, kept some industries fairly well protected. In Indonesia those industries that are clients of the government remain fairly well protected. But all the countries, certainly Taiwan and, of course, Hong Kong and Singapore, were outward-oriented. I think the consensus is that outwardness does seem to lead to better development outcomes than the inward-looking, import-substituting regimes that were much more popular in the 1960s and before.

The real question, the way that we have to divide Asia from Africa, is to decide how to achieve this outward-looking regime. What are the essential elements of it? The incentive system, of course, has to be focused toward world prices, which means tariffs have to be low. Import controls have to be reduced and eliminated. That's the kind of core trade reform we all know about and have talked about. What sometimes needs to be emphasized far more everywhere in the world is internal macroeconomic balance. That is the font of all the outward-looking regimes. You cannot have a regime that's focused toward the outer markets if the domestic market is not under tight macroeconomic balance. It starts with budget deficits. If the budget deficits are high and are monetized, inflation takes over and the exchange rate becomes overvalued, and you know the whole litany. That's the core of it. Latin America has not solved that problem and all the heterodox talk of structural change without budget control is just so much talk. Those who have tried it in Brazil now rue it and say so.

So budget deficits are a start. The money supply then follows from budget deficits. It must be kept well within balance, well within the growing demand for money. You can't have money supply exceeding the growth of money demand, and interest rates have to be kept positive and real, as they were in most East and Southeast Asian countries.

External balance follows from internal balance. There's one extra element we have to worry about which is exchange rate management, because you can't divorce that from internal balance. The exchange rate must be managed flexibly, and this has also been the lesson of nearly all of Asia now and, increasingly, Africa. Kenya adjusts its rate almost every day now. The exchange rate has become very much depoliticized in the last 10 years. That's a key, but it's only one of the keys.

Also on external balance, open capital markets are crucial. I don't know if I'm the only person who is pushing this point hard, but I have read the literature on Latin America. I know what Rudi Dornbusch says about controlling external capital flows until the last gasp of deregulation at home. I know what happened in Chile. Yet, look at Indonesia: the key to Indonesia's success in managing its Dutch disease problem magnificently—in making the transition from an oil economy to basically a manufactured export economy—the key to all that was Indonesia's totally convertible currency, with open capital markets and Singapore right next door, one of the great financial centers of the world. Basically, the central bank of Indonesia was in Singapore. Indonesia had to keep internal balance because if it didn't, it would lose all of its reserves overnight, and it did once or twice and got them back by simply taking shock treatment. It just took one, in fact, in February; probably a little more than it needed. That discipline, which by the way requires a balanced budget, has been central. The technocrats in Indonesia could go to the president and say, you cannot do this because if you do, we'll have no foreign exchange reserves in a month, and almost every time they won their case. That kind of discipline was internally imposed, not imposed by the IMF. It was done by the Indonesians. The IMF helped them, but it was the Indonesians who did it and have maintained it for 20 years. If Kenya had done this in 1970, we wouldn't be here today talking about Kenya. This is crucial. The one lesson I would come down on is that open capital markets ought to be treated seriously as the central point of a macroeconomic strategy.

The next thing that's crucial to the Asian open outward-oriented model has been agricultural productivity growth. I'll say no more about that except I consider it central and Vernon or Peter will undoubtedly say more about it.

So much for the open regime. Finally some speculative comments on the character of regimes—the fourth dimension. Stability is key. The comparison between Indonesia and Nigeria in managing their oil resources hinges very much on the longevity of the Indonesian regime and the short-term nature of the Nigerian regimes. Stability isn't everything because there are a lot of very stable governments in Africa including some successes and some economic failures. But stability is important.

"There are countries in East Asia that are abysmal failures. It's not something in the water out there that makes those countries grow. It's not chopsticks or something like that, that says, yes, you are going to grow at 6 or 8 percent a year, or, no you are not, you are doomed to 2 percent at best."

Another important element is this semi-nebulous notion of nationalism versus what you would call tribalism. For whatever reason, Asia has been a place in which nationalism seems to be dominant over local interests. Even Indonesia, which is in many ways a tribal country, certainly as diverse ethnically as the whole of Africa, is a country that focuses on its national interests and makes policy on that ground. Not so in Kenya, let us say, or other countries, certainly not in Nigeria, where the tribal unit plays a much bigger role in the favors that are given, and after all political favors are the key to economic policy, because in clientelistic regimes, favors move the economy. In fact, all of economic policy in Africa has a very strong tribal tinge, which is important and debilitating. The economy of affection is the term that's been used to denote this.

I have mentioned clientelism. Both continents have it, so it can't be the difference. They both have it, but they handle it very differently.

Finally, even more nebulously, you notice that even the long-standing regimes in Africa deal as if they had 1 year left in office. They are always scrambling, either in budgeting or in keeping policy together, as if they only had a year to go. Whereas the Asian regimes deal in 5- and 25-year periods and seem to make that work. Indonesia has had five 5-year plans and they take them seriously, and they are talking about the next 25 years. This is clearly a proximate variable. It's not the variable that matters, but it's a manifestation of a lot of things that are important to development.

Bonner
Peter, let me ask you to follow on with that.

Timmer
I can be a lot shorter than I had expected. Mike and I overlap a good deal for fairly obvious reasons. I guess I'm partly to blame for all of us sitting around here. Dick Cobb and I had lunch a couple of months ago at the Foreign Service Club and we thought it would be interesting to try to get Asian people and some African people together. So what I'm about to say comes out of that original idea of what are some lessons from Asia that we should be looking at.

It also comes from a request from the Harvard Club of San Francisco to have somebody from the faculty go out and talk a bit on why the Pacific rim countries are growing so fast. I got nominated to do that. So trying to think about a sensible response to that question, I put together some numbers that I find pretty revealing and I want to at least block out a couple of key trends for us to keep on the table.

First of all, it's awfully important that we at least know what we are talking about when we are looking at Asia for examples. Mike automatically ruled out Hong Kong and Singapore. I want to rule out Bangladesh, Pakistan, India, and Nepal. We are not talking about South Asia as development lessons for Africa. We are talking about East Asia and we are talking about East Asia basically from Japan down to Indonesia. But when we do that, we are not talking about every country in that arc. Mike doesn't want us to do Korea even though Korea's been successful, because it's not the right kind of success for other countries to follow perhaps.

I want to argue that it's not just South Korea that we don't want as a model. We don't want North Korea as our model either, and we don't want the Philippines and we don't want Vietnam as our models. There are countries in East Asia that are abysmal failures. It's not something in the water out there that makes those countries grow. It's not chopsticks or something like that, that says, yes, you are going to grow at 6 or 8 percent a year, or, no you are not, you are doomed to 2 percent at best. There's something else going on there other than the region and the people and the culture and all of that. So having said that, I want to use that obvious point to move forward in some comparisons.

Look at the last 30 years, 1960 to 1990, and take the East Asian complex as one statistical conglomerate, sub-Saharan Africa as a conglomerate, and Latin America as a conglomerate. I have some numbers for South Asia if you want. South Asia mucks things up because it's a mixture. Just look at what happened to aggregate GDP. I understand Jerry's point that these numbers aren't perfect, but I think we are not going to be so far off here that we need to quarrel about the second decimal point. During that 30-year period, East Asian countries' aggregate real GDP grew at 6.8 percent a year overall. Obviously, there are ups and downs. Africa during that period grew at 3.3 percent, and Latin America grew at 3.6 percent. That's growth, but East Asia is clearly in a whole different league from Africa or Latin America.

What difference do those growth rates make? Well, if you put it on a per capita basis, you find East Asia growing at a little over 4 percent per capita per year, Africa at just 1.1 percent, and Latin America at 1 percent per year. If each of those countries had $100 per capita per year as their starting incomes, after 10 years East Asia would be at about $150 and Africa and Latin America would be at about $110. It doesn't sound like it's all that different. I had one of the people at the discussion in San Francisco say, but my God after 10 years those countries are still miserably poor. You know, $100 to

$150. But after 100 years of growth at those differential rates, Latin America would be at $270, Africa at $300 and East Asia at $6,120. You have to sustain these growth rates to get rich. This is a long-term process. If we are talking about what can we accomplish next year, if we are talking about results in some kind of project cycle, forget it. It isn't going to show up. Not given the range of uncertainty and the data and everything else that we have. We have to stay with these processes for generations if we are going to see the kinds of results that we are just beginning to see in East Asia.

Now let me go inside East Asia very quickly. Mike has already done the basic job that I wanted to do. I had a fascinating term paper done for our introductory course in development economics at Harvard by a Philippine student who was responding to Gus's comment that basically the Philippines is really a Latin America country. The question was, if you were to try to quantify that in some statistical sense, what would the Philippines look like relative to the rest of East Asia on one hand and Latin America on the other? It's interesting to go back into some of the early literature and ask what did the development profession think in the mid-to late 1950s, as to who was going to follow Japan down the path of industrialization? Who's the next country out of the gate? We all thought it was the Philippines. In the 1950s, East Asia, excluding the Philippines, grew at 2.7 percent per capita in real income, Latin America grew at 2.4, and the Philippines for that decade grew at 3.6. The Philippines was really doing well.

In the 1960s, East Asia grew at a little over 5 percent, and the Philippines and Latin America fell to 2.2 and 2.6 percent. In the 1970s, East Asia accelerates. We talk about the recession of the 1970s and all the problems that countries had in coping with the oil shocks and all of it. East Asia grew at 6.7 percent per year per capita in the 1970s, Latin America at 2.2 percent, and the Philippines was only at 3.4 percent. In the 1980s, when things really did get tough, East Asia grew at 4.8 percent per capita, Latin America at -0.3 percent, and the Philippines at 2.4 percent. The Philippines simply falls into a Latin American pattern in its growth. Historically over time and in the structure of the growth—which sectors were being favored and so on—the Philippines looks very much like a Latin American country.

Interestingly, Vietnam's statistics look a lot like African statistics—the level of poverty, the stagnation, the kind of government control over all parts of the economy. I would argue that if we are going to learn lessons for Africa out of Asia, we are going to learn an awful lot from the reform process in Vietnam. We are going to learn a lot from what Vietnam did wrong over the last 20 years, and we are going to learn a lot about how a real honest-to-God Marxist-Leninist state reforms its economy and becomes an East Asian country. It has been made a little more difficult by an economic blockade. The project I'm working on in Vietnam requires a license from the Treasury Department under the Trading with the Enemy Act. So presumably you are not going to blockade Africa as well. But I do want to argue that there are going to be some lessons.

To finish off this comparative growth perspective, I want to ask what accounts for the difference, in mechanical growth accounting terms—growth in labor, growth in capital, and growth in productivity, which is by default just the residual after growth in capital and labor is counted.

Differences in growth in the labor force between East Asia, Africa, and Latin America don't explain anything. The labor force in South Asia is growing at 2.1 percent, in East Asia and Latin America at 2.6 percent, and in Africa at 2.2 percent. These are tiny differences. So it's clearly not differential growth of the labor force. The quality of the labor force may be important, but that's going to fall into my residual because we are just counting bodies here.

Capital is part of it. Africa and Latin America had rates of capital growth of just over 6 percent per year during the 30-year time horizon that I was looking at. That's not bad by Western European or North American standards. But East Asia had rates of capital growth that averaged slightly over 10 percent. So if physical capital investment is an element of the growth process, and there's actually some debate about this, but if it is the vehicle by which the new technology and knowledge get plugged into the productive sector, clearly East Asia, because of higher savings rates and higher investment rates, has some increment here that is almost certainly significant. But the real sharp difference comes when you look at differences in productivity growth.

Africa and Latin America both had negative rates of total factor productivity growth—annual rates of -0.4 percent. Every year they had more labor and more capital. But they were using it 0.4 percent less efficiently than they did before. You accumulate that over a 30-year period and you have a terrible burden of inefficiency on your hands. East Asia's factor productivity is growing 1.4 percent per year over a 30-year period. They have the same growth of labor. They have more capital to work with. And every year, it is 1.5 percentage points more productive than it had been the year before.

That's what we have to explain. How can East Asia get improvements in total factor productivity? The question is not, how can we mobilize more physical resources for growth? It is, how can we utilize them much more efficiently?

To answer that question, I want to give you a Vietnamese perspective. HIID took several senior Vietnamese economic policymakers on a study tour to South Korea, Taiwan, Thailand, and Indonesia, and in each of those countries they spent a week to 10 days meeting with the architects of the rapid economic growth period. It was easy in Indonesia because most of those architects from the 1965-66 period through the 1970s are still in government. It's a little harder to track down some of the early architects in Korea and Taiwan and Thailand, but they are there and they were accessible. All four of the country visits, I think, were remarkably successful. Not a single one of these senior policymakers had ever been to a western country. They had been to the Soviet Union. The planning people were trained in Bulgaria. They had never seen Singapore. They had never seen Bangkok. They didn't know what the outside world in that direction looked like.

Part of the deal was that the Vietnamese themselves had to go back to Hanoi and put together a report on what they thought they had learned and put in order their sense of the lessons. What I want to give you are seven points that basically come directly from the chairman of the State Planning Commission, which is much more important than the ministry of finance in a Marxist-Leninist type planning economy, and from the senior economic minister for the Council of Ministers.

First, clearly, the countries and the resource bases are very different. But having said that the countries they visited were diverse, they saw aspects of economic management that they thought were common across all four countries. They summarized it by saying that in each of the four countries there was real concern for the appropriate role of the state. The Koreans could do something different than the Indonesians can do, but it was appropriate that the state do that, given the circumstances they were looking at. So the first point is they saw some common aspects of economic management, and it has to do with what the state is doing.

Second, and this shouldn't surprise us, but we take it so much for granted it might, they stressed the importance of private property rights as the next sort of fundamental aspect of the development of these four countries. Private ownership of the means of production is terribly important. But they recognized and emphasized that that didn't mean that you excluded public ownership. They noted that Korea has a greater share of GDP from public enterprises than India does. There's a lot of public enterprise in the four countries, but it comes out of a private property system.

Third, prices are important. That's difficult for the chairman of a planning agency to say because they fundamentally deny the importance of the role of prices. In the Soviet model, sometimes you use prices for accounting purposes, but basically prices are not an element in allocating resources in these kinds of planning systems. They recognized that prices are really important. It has fundamental, revolutionary implications for how the Vietnamese are going to have to run their economy. It's going to be a different ballgame if prices are really important, and the prices they are looking at are the ones that Mike stressed: first and foremost, the exchange rate, open exchange rate, is terribly important, and interest rates and wage rates. If you have a lot of people looking for jobs, you have to be able to hire them pretty cheaply if you want jobs for them. But beyond the macro prices there are some key commodity prices that the state worries about as well, such as rice. Fertilizer too, but rice prices were something that all four of these countries worried a lot about.

Which takes me to the fourth point, the importance of price stability. Macro price stability—you have to keep inflation under control. But also commodity pricing stability—in countries where in the early stages of the growth process, rice is a third of GDP, it's 50 or 60 percent of consumer expenditures and it's 70 percent of farm income. You have to worry about price stability for rice as well as about macroeconomic stability. In fact, in the early stages, you can't have macroeconomic stability without rice price stability. You can't have rice price stability without macroeconomic stability. The macroeconomic sectors in the early stages of the Asian economies are similar. In some senses, it's a discouraging lesson for Africa because it says if you are trying to achieve macroeconomic stability after a period of some chaos—and all these countries went through some period of real political and economic chaos—you have one commodity you can focus on. You can worry about productivity, technology, getting the yields up, and production on one side by focusing on one commodity. You can worry about one commodity on the price side and deal with it by managing trade. You have gone a long way to stabilizing your economy just from one commodity. My sense, from looking at Africa from afar, is you can't do it that way. Africa's food systems are much too complicated to think about a single commodity approach to early stabilization and growth, and that almost certainly is going to complicate this story considerably.

"Manage the foreign debt carefully, but emphatically do not avoid foreign debt, public or private."

The fifth point was to manage the foreign debt carefully, but emphatically do not avoid foreign debt, public or private. Don't avoid it, use it carefully. Korea and Indonesia have both used foreign resources to grow much more rapidly than they would have from domestic resources alone. Taiwan and Thailand in these examples have not used nearly as much foreign debt as Korea and Indonesia did. But though Korea and Indonesia are highly indebted, they are also growing and paying off the debt. The debt service ratios are not nearly as high as the debt-GDP ratios. They are using that quite productively.

In Indonesia, one of the things Professor Widjoyo said is that he wished in retrospect that they, the technocrats, had not been so concerned about foreign private investors in the early stages as they had been. They were much too nationalistic and protective early on. That may have been necessary in political terms, but the technocrats themselves shared that antipathy toward foreign investors. It's only now that they are really beginning to let that economy work.

The sixth point, and it's far down on the list, is the importance of a legal system and clear rules of the game for investors and participants in the economy. In all four of these countries, these clear legal codes are just now really being drafted. I mean, Indonesia's been operating under Dutch code for a long time. Korea is trying to do something other than its inherited Japanese legal codes. This can come late in the game, but investors have to understand that it is going to come. You can make investments realizing that these legal reforms are in the cards and they are going to be fair and not disenfranchise people. But eventually, at least, the rules of the game have to be perceived as fairly important.

The last item on their list, and I think at least Mike will find it surprising that it's so far down, was the importance of foreign trade—an outward-looking versus an inward-looking trade regime. My sense from the discussions that the Vietnamese had was that there are a lot of things countries have to do internally to get their own government act together, macroeconomic management and so on, at which point it is natural that you start opening up the economy and worrying about foreign trade.

But all four countries went through strong periods of import substitution. If you believe any of the modern economic growth work that is going on now, the learning-by-doing that generates endogenous growth has to be stimulated somehow. All these countries did it by shutting off sectors and keeping foreign investors out or by giving one foreign investor a joint venture with domestic investors to try to start that process of learning—the infant-industry argument we have heard since the 19th century. But they all started learning that way.

Then they switched gradually to a more outward-oriented regime, and none of those four countries have done it completely even now. Somebody argued that Indonesia is about two-thirds of the way through a 25-year deregulation process that will make it a real honest-to-God outward-oriented NIC. So it has been under way for 25 years and it is probably going to be another 10 or 15 before Indonesia looks more like even Thailand, or Malaysia, or Taiwan.

How long does it take when you start from even more repressive regimes than Indonesia started with? I know Vernon Ruttan's paper says that the shock therapy is intellectually bankrupt. These process changes take long periods to pull off, and if we don't sustain the vision and that involvement, then it just isn't going to work.

The summary of those seven points, I think, is exactly the point that Mike closed with as well. How do you create long-term horizons for participants in the economy: domestic investors, foreign investors, government policymakers, whomever? How do you create long horizons? How do you avoid the sense that you are always scrambling over the problem for tomorrow or next week or perhaps long term being next year? How do you establish this longer term horizon? I think stability is somewhere in there as an absolutely crucial component of creating those long-term expectations. I suspect there's a lot more to it than that as well, but that is the key question. Whether or not we are interested in it as a public-sector or a private-sector role in these economies, we have to create long-term horizons for decision makers.

Bonner
Vern, are you ready to put us into the agricultural spirit for a while?

Ruttan
I have four charts that may be useful in helping me to deal with the questions that were sent out.

I was intrigued by the emphasis on the Philippines as a Latin America republic. There's a common saying in the Philippines that we lived in a convent for 400 years, in Hollywood for 50 years, and we haven't yet found our place in Asia. I once wrote an article called "the United States is a Latin American Republic" arguing that we are finally becoming naturalized on this continent, and I couldn't find anybody to publish it. Several of my friends said, don't publish it. It will ruin your reputation. But I think there's something in it.

The first chart is a map of the world. The figures show international comparison on agriculture. It's a history of the patterns of technical change in agriculture since 1960. I have another chart like this with individual countries and it goes back to 1880. On the vertical axis we have agriculture output per hectare and on the horizontal axis, agricultural output per worker. The vertical axis is the green revolution axis. Take your pencil out and relabel these axes. Call the vertical axis biological technology or biological and chemical technology. Label the horizontal axis mechanical technology. It's biological technology and chemical technology that get you more output per hectare. Mechanical technology does not produce any more rice or wheat per hectare. It enables you to spread one person across more hectares.

"While some people view Africa as land abundant, given current population growth rates, the obvious path for Africa has to be biological technology, the path of Asia-Pacific and Japan."

But notice the upper path. Incidentally, there's a diagonal line through here that shows the land area per worker, ranging from 100 down at that lower right hand corner to 1 toward the upper left hand corner. And notice the path followed by the Asia-Pacific path leading toward the Japan path. That's the same path that Japan followed over the last 100 years. At the lower right hand corner is the new continent path—Australia, Canada, the USA. Notice the European path in the middle with the West Asia and North Africa path following directly behind; Latin America and the Caribbean between the European and American, and sub-Saharan Africa moving backward. I would like to point out that, while some people view Africa as land abundant, given current population growth rates, the obvious path for Africa has to be biological technology, the path of Asia-Pacific and Japan.

Notice also the tremendous differences in output per hectare for any particular land-labor ratio. Then run your pencil horizontally

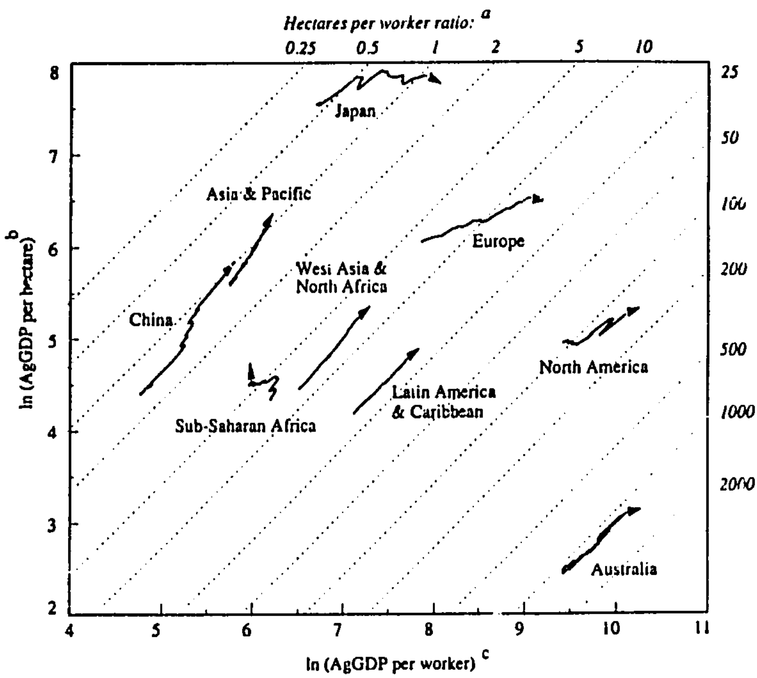

Fig. 1. International comparison of land and labor productivities, 1961-85.

Source: Philip G. Pardy, Johannes Roseboom, and Jock R. Anderson (eds), *Agricultural research policy: International quantitative perspectives* (Cambridge: Cambridge University Press, 1991), p 183.

[a] Hectares of agricultural land per economically active member of the agricultural population.
[b] Hectares of agricultural land includes arable plus permanently cropped and permanently pastured.
[c] Agricultural workers defined as economically active agricultural population.

through Asia-Pacific, West Africa, and North Africa. Again, you find, for any particular level of land per worker, tremendously different levels of output per worker.

In some sense nature is relatively plastic. Way out to the right, there may be a point where we are all heading. But we don't see evidence yet. A prerequisite for moving along any of these paths is domestic R&D capacity—the institutionalization of capacity for agricultural research and development. Technology transfer is an obscene word. It's obscene because it implies something easy. In areas of biological technology, one can transfer capacity. One can transfer prototypes. But one can seldom transfer technology. Perhaps that's a bit overstated. We were able to transfer wheat from Sonora (Mexico) to East and West Pakistan, more or less by accident. There was a similar agroclimatic region. We are able to transfer maize from Iowa to the Po Valley and to Hungary. But when you do transfer them, within 5 to 8 years, if you don't have the capacity to modify them, to adapt them, to extend them, yields that you had at the beginning begin to decline.

"It wasn't just farmers responding to these prices, Japanese scientists had to respond to the resource endowments that were reflected in these prices."

Another unique thing about agriculture is maintenance research. It doesn't take much maintenance research to maintain yields at 1,000 kilograms per hectare, which is what you find all over Africa. But when you get up to 2,000, 3,000, 4,000, or 5,000 kilograms per hectare, it requires substantial domestic research capacity. That means for anything but the mini-countries, for anything but the little island countries in the Caribbean and off the coast of Africa, you need an agriculture research. You need people trained primarily at the master's and Ph.D. level, but significant numbers of Ph.D.'s, roughly around 250, if you are going to do training, the technical regulation required to deal with things like pesticides, etc., and research.

You can count the number of developing countries that have that on two hands. Once you get outside of the Brazils, the Argentinas, the Indias, the one country in Africa that has that is Nigeria, and it's a country made up of underachievers in the field of agriculture research. It's the system, I don't think it's the individual scientists. The individual Nigerian scientist has lived in an environment of disruption. Every few years the system has been reorganized. The system of local and centralized governments has been reorganized. It has affected the research system, affected funding, and the system has not been productive.

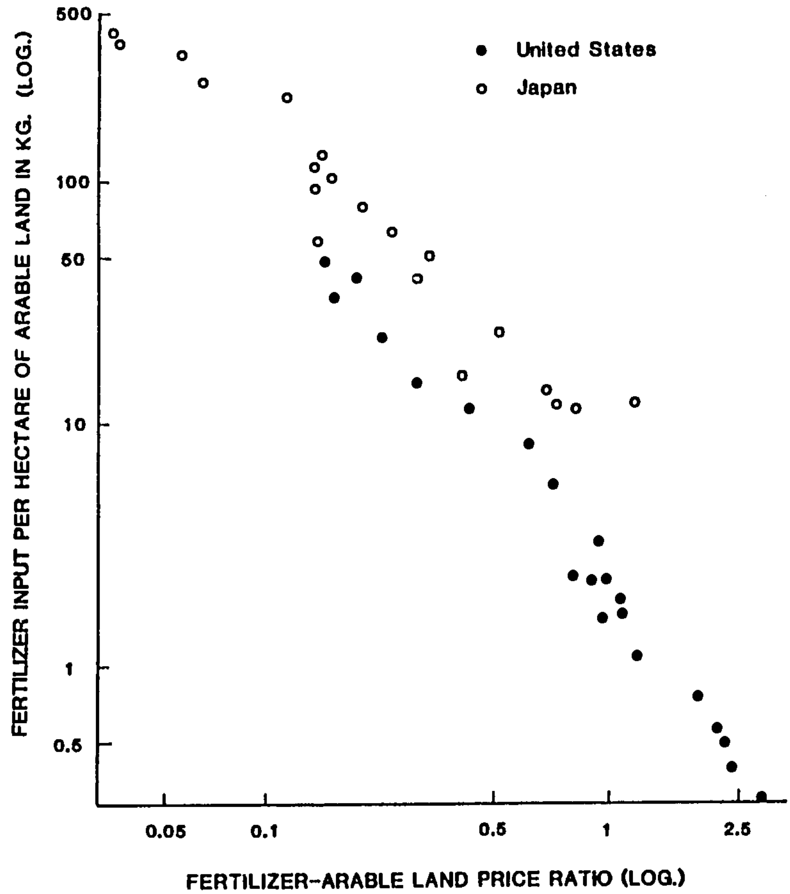

Fig. 2. Relation between fertilizer input per hectare of arable land and fertilizer-arable land price ratio (= hectares of arable land that can be purchased by 1 ton of N + P_2O_5 + K_2O contained in commercial fertilizers), the United States and Japan, quinquennial observations for 1880-1980.

Source: Yujiro Hayami and Vernon W. Ruttan, *Agricultural development: An international perspective* (Baltimore: Johns Hopkins University Press, 1985, 2nd ed.), p 111.

Figure 2 shows the mechanism. The data here is the background of what Hayami and I call the induced-innovation model. Basically, in the countries that have followed the vertical axis, land was expensive and people were cheap, and their scientists invented substitutes for land. On the horizontal axis, land was cheap and people were increasingly expensive and the research system is a substitution for people.

In Figure 2, the horizontal axis is the fertilizer/land price ratio. Fertilizer gets cheap as you move in this direction. On the vertical axis is fertilizer input per hectare. Notice that the round dots are Japan. The black dots are the United States. Japan was following a biological technology path long before we were.

If you show that picture to a typical dumb production economist or econometrician, what's he going to say? He's going to say all that happened is that prices changed. But if you look at experimental data, if you look at the history, what you find is that if the Japanese had put 1930 levels of fertilizer on the rice in 1980, the rice would have laid down and died. If the Japanese had put 1980 levels of fertilizer on 1930 varieties, it would have laid down and died. It wasn't just farmers responding to these prices, Japanese scientists had to respond to the resource endowments that were reflected in these prices. They had to invent appropriate technology. This is the only definition of appropriate technology I know that has any empirical significance.

Figure 3 shows the same thing on power. On the vertical axis, we have draft power for male workers. Incidentally, I'm not anti-feminist, but the data on women simply didn't exist in Japan, and for our cross-country comparisons, it doesn't exist in most countries today. Notice that the dots are exactly reversed. In the United States, we were farther ahead of Japan in mechanical technology. Japan until after World War II used little mechanical technology. It wasn't that they didn't have the capacity. They could fly Zero airplanes around and sink American battleships. They developed a power tiller. But it wasn't appropriate given their factor endowments. But notice how fast they moved once wage rates started rising. The key thing is once wage rates started rising to the point where people were moving out of agriculture fast enough to result generate an absolute decline in the number of workers, Japanese mechanical technology started moving rapidly. The key is not the relative decline in the

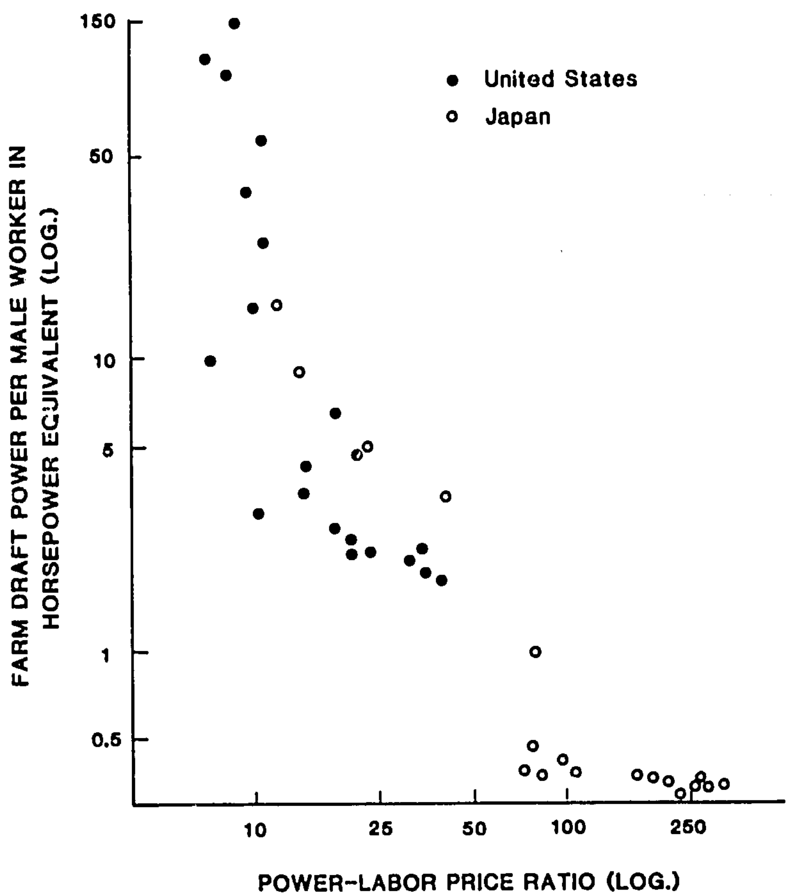

Fig. 3. Relation between farm draft power per male worker and power-labor price ratio (= hectares of work day that can be purchased by 1 horsepower of tractor or draft animal), the United States and Japan, quinquennial observations for 1880-1980.

Source: Yujiro Hayami and Vernon W. Ruttan, *Agricultural development: An international perspective* (Baltimore: Johns Hopkins University Press, 1985, 2nd ed.), p 179.

farm sector. It's the absolute decline. Until that happens, wage rates in agriculture or earnings in agriculture do not move up.

Let me turn to Figure 4. This is the framework for what might be called the pattern model that I use to think about the process of agri-

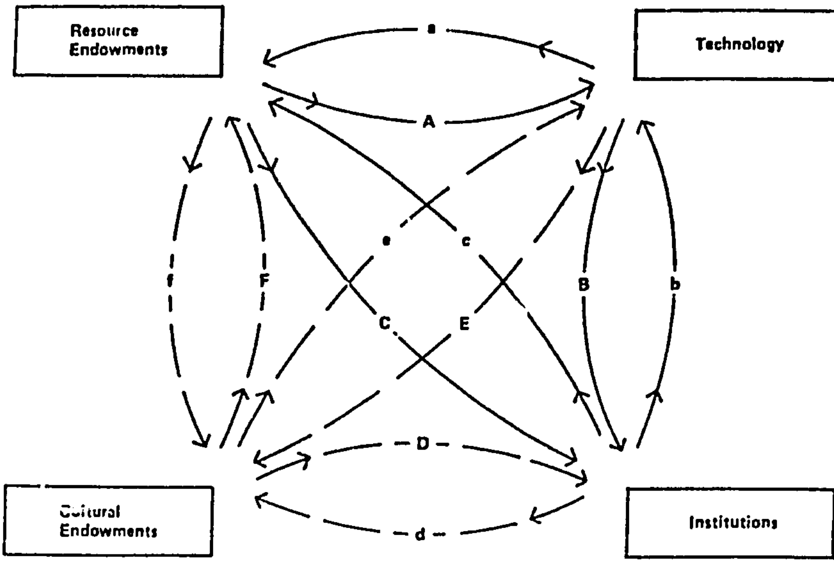

Fig. 4. Interrelationships between changes in resource endowments, cultural endowments, technology, and institutions.

Source: Yujiro Hayami and Vernon W. Ruttan, *Agricultural development: An international perspective* (Baltimore: Johns Hopkins University Press, 1985, 2nd ed.), p 111.

cultural and economic development. Most of what I have been talking about is this nexus between resource endowments and technology. I mostly emphasize line A, which is the effect of resource endowments on the kind of technology you should invent or adopt. But there's also a feedback line running the other way, which reflects the effect of things like irrigation. For example, the extension of a national irrigation system into a particular area results in a change in resource endowments. That effect has feedback on the kind of technology that makes sense.

When Professor Hayami and I first established these relationships between resource endowments and technology, we were very happy. But as soon as we thought about it, we realized we shouldn't be happy because this agricultural technology that we were talking about was invented by bureaucracies called public-sector agricultural experiment stations. When do countries invent their public-sector agricultural research system? The Land Grant Act that was passed during the Civil War. But the United States put no money into agricultural research until after we came to the end of the frontier in the 1890s. Brazil began to invest in a modern agricultural research system in the 1970s when they came to the end of their land frontier.

As this process proceeds, the mix between public and private sector research changes. In the United States, the private sector now accounts for roughly two-thirds of agricultural research expenditures, the public sector one-third. But at the early stages, the private-sector agriculture research feeds off the public sector—and it still does in the United States today.

We had a big wave of criticism of the "green revolution," as you remember. The critics said the technology was destroying rural institutions. But they forgot to look at the relationship between resource endowments and institutions. They forgot the effects of population pressure. When Asian farmers adopted the new rice varieties more rapidly than Iowa farmers adopted hybrid corn, we said culture doesn't matter. If the technology's good enough, it dominates cultural resistance.

Now we are back in the trenches fighting. We are moving slowly, and we do have to answer questions about cultural endowments. In the African environment, we are going to be forced to recognize the significance of cultural endowments in the kinds of agriculture research, technology transfer, and marketing structures that we develop.

Enough for the analytical structure that I use. I would like to make a few comments about what we have learned. About a year and a half ago, Ann Krueger, Constantine Michalopoulos, and I published *Aid and Development* (Johns Hopkins, 1990). One of the things we tried to do in that book is say what should we have learned. There are three things that are particularly important. The first one is not too important for AID any more because AID doesn't have any money. But the first one is we should revise our views on the productivity of assistance for physical infrastructure development. In the 1970s, investment in physical infrastructure development came into substantial disfavor. Emphasis was placed on basic human needs programs and integrated rural development programs. If you weren't doing it at village level, it wasn't important. But when we look back, we see that those infrastructure investments of the 1950s and 1960s were exceedingly important for countries like Japan, Taiwan, Korea, and others that have moved ahead.

Initially, those projects took twice as long to complete as was planned. The planners of multipurpose river development projects forgot the distribution of the irrigation water until the electricity was coming on stream. Then they found it cost twice as much to deliver the water as it did to build the dam in the first place. But we have learned not to make those mistakes. Countries like Korea and Turkey in which we made those mistakes now are selling construction services all around the world.

"At the level of generic research, the public sector tends to be much more effective than the private sector. In providing that technology, the private sector tends to be much more effective than the public sector. And in applied research, the effectiveness of either sector depends on what intellectual property rights one has in the country."

So I think whether AID can do it itself or in cooperation with the World Bank or other agencies, we need to take a more positive look at assistance for physical infrastructure development. Modern productive societies need that infrastructure.

Second, turning to agriculture and rural development, we need to foster close articulation between public and private-sector research and between public and private-sector technology transfer. There's a continuum. At the level of generic research, the public sector tends to be much more effective than the private sector. In providing that technology, the private sector tends to be much more effective than the public sector. And in applied research, the effectiveness of either sector depends on what intellectual property rights one has in the country.

On the issue of rural development, one of the things we have learned is that AID agencies are too impatient. You don't do it in a 5-year project cycle. There's a conflict between the ideology of local self help and local responsibility and the cycles of project evaluation and performance.

However, in the African context, one has to ask oneself, what kind of assistance programs are going to make sense in an environment that will continue to be economically and politically unstable? We all think that after the next coup or the next election things will settle down, but they don't. Not even in Thailand. One has to ask what kind of assistance is instability-proof? It seems to me that one ought to be put in a fair amount of effort into developing the capacity for local governance and local infrastructure development.

"The real sources of economic growth are investments in human and physical capital and productivity-advancing technical and institutional change. Unless those advances are made you come to a stop."

When I say local governance, I don't mean decentralization. I don't mean just posting a government officer there unless the local government agency can fire him. In the USA, we used to post state highway engineers in county highway departments. The county highway departments could send those guys home if they didn't perform.

The third area is assistance in human resource development. Again, it seems to me that some of those areas, particularly at the level of primary and secondary education, are somewhat instability-proof.

We do have to recognize that by and large in Asia, whether it's East Asia or South Asia, we were confronted with what might be called highly developed poor societies. They were highly developed in their traditional institutional infrastructure. In Latin America and in Africa we have been confronted with underdeveloped poor societies. That makes a difference.

I would like to close by commenting on the issue of short-term versus long-term program focus. During the 1980s, we have seen a major emphasis on the removal of distortions in monetary, fiscal, trade, commodity, and consumer policy. But removal of these distortions does not produce development. Policy reform is a necessary condition to remove "X"-inefficiency. Reforms help countries realize the levels of production that their level of institutional and technical capacity will permit. But it only enables them to move up to that frontier—to remove the gap between the achieved and the potential. The real sources of economic growth are investments in human and physical capital and productivity-advancing technical and institutional change. Unless those advances are made you come to a stop. You get the efficiency gains from the reforms, and then you slow down again, exactly as China did after 8 years of spectacular productivity growth.

Getting rice prices right doesn't get you more rice unless you have the crop varieties, the fertilizer, the water, and the marketing infrastructure. It will help you move up the existing production function, but unless you are continuously putting new production functions out there that enable farmers to respond to the incentives, you don't get the production.

Bonner

We have heard a number of countries in Asia ruled out as potential models for Africa. We have heard some suggestions of the things we should be looking for, for growth in Africa. I think Linda will pick up on some of the models that haven't been eliminated yet and try to run through the set of questions that we have there.

Lim

I'm going to concentrate on the capitalist countries of Asia, except for the Philippines. I think, however, that comparison of the Philippines with the other ASEAN countries could shed light on what initial conditions, policies, and political economy configurations make for success versus failure in the same region. So I'm not saying that it is a completely irrelevant case. I think it provides possibilities for interesting comparisons with Malaysia and Indonesia.

The other countries of Southeast Asia that I will talk about, Malaysia, Thailand, Indonesia, and Singapore, are now in their fourth year of being collectively the fastest growing regional economy in the world, having surpassed Korea, Taiwan, and Hong Kong. Note, however, that this recent spurt of growth—real GDP growing between, say, 8 and 12 percent per year for a few years in a row—comes after 25 years of moderate to rapid growth. So it's not sudden change. It is true that they went through domestic economic liberalization in the 1980s, but this has been slow, not complete and is not the only reason for the rapid growth. In other words, they grew before they went into this current period of liberalization. Second, external factors are important, particularly the worldwide currency realignment of the late 1980s and the massive relocation of industry brought from Northeast Asia to Southeast Asia.

"In a very general sense, all except Singapore went through commodity exports, import substitution, and then export manufacturing. But these are not neatly sequential phases. There are lots of sub-phases. The phases overlap."

I do agree that these countries, Malaysia, Thailand, and Indonesia, in particular, are better role models for Africa than the Northeast Asian countries for many reasons, such as their rich natural resource endowment (which they also have used as an asset), tropical agrarian base, the fact that they are ethnically diverse nation states that were creations of colonialism, and that they are non-Confucianists. In fact, the biggest religion here is Islam.

There are, of course, many differences in the initial social, political, economic conditions of these countries and the current economic structures, and many differences in the economic policies they follow. I agree with Gus that they are by no means perfect. There's no one model. None of these countries, despite their rapid performance, has a perfect set of policy prescriptions or perfect performance. If you go there, you'll find that the business community and ordinary citizens complain endlessly of bureaucratic overregulation, corruption, inefficiency, inequality, environmental degradation, political patronage, etc. The difference is that as they complain, most are getting richer.

I conclude from this diversity of experience and from this imperfect experience that there is no one path or model of successful development. In fact one is impressed in this region by the amazing range of policy and political environments in which you can get successful economic performance. I think Peter suggested some of the similarities that you find despite these differences in the policy environment.

First of all, questions. What stages of development did the Asian successes go through? What were the economic, social, and cultural characteristics of these phases? I find the stage thing rather hard to do. In a very general sense, all except Singapore went through commodity exports, import substitution, and then export manufacturing. But these are not neatly sequential phases. There are lots of sub-phases. The phases overlap. They occur at different times in different countries as well as going back and forth responding to external and internal opportunities and constraints.

Malaysia is a good example of a small resource-rich country. In the 1960s, after independence, it strove first to diversify commodity exports, to increase domestic food production, although arguably it had no and has no competitive margin in rice production relative to its neighbors, and to implement mild import substitution all at the same time.

Shortly afterward, Malaysia went into labor-intensive export manufacturing, and then about 10 years later into what you could call second-stage import substitution and heavy resource-base industrialization—what some people have characterized as HCP (heavy chemical and petroleum) industries in the Northeast Asian mix, and now is trying to get into high tech and services. All these things are going on at the same time, and to some extent, at least in the Malaysian case, they are separate. They are not quite as integrated as in Taiwan. There are rice fields and then suddenly you have an export processing zone with electronics factories, and it is not clear that there's any connection between the two except that you have abandoned rice fields. It's very visible that they move out from rice and the young women work in electronics.

Of course, economic, social, and cultural characteristics differ from country to country, but I'll note two things. First, overall political stability over a long period of time is absolutely essential. From a pragmatic, not a philosophical point of view, it doesn't matter if the regime is democratic or military so long as it's stable, and the general direction in which the economy is going is somewhat stable.

Second, particularly in Malaysia and Indonesia, development occurred because of policies of positive ethnic discrimination. There was state intervention to boost the economic position of the indigenous population vis-a-vis alien immigrants, particularly the Chinese who dominate the private sector, and foreigners. The state was by no means on the side of the private sector all the time. In fact, probably the reverse.

The second question, the role of the state: It varied, but in every case it was large, it was active, and it was interventionist. I agree with everybody else. This is definitely not a laissez-faire story. Interestingly enough, Singapore and Malaysia are generally considered the most successful economies, the most market-oriented, the most open of the group in terms of trade and capital flows, and the most consistently democratic, even if it's an authoritarian form of democracy. But they both also have proportionately the largest state sectors. I remember talking to a senior Kuomintang official of Taiwan, who said, "Oh, Singapore, I have been there. There's no way that our people would accept the degree of control that the government there imposes on people." Singapore also has the distinction of being, as far as I know, the only economy to date that has been praised by Gunnar Myrdal, John Kenneth Galbraith, and Milton Friedman, all at the same time. I'll be happy to go into the reasons why each of them felt impressed enough to have their pictures taken with Prime Minister Lee Kuan Yew and splashed all over the local newspapers.

"In all the countries, there is a flexible and pragmatic relationship between the state and the private sector."

Generally speaking, in Malaysia and Singapore the state has intervened heavily in sectoral policy, but in a way that encourages rather than stifles private enterprise and promotes growth. One thing though that's notable is the state did not set output prices though it may have affected input prices at least temporarily.

In Indonesia and Thailand, state intervention was less efficient, its effect more mixed. In Thailand private enterprise had a bigger say because of lesser discrimination against the Chinese, and it isn't clear that was necessarily all to the good either.

In all the countries, there is a flexible and pragmatic relationship between the state and the private sector, which means you can't generalize. This flexible and pragmatic relationship continues into both the relations of the state with foreign capital and of local private sector with foreign capital. It's a bargaining relationship where both sides agree that they have certain common areas of interest, each in a way that acts as a check on the excesses of the other. They are willing to go ahead with a project or with a policy even though each has something to lose as well as to gain from the policies.

The bottom line is that the state sees itself, generally speaking, as facilitating and building up a private-enterprise, capitalistic economy. The state has some interest, at least in Malaysia and Indonesia, in who the capitalist is, and it prefers an indigenous person rather than a foreigner or Chinese. But it does not have a long-term interest, I think, in supplanting private capital. They try to influence the actions of private capitalists who govern policy, but there's also mobility between these two sectors as there is in Japan, Korea, and Singapore, which again means that if you are an official, you wouldn't be too bad to the private sector because you might get a post-retirement job there. We are all familiar with this in Washington, D.C.

Privatization of state enterprises has been going on a bit slowly and it's a politically complex issue, but at least in Malaysia this was always the goal. Some of you might know of Malaysia's New Economic Policy. One aspect of this was that state agencies were created in the 1970s to acquire and hold shares in private enterprises. On the London stock exchange, for example, they took over foreign private enterprises, making them locally owned by the state and holding them in trust for the Bumiputra, the Malay population, and then selling off shares to the Malay population. There's a clear model here of a nation of small private property owners. But at the same time the state feels a need to balance monopolistic elements in the economy, it being a small economy, and to ensure efficiency and scale economies in the management of private enterprise. They have a vision of an economy with small democratic private enterprises, but they don't let them do everything they want to do. They make sure that they are molded in such a way and tied to certain institutions so they get economies of scale and they are efficient. This is now creating some tensions between people at the bottom who really believe the farmer wants to do his own thing and not listen to the state agency who's telling him what to do. So we'll have to wait and see.

One of the aspects here that is critical is the inherited commitment to the training and education of civil servants. In Singapore they actually have a policy that the best minds must always be in the public service and they are paid accordingly. Hence, the prime minister of Singapore, which is a city of 2.5 million people, gets paid more than George Bush. It is to prevent corruption and to ensure commitment of the best minds.

On key macroeconomic and sectoral policies, I agree macroeconomic stability is absolutely crucial to allow businesses to plan, but I also agree with Vern that it's a necessary and not a sufficient condition. I would like to concentrate a little bit on sectoral policies, which I think are important. It's correct that Singapore and Hong Kong are not very relevant models in the general sense, but in the policy sense they might be. There's some discussion about comparing Hong Kong's laissez-faire policy versus Singapore's much more interventionist policy to see which one comes up best. It depends on what you consider as success.

In sectoral policy among the Asian countries, Malaysia and Singapore are the leaders, but you also have sectoral policies in Thailand and Indonesia. Basically, these consist of (1) investment in infrastructure, both general infrastructure and specific infrastructure for the particular industries, say, agricultural infrastructure or free trade zones for export industries, (2) human resource development, which Singapore has carried on to the furthest extreme and which I think today is lagging behind Indonesia and Thailand and is seen as a constraint to continued industrial growth because they have not invested as much as they should, and (3) selective tax incentives. If you want to promote exports, give a tax incentive. If you want industry to disperse itself around the country, give a tax incentive. If you want to employ more people, give an incentive. If you want to employ fewer people, give an incentive, and so on. The point is, though, these incentives are always given in sectors in which the country has, or is likely to have, a comparative advantage—government sort of shapes the comparative advantage.

Finally, foreign capital management and know-how has been much more important in Southeast Asia than in East Asia, and much more important in Malaysia and Singapore than in Thailand and Indonesia, perhaps because they have the smallest domestic markets. To that extent they may be more relevant models. In other words, a small country has a greater need for both foreign markets and foreign capital. Malaysia and Singapore, especially in the industrial sector, courted foreign capital and they remain among the top developing country recipients of cumulative direct foreign investment. I think only Mexico and Brazil have cumulatively more foreign investment than Malaysia and Singapore. Look at the difference in size. They really have a disproportionate share of direct foreign investment. Also, Malaysia and Singapore did not go through as extensive import-substitution industrialization phases in Thailand or Indonesia. They were never as nationalistic or protective.

"Most direct foreign investment in the Asian countries today is Asian, about three-quarters of the investment comes from Asian sources. Japan is not the biggest. Taiwan is."

Yet, Thailand and Indonesia were successful. What I'm suggesting is you can be successful in various contexts. Maybe Thailand and Indonesia would have been more successful if they had been more open, but maybe not. There's a lot more in the political economy realm that one has to look at.

The pluses of depending on foreign capital are that you get more rapid growth, a faster ascent of the technological curve. You do not have to protect and subsidize domestic industries as the Koreans did, for example, to get them to make consumer durables. On the negative side, political economists in particular criticize the Singapore and Malaysia model because they claim their domestic private sector is much weaker than those of Taiwan, Korea, Hong Kong, or even Thailand. That is, the private sector because of the big influx of foreign capital is less technologically self sufficient, less independent. I think it's questionable. They may catch up. After all, they did have a later start than Korea and Taiwan and there's also a distributional concern. Domestic labor benefits relative to domestic capital when foreign capital comes in. This makes sense when the government's political support is based on indigenous labor rather than on the domestic capitalist class, which is Chinese. There may be something here in that the conflict between domestic and foreign capital is not a big thing because domestic capital is less politically powerful. Note that most direct foreign investment in the Asian countries today is Asian, about three-quarters of the investment comes from Asian sources. Japan is not the biggest. Taiwan is. As a source of direct foreign investment, Taiwan plus Hong Kong plus Singapore, clearly outweigh Japan. Malaysia for example last year received $2.5 billion from Taiwan alone, and this is only about 25 percent of what it received. It has 18 million people. But the foreign investment is only about one-quarter to one-third of total investment. Domestic investment including the manufacturing sector is still dominant.

Finally, key pre-conditions for growth and manufactured exports: In this or any other sector, what you need, assuming the correct macroeconomic conditions, is strategic state intervention and a vibrant and active private sector working together. I will mention the three conditions for manufactured export growth in no particular order.

Number one is political will. The timing and entry of countries into manufactured exports depends very much on individual political economies. Governments have to guarantee duty-free imports and exports via free trade zones or other mechanisms. They must have a cost advantage at market exchange rates, especially a labor cost advantage, but it helps to have cheap land as well. The government must invest in the infrastructure—free-trade zones, industrial states, transportation, communication, etc. Having cheap labor alone is never going to do it. And they may need tax incentives.

It also helps if you invest in human resources—that is, you have a skilled and educated workforce to offer. Malaysia, when it went into the electronics industry, for example, and then became number three in the world in exporting semi-conductors, offered young women who were English speaking and had 8 years of pretty good schooling. They were the bottom of the pile in Malaysia, but they were educated. Recently you even have Korean firms claiming they go to Malaysia to get an English-speaking workforce. If you attract foreign capital for your manufactured exports, you need to have aggressive promotion in investment missions abroad. Singapore, in fact, holds seminars for other countries now on how to market your nation—how to tell people what you have, because if they don't know, they aren't going to come.

The second thing is if you have foreign investment you probably have to permit 100 percent foreign ownership at least in the export industries. The fact that these countries all attracted a large amount of investment, particularly in export manufacturing doesn't just happen. They were lucky, but they also had to work on it.

Finally, to give a little political economy flavor to this, I think governments have to choose what we might call correct policies. The rationality of policies is always apparent, at least the economics. Whether or not the politicians choose them depends on a variety of external and internal factors. The trick then is to design and time your policy so that enough people are likely to benefit from those policies or can adjust to them and therefore you don't have a lot of objections to them.

DISCUSSION

Wolgin
Mike Roemer, you had a story about finance, is this an appropriate time to tell that story?

Roemer
I'll tell it quickly. Basically, where finances were controlled in Taiwan and also in Korea, where subsidized capital was being channeled to the favored firms, there was always an informal market, that worked very well. In some cases, the government took steps to make it work better. Taiwan is an example where post-dated checks were used by the small investors as a means of credit. They would give the check to the supplier, but there would be no money in the

bank for 30 days. Eventually the government made that a legal form of transaction. Then you could be sued if the money wasn't there in 30 days. Actually, I'm playing right into your hands, Jerry. I hadn't thought of it until now, but it's a story about parallel markets—informal markets that can ameliorate a lot of the bad effects of the control that governments think they have to have. As a matter of fact, there's a book coming out, which I edited, in which the policy conclusion is that if governments want to reform but don't want to take the legal steps that we, the donors, want, one way to do this is to make the parallel markets work better. Help them by giving them legal means of redress, but also don't hurt them by constraining the way they operate.

"The soft option very often is to let the natural resources permit countries to delay painful decisions."

Platts-Mills
Mike Roemer, you spoke of small industries in the countryside that create export products. Would you describe some of these that might transfer into Africa? I can't personally imagine what they are.

Roemer
Very small farms can produce beans for the European market. All it needs is a marketing system. They wouldn't necessarily be factories. I'm talking here about marketing and assembling, processing. I imagine some canning although that's larger scale. I don't think that is too small scale. A lot of the development in Taiwan was first in agricultural products and then in textiles and clothing in rural areas.

Ranis
As Mike said, a lot of this was, first, the mushroom and asparagus kind of food processing. Later it turned into textiles, leather products, wood products, some for the domestic market and then some for the export market. Some of this rural industry actually consisted of people participating directly in exports by bicycling to the export processing zones and going home to the rural household. Some of it was small establishments in rural areas encouraged by industrial estates. This reflects an even-handed allocation of infrastructure and power and so on. I do think in talking about Africa, we should not

focus so much on immediate nontraditional exports. I don't think it's just around the corner in many areas. But I think there's a lot of domestic market potential that exists to start with that will later go into exports.

While I have the floor, I want to comment on the natural resource issue, which is related to this. Obviously, if you have natural resources, it's not something you want to throw away. But the question is how do you utilize them and how do you avoid the temptation to misuse the opportunity God has given you? If you are not up against it, most societies don't do difficult things. They have to be up against it to some extent. I don't think it's an accident that the East Asians that we praise so much and the Japanese before them were up against it. They didn't have the alternatives, the political economy alternatives. I think the soft option very often is to let the natural resources permit countries to delay painful decisions. We all know that natural resources are one of the major places where rents are being fought over. The larger those rents, the more we spend time chasing after them, rather than worrying about human capital and technology of the kind that Vern was talking about—appropriate, adaptive technology and all that.

So natural resources are good for you if you know how to handle them, but most societies if they are not really up against it are more likely to postpone the day of reckoning. That's why natural resources can be a curse. I certainly think that they have contributed in that way in the Philippines and in Latin America, perhaps a little less so in Southeast Asia.

Herbst

I have an observation and two questions. First, I would have liked to hear more about the failures. By only choosing the successful cases, we may be missing something out there. South Asia in particular has a lot to say about Africa even if it has not performed particularly well.

But my questions really go to the region because a lot of the presentations are country specific. There is a regional dynamic there in at least two ways. First, that the costs of economic failure in Asia and especially East Asia were much higher than they were in Africa from a security point of view. South Korea and Taiwan, of course, both had enemies, and economic progress was seen in good part in national security terms. So it is in Singapore also, although perhaps not to the same extent. Other countries such as Thailand and Malaysia were near enough massive instability that they could argue, I think at least with partial credibility, that if they were not economically successful they might be dragged into the morass. So that there was a national security reason, which played into government policy, which played into the relationship with urban labor that is absent in Africa. I mean, you may fail in a lot of ways in Africa, but it is not going to cause your country to be invaded.

The second is that in East Asia there was a model, which was Japan early on. Now, many of these countries might not have followed much of the Japanese model. Their experiences might have been very different. But the fact that there was a notable success early on, a success based at least partly on exports, may have given economic reform and especially an outward orientation much greater credibility in these countries than it has in Africa where there is no perceived successful model, no matter how much the economic theory makes sense.

Timmer

We probably all want to respond to that, but I would like to take them in order. We ought to be looking at failures. I think Vietnam was a failure and I think we can learn an awful lot from why it was a failure and how the reform process goes. Somebody has argued that Vietnam could learn a lot from Africa as well and that's probably true. It goes both ways. I don't think we should, however, underestimate how close some of our successes were to being failures. Indonesia had a severe case of Dutch disease in the mid-1970s and the devaluation in November 1978 was about as close a policy call as you would want to live through. If they hadn't done that, they would have looked like Nigeria. I mean, it's just one of these black and white pictures. There was luck in it. There was some good analysis in it, but they were awfully close to just having gotten it wrong. So those successes aren't automatic in any sense. We need to understand why those successes are in fact not failures. I think that would be the way to go at it.

The second point you make is about the importance of security, it's not just the security of the borders. It's the existence of the society itself. These historically have been extraordinarily poor societies—lots and lots of people against the land base. Malaysia is a counter example to that. But Java has been very crowded for 500 years. China has pushed against its available arable land base for a millennium. You know the title of Dwight Perkins' book: *Six Hundred Years of Agricultural Development in China, 1368 to 1968.* Those countries have been right up against the subsistence edge. Any time there were a couple of bad crops, millions of people died. To hold those countries together they had to have some societal consensus that growth and productivity was the only way the societies were going to make it. They looked over the edge of disintegration. Once technology came along after World War II to permit agricultural productivity to rise, they jumped on, and that was their salvation. Then discovering exports and all of that has been the second round of salvation, but it's really the agricultural technology that the Japanese invented before the war that saved the Asian countries.

"At least historically in Africa you could do an awful lot of things wrong and still have a perfectly acceptable standard of living in the village. Even now real wages in sub-Saharan Africa are substantially higher than they are in Indonesia."

But the capacity to put that scientific knowledge and those market opportunities into policy, I think comes from this security fear that if you don't, you are not going to survive. Your point was that at least historically in Africa you could do an awful lot of things wrong and still have a perfectly acceptable standard of living in the village. Even now real wages in sub-Saharan Africa are substantially higher than they are in Indonesia.

The last point you make is the East Asian model; that people sort of knew what to do. I don't think that's true at all. If you look at what development economists were arguing in the 1950s and the 1960s, Brazil was the model or Ghana or India cum the Soviet Union. There were lots of choices out there.

Herbst
I don't think that's quite the point because I don't think these countries followed the Japanese model. It's just the fact that there was a success story out there that gave government policy makers, who demanded sacrifices for prosperity, more credibility than in Africa. Not that there was a blueprint to follow.

Timmer
But look what India did with the Soviet model. There are certainly two or three decades when the Soviet economy grew faster than the Japanese economy. It was successful. Now, why did the East Asian countries choose the Japanese model instead of the Soviet model? That's the question.

Herbst
That's an excellent question.

Lim
I would like to say very specifically that Singapore didn't choose a Japanese model. It chose a Hong Kong model when it was thrown out of Malaysia and had to manage to survive as a city-state. However, the Singapore example is important because a few years later the city of Penang (which, like Singapore, was a free port in Malaysia) spearheaded this model, explicitly following what Singapore did. You do have a point there that in fact in Southeast Asia they do talk about the demonstrated success: if Singapore can sell electronics, well, why can't Malaysia? Well, they did that and a few other things. So I think there's something to the model thing.

On a couple of other points, I think the security issue in some of these cases was an internal situation. In Malaysia, certainly it was an internal situation that caused them to emphasize rural development since that was the threat from the rural-based Communist party. Another thing in Malaysia that caused them to emphasize rural development was that that's where all the Malays were. If you went into the urban base, that's where all the Chinese were. Some of these very specific political economy factors can explain why a country does things.

Roemer

Internal threat is important. Lots of African countries have internal threats, and they perceive them to be that. In Kenya, unemployment is considered to be a major internal threat to the regime and yet they don't respond with the same kinds of policies as Asian countries.

On the other hand, the Gambia had an external threat and it was one of the most successful performers. So it's an interesting question. The underlying problem may be that what causes a government to successfully thwart a threat is the sort of thing that will make it a good economic reformer. It may be that the real issue here is that you have a cohesive society where the government can do something to establish that society's goals and somehow realize them. They will do that whether the problem is to meet the North Korean threat or to develop the South Korean economy. So I'm not sure that it is the threat itself, although that would be a helpful stimulus. I'm not sure how far it gets us in deciding what is important in Asia versus in Africa.

"The mistake that policy makers and intellectuals often make is thinking that exploiting raw materials is low tech. You have to embody very substantial R&D in those commodities if you are going to remain competitive."

Ruttan

I want to comment on the natural resource base. I think it's useful to look at the Philippines' failure to use their resource base as a basis for development. The Philippines exploited their forest resources in a manner that did not produce development. They exploited it largely as political payoffs. It in general did not provide a basis for the development, say, of a permanent plywood or waferboard industry. So essentially they wasted their raw material supplies—did not channel them back into development. In this respect, it seems to me that the Malaysia of 20 or even 30 years ago may be a more relevant example for African countries. One needs to distinguish between those natural resources that are used up and those natural resources or staples that become permanent basis for your growth. One of the lessons is you cannot afford to assume a pessimistic attitude toward commodity exports.

In Malaysia, while the other countries of Southeast Asia were giving up, they realized that rubber, oil palm, and cocoa are R&D intensive. They were not simply exploiting the resource base. They took the oil palm industry away from West Africa by investing in research. The Rubber Research Institute in Malaysia has been one of the world's great research institutes. The mistake that policy makers and intellectuals often make is thinking that exploiting raw materials is low tech. You have to embody very substantial R&D in those commodities if you are going to remain competitive.

Diagne
Twenty years ago, I read many bad things, the worst things, about Asia, but suddenly, Asia appears as a giant in front of us as an underdeveloped country, and I asked myself why. I traveled to those countries, investigating, speaking with officials, with the private sectors. My conclusion was planning and education.

If you consider the Asian countries, approximately 95 percent are well educated in terms of knowing their country, knowing what is important for their country, knowing discipline, and having values. But they had that more than 20 years ago, and suddenly, 20 years ago things started moving.

I agree Japan was a model. The neighboring countries saw Japan growing and competing against big countries and proving that that part of the world can do it.

That's why I'm optimistic regarding Africa, not the Africa of yesterday, but the Africa of today. Why? I think we have more educated people. People have suffered a lot. So we have learned a lot.

That's why we need what Asia had before. That means capital. All we are talking about is very nice, but when I see private businessmen with good ideas, with the possibility to sell, even to export, and they cannot find the financial support anywhere, I think that's another problem. Our companies have had a lot of money before, but the field was not good to receive that money and that's why most of that money was spent in ways that were not profitable. I sense today with a third or fourth of what they had before, the results would be better.

Saiers

What about the question of colonial history? There was a little talk last night about the Japanese in Taiwan. There are some differences in Africa between Anglophone and Francophone and what Anglophone colonialism meant. The reason I ask is that we are moving into a generation of African leaders now that are not people who have had colonial experience. But is there anything to learn? I don't have a sense of what it was that the British did in Hong Kong or Singapore or Malaysia before independence versus what they did in Africa or what the Dutch really did in Indonesia. Are there differences or was it universal?

Lim

I think they were all different. Malaysia and Singapore, as I said, had the best thing—that is, the British put in their infrastructure, although it was for their plantations and estates. The independent government extended the infrastructure. They put in education early on at least for the sons of the elite whom they sent to England, and so on. So infrastructure, education, and administrative services reached out. They had a mechanism for delivering public goods all the way through to little towns. In the Philippines, it was very different because you had the Spanish legacy, which is the similarity between the Philippines and Latin America. It is really in the social structure and the class structure. Americans basically didn't do much and were sort of laissez-faire. They gave them some protection for their sugar industry and a little infrastructure.

Indonesia's economic history is considered to have been the worst. The Dutch did nothing. They exploited the place. Indonesia is supposed to have been poorer after 300 years of Dutch rule than it was before. West Malaysia and Singapore were richer after the colonial period.

But the main thing is that in the post-colonial period, other than the Sukarno years, I don't think the people were hung up about colonialism. In fact, when groups of Southeast Asians get together, the others can't understand why the Filipinos are so hung up on colonialism. Filipinos keep saying, it's American imperialism. What is this? They left 40 years ago. You were the first to become independent. What is this? Because we were colonized also. I haven't quite figured that out. You see some of that mentality in Latin America as well.

Roemer

One probably shouldn't judge the British colonial experience or legacy on the basis of Singapore and Malaysia. Many of the things we are arguing against, particularly in agriculture, have their roots in British colonial administration, all the restrictive markets, the marketing boards, all these things that have helped to ruin African agriculture were promoted and supported and maintained by the British, sometimes for their own settlers and often for the Africans whom they wanted to protect. Of course, in India the legacy of British colonialism was basically socialism and controls. So it's very mixed depending on where they were and what the local people drew from what they got.

E. Simmons

I would like to bring up the question of the long term and the short term and to weave in the issue of security more explicitly. It seems the long-term perspective, essentially the long-term leadership, didn't get going even in East Asia until there was a sense that the issue of food security was no longer a daily concern, that somehow there was a confidence that food security could be assured for the population over the long term. Then the attention turned to other kinds of investments in agriculture as well as in the nonagricultural sectors. But I'm not exactly clear where I hear this transition taking place. Was it explicit? Was it implicit? Was it gradual? Or was it indeed part of the decision-making structure that led the leadership then to be able to say, okay, we have that behind us, let's move on here?

Timmer

You are right in linking the problem of food security and the capacity to get on with the development process. I think there is a staging of concerns there. All of those countries in East Asia other than Thailand, but including Japan after World War II, had serious problems of food shortages and perceived insecurity at the household level of food supply. Countries felt they had to come to grips with that immediately as first priority. I argued earlier that, because of the large role that the rice economy plays both on the food security side and in the rest of the economy, that also meant that they were looking at a substantial part of the economy when they were trying to solve their food problems. You could only solve that with agricultural productivity. You had to do it with yields.

They did something on the asset side in most of those countries with land reform, and then they did something about raising the productivity of those small plots of land for the people who were farming it. All these countries gained some sense of competence in terms of what the government could and could not do by stimulating rising agricultural productivity, getting it distributed fairly equitably, and stabilizing prices, and they all did it with controls at the border. Not a single one of those countries had free trade in rice. It was all reserved for government account specifically on behalf of stabilization. All the protection that has come in East Asia more recently came right out of the stabilization goal, not early direct attempts to protect their farmers. They were really trying to stabilize their economy. Learning how to do that and being confident that they could do that, then allowed them to look at what was appropriate and not appropriate, because they made mistakes on the agriculture side. You can't tell farmers what to do directly unless you are in Taiwan.

Bonner
Or South Korea.

Timmer
I think they learned that they had to use markets and incentives, that the technology was important, and that there was an appropriate role for government, but it wasn't to do it all. It wasn't to set up state farms in order to grow the rice so that you could feed the people. They learned that real fast. They had to do it with small farmers and a different kind of technology and marketing system They had to get into the rural area and had to get products back out of the rural areas. Solving that problem did empower the countries for the next stage of rapid economic growth. Solving agriculture's problems really did come first in that sense.

Ruttan
I want to make one comment about South Asia. My friend Raj Krishna used to say that the Hindu economic growth rate is 2 percent per year. But my guess is that shortly after the turn of the century, we are going to be looking back and talking about the Indian miracle. The growth rate with gradual liberalization since the late 1970s has moved up. It's already one of the great industrial powers of the world. If India just keeps liberalizing, not dramatically, but slowly, it could be very impressive by 2010.

"We can't dismiss these growth rates because we don't like what they are telling us. We have to have a little better rationale than saying, well, China really isn't growing very fast because it's a communist country."

Seckler
I want to emphasize what Vern just said because I think we are talking about a very small subset of the group of Asian success stories in terms of population and economic size. You look at these graphs,[2] you look at this Hindu rate of growth, which was about 2 percent until the 1980s. In the 1980s, it's in the 5 plus range. You look at Pakistan. Pakistan in the 1980s has been doing about as well as Malaysia. These are gigantic countries. There also seems to be some kind of an allergy to China. But China, with a billion people and a huge economy, during the 1980s has been growing about the same rate, or a faster rate, than Korea if these figures are correct.

I agree with Peter that we can't dismiss these growth rates because we don't like what they are telling us. We have to have a little better rationale than saying, well, China really isn't growing very fast because it's a communist country. I think there are some lessons in these very large Asian countries that also ought to be looked at. I don't know what they are. But I would be reluctant to throw away these three or four huge countries because they don't seem to fit the East Asian pattern or export-led growth models.

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[2] David Seckler, "Growth of GNP in Asia and Africa 1970-88" (Unpublished, Winrock International, Arlington, Virginia, 1991).

Roemer

You have to be real careful with a very large country, though, because internal markets are there. They could do quite well looking totally internally as long as they liberalize and allow competition to infuse their markets. I don't think there's an African country, and that includes Nigeria, that's big enough to do what China and India could do. I just think they are off the scale. That's why I think the East Asian countries are very good examples for Africa, which are tiny economies that have to be open, have to deal with the world markets and will, I think, for the foreseeable future.

Seckler

There's a lot more to it than that. Pakistan is not huge. In terms of the criteria, these countries are comparable and Pakistan's quite a success story. Let's don't forget that part of the world.

Ranis

We have to look not just at growth rates for a particular time, but how the growth rate is generated and how it can be sustained. Pakistan is a case where I think that that growth that you cite was based on a peculiar configuration of things, some exogenous factors such as the Middle East earnings, the Afghan War, which brought in a lot of foreign capital and also earnings of other kinds. Plus the fact that Pakistan's policy was to avoid inflation temporarily by borrowing from the public at very high interest rates—a policy that is coming home to roost. Domestic debt is really embedded in their budget now. They have a serious problem of being able to maintain anything like the kind of growth rate they have had. They were borrowing from the present and robbing the future and that is a very unstable growth path.

I want to ask Michael a question that has to do with policy packaging and sequencing. I'm puzzled by what's going on, for example, right now in Eastern Europe where people like Jeff Sachs are preaching and being listened to in terms of doing everything overnight. There are countries that still have a lot of organizational and institutional problems to be solved, especially privatization on top of everything else. They have developing-country problems plus socialism. Yet, apparently the notion is gaining ascendancy that everything can be done cold turkey and it has to be done cold turkey, in a sense. What is your view on this issue of sequencing versus what kind of sequencing, whether cold turkey is feasible in developing countries including Africa?

Roemer
I think you know the answer you are going to get. First of all, the Asian experience doesn't support shock treatment. The most recent cases in particular are gradual. As Linda pointed out, they are very partial. They liberalized the key sectors, but there are some that are still under controls and are very distorted. They seem to be able to live with it.

Second, the question kind of answers itself when you ask whether an African country can go cold turkey on liberalization or privatization? Of course, it can't. It can't because the government hasn't got the ability, even if it were a feasible political economic route. No government in Africa I can imagine would be able to pull it off administratively.

My job is to work inside governments as policy advisor. I have been through these reforms. Five years later you are still fighting the reform you thought you had won 5 years ago and you have been talking about reforms that haven't even begun to reach the drawing boards. Indonesia, which is a very successful reformer, finally put four laws on the financial sector to the Parliament last month that were first drafted 10 years ago. Everybody was ready 10 years ago to do something about it. It took them 10 years. It will take them 10 more years to get those things working properly.

I don't think cold turkey is possible. There are missing markets, for example. Take the monetary sector. Indonesia liberalized its monetary control and is trying somewhat successfully to go toward the system of indirect controls over the money supply rather than directed allocations of credit, and so forth. All the instruments are in place, but the private bankers and particularly the state-owned banks are quite used to having the governor tell them what interest rate to bid on the state bank instruments. Until they start to really bid at auction, it will be impossible to have indirect controls over the money supply. So we are looking at I don't know how many years before the habits are broken and people change the way they do things. These are institutional questions. They don't happen overnight and they are not going to happen overnight. I don't know how it has been working in Eastern Europe. I don't want to even comment on it.

Bonner

Let me switch over to advice for the African governments. Don't go cold turkey. Let me ask the panelists to comment on that. What advice, what two bits of advice would you give to African governments? That will give Sam a little time to try to pull his thoughts together. Mike?

"Analytical ways of thinking are not being taught in the schools at the elementary school level. Therefore, when people get to the university, they do not handle material in an analytical way."

Roemer

I told you beforehand I could never get it down to two. So I'm going to give you five. Political stability is essential, but it's not a policy variable. The point is that when you get a government that's starting on reform, advisers have to provide a vision that economic progress leads to political stability, that you do not have to hunker down and protect your clients in order to survive as a regime. If you are worried about employment, which is the thing African governments worry about, the best way to get it is to have rapid economic growth and not worry too much about the unions or the people who already have jobs. Worry about those who don't have jobs or are underemployed. We have to somehow be visionary about it. I use that word unashamedly because I have seen battles lost for lack of vision and it's a real problem.

Second point, once you have political stability, macroeconomic stability is the key to it. It's an essential, not a sufficient, condition, but it must be in place. If it isn't there don't worry too much about the rest of structural adjustment because it's all going to blow up anyway. That's a little extreme, but not too far off.

Third, I mentioned the exploitation of primary exports. Although I agree with Gus completely on the Dutch disease impacts, I do think countries can use macroeconomic policy—internal macroeconomic balance in particular--to convert the Dutch disease problem into an advantage. If a country has the primary exports, it is going to exploit them. The question is how to do it without real appreciation of the exchange rate and all that goes with it. It can be done although it's tough. Probably any government that can do the other things needed for reform can do that as well.

Fourth, investing in agricultural productivity absolutely has to be on everybody's list or you can forget development in Africa. Fifth, and last, investment in human capital. But, and here's a real warning, not in the quantity of human capital. That is not the issue. Kenya has one of the highest ratios of expenditures on education to GNP in the world and yet it is not now producing enough people who can analyze the issues we are discussing today. The problem is Kenyan education. It's not Kenyans. I want to make that clear. The problem is that analytical ways of thinking are not being taught in the schools at the elementary school level. Therefore, when people get to the university, they do not handle material in an analytical way. There's too much rote learning. There's too much memorizing from books. Therefore, discussions like these always come back to the basic principles without any kind of movement toward practical solution. I see that as fundamental. Until that's changed, and it's not easy to change, it's going to be hard to get policy elites working properly.

Timmer
One of my basic premises as a policy advisor is not to give advice when I don't know anything about the topic. It's already clear I don't know very much about Africa. This is not advice to African policy makers. In a sense, it's some problems that come out of Asia that we ought to worry about in an African setting.

I think we have all agreed that Africa has to figure out how to export, whether it's going to be natural resources or labor-intensive manufactures. I want African leaders to understand that it is an extraordinarily competitive world out there for exporting almost anything you can think of. This is not the 1950s or the 1960s. The 1990s are going to be a very difficult world to export into, especially if it's going to be something ordered around labor-intensive agriculture processing, manufacturing, whatever. You are going to have to compete against the real wages of Asia, especially if India gets its act together, if Vietnam gets its act together, even Indonesia now. I mean, real wages in Indonesia are still very low. It might well be that a mark of success for Africa for the next decade will be falling real wages. So the success will come with the export growth.

Ranis

You are not talking about wage income. You are talking about wage rates.

Timmer

Wage rates. I sense that Vern and I may have slightly different views on agricultural exports and how to go about that. I am impressed by the strategic vision and the resources that Asian countries, Malaysia in particular, Thailand, and now increasingly Indonesia, are putting into exporting the very commodities that Africa practically monopolized for at least two decades. I don't see how Africa is going to compete against them. You are 20 years behind now in agriculture and technology. The strategic plan, the vision that Mike was talking about—it's going to be hard to go against Asia on rubber, cocoa, coffee, tea, you name it. Asia figures that they know how to beat Africa at that game and they are not going to give up easily. So if you are going into it, you better go in for the long haul and plan to lose a lot of money for a while.

I also worry about the market consequences, the general equilibrium consequences of both Africa and Asia going head to head in individual commodities. Increasing growth with falling real prices strikes me as a real possibility for individual commodities, and some of these countries are heavily dependant on individual commodities, and that would be extraordinarily risky as a growth pattern.

Lim

Two points. First, ensure political and financial stability, however you do that, because without that you are never going to get private-sector investment, whether domestic or foreign.

Second, while relying on markets and involving the private sector, you need to develop state capacity to intervene strategically in at least particular sectors of the economy, and that includes investment in infrastructure and specific kinds of human resources. I agree with Mike on that. I see all those parts working, private sector, prices, markets, but also with the state acting mainly to ensure that the private sector can respond successfully to market opportunities.

Ruttan

As wage rates rise in the Asian economies, there are opportunities for Africa. Some of those commodities like rubber may eventually move out of Malaysia and there will be opportunities. Many things are moving out of Taiwan, for example. In fact, Taiwan is actually discouraging commodity exports that it formerly encouraged.

One additional point: It's important to have the capacity to exercise guidance with respect to your foreign investment. The foreign investment community, particularly when it becomes powerful politically within a country, can have a negative impact. My sense is that the U.S. business community in the Philippines has played a somewhat negative role in that it usually opts for protectionist policy: "I'm in, keep everybody else out."

Thursday afternoon, June 6, 1991

What Needs to be Done to Transform Africa

Panel: Jerry Wolgin, Chris Delgado, Chair: Leslie Dean

Dean

This afternoon our session is going to focus on what needs to be done to transform Africa, building on this morning's session.

Wolgin

What I'm going to say is a mixture of what I know, what I believe, a set of some of my prejudices, some things that I feel instinctively, and some things that I just say because I'm contrary. And the problem is I don't know which is which. So your job is to try to figure out which of those things are probably true and which are probably just figments of my imagination.

I am forced, more than normally, to get involved in areas in which I have little competence, and in particular that's going to be talking a bit about agriculture. I did my dissertation on agriculture in Kenya and never left Nairobi. It was one of those technical things that Gus was talking about as opposed to . . . .

Ranis

You never told me that.

Questions posed to the panelists

1. How can growth rates of 6 percent and higher be achieved on a sustainable basis in Africa? What are the elements of a strategy to achieve such a dramatic increase in growth rates?
2. Is Africa fundamentally different from other regions of the world that have done much better? What are the most critical differences? Culture? Size of countries and markets? Newness and weakness of political systems? Structural problems such as population density? Level of development and weakness of human resource base? What else?
3. Does Africa lack an entrepreneurial spirit? If so, why? What do African countries and governments need to do to make up for their weaknesses in entrepreneurial expertise and experience in international markets? Can they import private capital, technology, management, and knowledge?
4. Is it economically feasible to follow Asian strategies of rural development, given population densities and ecological factors? If not, why not? What should be done to transform African agriculture?
5. Can Africa develop by emphasizing urban-based labor-intensive manufactured exports? Is the changing world economy an opportunity or a constraint to export-led development in Africa?

Wolgin
I know. Too late now.

Ranis
Something can be done still.

Wolgin
I did live on a farm though. It was a European farm growing green beans.

One of the points I want to make is that this in many ways is a dangerous seminar. The danger is taking away some of the wrong lessons from what has happened in Asia and saying, hey, we can reproduce those in Africa. I want to emphasize the perspective of Gerschenkron, which is that you don't repeat patterns. You don't take the same pattern and then move it someplace else and do it again. There are differences in time and place, and those differences may actually be advantages or they may be disadvantages. You have to take what you know is true, but change it to the environment that you are moving in.

There are a couple of issues that have to be addressed with respect to where Africa is now and what might be learned from what happened in Asia. One has to do with the initial conditions. Some initial conditions are going to affect the possible development strategies that people should put in place.

"I wonder if in fact the family in Africa might—if the incentive structure is right and other things happen—actually be an asset for development rather than a liability."

The first is that African economies are small, even including Nigeria. But excluding Nigeria, we are talking about vastly smaller economies than most economies in the world. Small in terms of population. Most countries are less than 10 million people and certainly small in terms of GDP. That has an impact on development strategies.

Second, these are weak governments. I think some of the issue between long-term and short-term perspectives comes from the fact that governments are weak. There's a synergism, and I'm not sure exactly what is the cause and what is the effect, but clearly weak governments that are trying to maintain legitimacy have a hard time thinking beyond the short-term.

Let me give an aside from that to the question of big bang versus death by a thousand cuts in structural adjustment theory. There are lots of reasons why one should try to do all or a large portion of it at one time. Some of those reasons are you use up your political capital very fast. If you do it bit by bit and the benefits from adjustment are only slow in coming because you haven't adjusted fully and you continue running up against the next policy constraint, then you have to make the next policy change, which affects another political group. So politically there's a lot to be said from making the adjustment quickly, getting all the political costs out early and then, one hopes, getting benefits quicker.

Also while there are institutional, technical, and management problems in doing all the changes at one time, there are also management and institutional problems in doing them slowly. The most difficult thing is managing the transition. If you can shorten the transition and quickly move from one system to another, then the transition process is not nearly as difficult. For example, we were talking about helping Zambia move toward a more liberal marketing system in agriculture. The problem was, if you were going to do it gradually and gradually introduce decontrol of prices and then figure out what that price decontrol would look like—all the legal systems and all the regulations that needed to take place as you move from one to the other—that became much more complicated than trying to move from having one day a government marketing system and the next day, basically, a private marketing system. I'm not sure what the story is in Nigeria in abolishing marketing boards overnight, but it would be interesting to see whether that in fact worked or didn't.

That's an aside. The other set of characteristics about Africa is small, weak governments, sparsely populated relative to Asian countries—you go long distances without seeing folks in many parts of Africa—limited human resource base, and a rapidly growing population, right now more rapidly than at any time in history, which means a very large population that's more than 50 percent dependent.

In the PBS television series on the Asian dragons, as they called them, they pointed out the importance of Confucian thinking and values in the Asian dragons. One of the strong institutions was the family and the linkage of extended family and the networks of obligations and so on. The Chinese family in particular is able to act as a buffer by sharing capital, moving capital from one place to the other, sharing resources and supporting a development process. We have always talked about the family in Africa as a negative influence on development, that the extended family and the sharing of the wealth was a leveler and that people didn't want to get far ahead because they knew they would have to share their wealth with other members of their family. They hid their wealth. They kept four, five different sets of books and so on. I wonder if in fact the family in

Africa might—if the incentive structure is right and other things happen—actually be an asset for development rather than a liability.

Another initial characteristic is that the level of agricultural technology and agricultural organization is very low. Here's where I'm getting into really deep waters. My understanding about agriculture in Asia has been that because of dense populations and the Boserupian kind of thing, it has been very organized over a long period of time, whereas until recently agriculture in Africa was very unorganized. Someone told me that, at least in Zaire, it was only a step above hunting and gathering. I guess sowing and gathering is the next step. So there's not that developed set of agricultural institutions and attitudes that existed in Asia even before the "green revolution" or other technology change. That's one set of initial conditions.

> **"In Africa there has not been a sense that economic growth and development are the primary objectives of national policy; not only that it's achievable, but it should be pushed, that that's what people are looking for."**

The other set of initial conditions that strikes me as being interesting is the world economy. The world economy, even with all this talk of developing trading blocks, is much more integrated and much more interdependent than it has ever been. The capital is much more mobile. Labor is highly mobile. And there's been a growth of trade at a much higher rate than the growth of the world economy. We have a world economy that is going to continue to become more integrated over time. That means increasing specialization. The pattern of starting with labor-intensive commodities as exports and then moving toward more high tech stuff is being repeated almost everywhere that growth has been fast, including now Mauritius. And the movement of capital to follow low-cost labor even from the Taiwans and now from Mauritius to other countries is a pattern that seems to be continuing.

Also the developed countries are going to continue to push their production into information-based things. Less and less will depend on labor power and on resource-based activities. Despite what looks like an increase in protection in the short-run, in say a 30- or 40-year period, protection's going to decline, and the competition between developing countries and developed countries is going to decrease because they are going to move into more specialized zones. It's also probably true that, as the NICs and the other countries begin to develop, they will become markets for labor-based production rather than producers of labor-based activities like textiles.

In fact the opportunities to export are not going to decrease. If you look at a longer period, say 25 years or 30 or 40 years, the rate of growth of trade is going to continue to increase relative to the rate of growth of output. Opportunities for Africa to penetrate these markets and to exploit its comparative advantage are likely to continue to be there.

The other kind of change in the world environment that I think is clear is the complete bankruptcy of *dirigiste* economic solutions. We can say that there are lots of lessons that can be learned from the various Asian successes, but the lesson from failure is clear. There's only one lesson from failure, and that is it is usually a state screw up. We are learning that failure is not due to attitudes or to religion or to what you eat or where you live or natural resources or almost anything else except policy. We know that bad policy causes failure. While there may be many routes to success, there seems to be one route to failure. There is now what I would call an eclectic orthodoxy about what the policy environment should be for moving ahead.

Given this set of initial conditions and a world environment that may or may not in the future reflect what I think it's going to reflect, the question is what do we know about strategies? I would argue, and I want to echo something that Mike Roemer said, that the first and most important aspect that needs to be stressed, explained, communicated to African leaders is the importance of vision.

One of the minor prophets says, my people fail for lack of vision. In Africa there has not been a sense that economic growth and development are the primary objectives of national policy; not only that it's achievable, but it should be pushed, that that's what people are looking for. That's what the nation-state is organized around. Now is the time to begin changing the focus. And the focus means two things. One is that growth is feasible, that it's possible to reach 5, 6, 7 percent per capita growth. Maybe not now, but maybe over a period of time it's possible to go from being a $200 per capita income country to a $600 per capita income country to a $1,200 per capita income country. Those horizons are feasible, and that makes all the difference in the world. What governments and leadership should be looking for is how to do that, and they should be looking at that as the primary raison d'etre of the state. That, I think, is the first and most important necessary but not sufficient condition.

"Rather than try to have import rebates and all kinds of export-subsidy schemes, the best thing to do is to see about undervaluing exchange rate as a way of stimulating exports."

I think we more or less all agree on the importance of education. No one has argued that human resource development is not important. I agree with Mike that African governments should make sure that they stress quality over quantity. That's going to be hard to do politically. It doesn't mean that the emphasis shouldn't be on primary education, but on the kind of primary education. Having worked in school systems in Africa, one senses an erosion of quality over time that's taken place along with other institutions and capital.

There's a broad agreement on openness. These are small economies. They don't have the option of being closed or of import substitution as a major way of developing. There may be questions about time, but in fact growth is going to have to be export led in some way or another.

The areas where there is less agreement are the role of the state, the role of foreign capital, and the role of agriculture.

It's clear that there is an important role for the state. We have all heard that these Asian countries didn't grow through laissez faire. They grew through effective state intervention. I would argue that the first role for the state is in education. And second in infrastructure, particularly infrastructure related to openness, that is, infrastructure in relation to communications, infrastructure related to transport, particularly ports and airports, infrastructure related to power, and other basic sets of infrastructure that will enable an African economy be connected to the rest of the world.

I was taken by what Mike was saying about liberalizing capital markets. These are weak states. It's going to be difficult for them to manage economic policy in a micro way. The thing to do is to try to figure out those kinds of policy environments that are at best self correcting, where the errors, if you make errors, are so clear you don't make them. If capital leaves, you have no capital and no foreign exchange—you have to make some changes. For instance, I think that the basic instrument should be the exchange rate. Rather than try to have import rebates and all kinds of export-subsidy schemes, the best thing to do is to see about undervaluing exchange rate as a way of stimulating exports. But the idea is to find policies that are simple, that are transparent, and that require the least amount of technical know-how and generate the least amount of political conflict in terms of group conflict trying to capture rents. I'm not sure what those are, but there must be some set of them. But I would be leery about an activist role for the state following a Korean model. That seems to me to be not something African states can do.

Second is the role of foreign capital. I would argue in the Gerschenkron model that it's possible to leapfrog the experiences of other countries. In graduate school, we said if you looked at what happened to Japan and Korea, well, particularly Japan, you develop first for the local market. And as you develop at the local market level, you learn your expertise and develop sufficiently so you can compete internationally. The natural progression was first the domestic market and then the export market. It seems to me that one can leapfrog that, and the way to leapfrog it is through foreign capital, foreign know-how, and foreign access to markets. Perhaps the way to do that is through export processing zones or even enclave economies of some kind that have their ties back to their regular economy, basically through labor income. Export processing zones have certain advantages because they are simple in terms of policy. They set aside a certain part of the economy that allows freedom of operation. They don't threaten the internal political system as much, and if they work well, they will begin to expand and affect the way the rest of the economy operates. I don't know if that's true, but it's something that I think might be true.

There's an awful lot of African capital and ability that's not in Africa, but that could be encouraged to come back if the environment were correct. But we shouldn't look for a state that starts with domestic investment for the local market and then spreads into exports, but that can leapfrog that.

Finally, on the role of agriculture, it seems to me that emphasis should be on export crops. For one thing, there's a greater degree of organization in most export industries in Africa, whether they are parastatal or domestic institutions and cooperatives. Second, research suggests that even at current and likely declining primary product prices in the future, traditional exports are still competitive in Africa, despite the Malaysias. In Africa the inefficiencies and the costs come from policy and from marketing, partly transport, partly the fact that the marketing systems are largely public sector and heavily inefficient and there's lots of rents in them.

But at the farm level, if you could reform the marketing system, production is still quite competitive at world prices today and given wage rates that are prevalent in Africa. This is less true in the CFA countries where the exchange rates are clearly overvalued, but certainly true in non-CFA countries where there's been substantial reform of exchange regimes.

I would be leery about substantial investments in general rural infrastructure a la Asia because of the sparseness of population and the extensiveness of agriculture production. I expect that the rates of return to those investments are low compared with rates of returns in many other places.

Third, Vern says that agricultural development depends not on the transferring of technology but on the development of technology, if it's going to be region-and country-specific. And that requires a domestic capacity in these small countries that have limited capacity to do much of anything of their own. To do it on a regional basis, I think that we are talking about a long-run horizon. The likelihood of success strikes me as being very limited. For that reason, I expect that food crops in particular will have to be a following sector rather than a leading sector in any development in Africa and that we are not likely to see a technology transformation of food production. Again, I do this in the presence of people who know a lot more about this stuff than I do, but that's not stopped me before.

The bottom line is openness. It should be export led. There's tremendous opportunity over time for the development of nontraditional exports, particularly manufacturing. I think there has to be substantial investment in infrastructure and human capital. And I think that all governmental institutions and interventions should be as simple and as nondiscriminatory, as nonspecific, as possible.

"The 1980s, a decade of policy reform, put a great deal on the back of price policy changes, which were needed in a balance-of-payment sense, but which, it should be pointed out, in themselves were less costly to donors than to the donees."

Dean

As always you have given us something to chew on. All right, Chris. Tell us how to transform Africa.

Delgado

I want to build a case that has three prongs to it. The first is that getting back on a sustained growth track in Africa requires a new consensus on strategy, and that means a prioritization of resource use. Second, privatization, which might be a pillar of a strategy, is certainly not a strategy by itself. It may be a necessary, but it's certainly not a sufficient condition. In fact, there's probably a large consensus behind privatization at the current time. It's the accompanying measures where you get the real disagreements. And third, and this is the important point, is that donors such as AID at present really can make a major difference with what they do.

To make this case, I wanted to go into five sets of issues. I was told to try to be a little controversial and to try to get issues on the table. I trust you will take it in that spirit. The first set of issues is really establishing the point that there is considerable uncertainty about overall development strategy in Africa compared with Asia in an earlier time. The second is thinking about why this may be the case, why is Africa different? Is it a time phenomenon, timing? Or is it something to do with the soils or something in Africa? The third set of issues involves the evolving constraints to elaborating a new sense of strategy, a sense of purpose. The fourth, establishing or trying to establish a case why market liberalization by itself is not a sufficient development strategy, even if it's a necessary component. And fifth, more positively, what can be done to better recoup the benefits of macroeconomic reform or other aspects of market liberalization in the context of a development strategy?

Passing to the first set of points, the uncertainty about development strategy, if you look at the history of economic policy in independent Africa, the 1960s was an era of export-led growth strategies, a period where the relative price of agricultural commodity exports was rising relative to everything else in most African economies. The 1970s world had the oil shocks and, after 25 years of a stable real world food prices, the shock of the temporary doubling of the rice price in 1974/75. In rice-importing countries this was of great concern. You had a number of things going on in the donor community, the rise of basic human needs, integrated rural development, and so forth. One had a change in strategy. Certainly the 1980s, a decade of policy reform, put a great deal on the back of price policy changes, which were needed in a balance-of-payment sense, but which, it should be pointed out, in themselves were less costly to donors than to the donees.

If one looks at that history, there is a time-specific difference in thinking about development strategy. If one looks at Africa relative to an earlier period of development in Asia, one sees much greater uncertainty in Africa about the role of the state. Though I would stand corrected by my elders here on the role of agriculture versus nonagriculture, it's certainly true that Asian literature discussed balanced versus unbalanced growth and so forth, but I don't know if there was such a fundamental questioning of the comparative advantage of certain aspects of agriculture. In Africa, even within agriculture, there's still a lot of uncertainty about export crops versus food crops. Certainly in the green revolution in Asia, no one really questioned the primacy of doing something about food, and the impact of doing something about food on labor costs generally, and impact of that on capital accumulation and on agriculture. That was an unquestioned thing, I believe, in the Asian literature. That is being questioned in Africa. And even in food crops, there's a considerable debate over the future of the food crops typically grown by Africans, such as millet, sorghum, cassava, and so forth, versus the food crops available on international markets such as rice and maize.

Here I'm going to be controversial: elevating special interests to the rank of a strategy, such as the emphasis on women, emphasis on the environment, emphasis on a number of important subissues does not get to the basic question of how do you really get on a growth track, at least in the economic sense.

Turning to the second set of issues, why might Africa be different? Is it differences in internal factors and external factors, the way the world looks right now as Africa emerges? Other time-specific factors? Or is it differences in factor endowments, variability, fragility? The lack of a dominant rural economic class in most countries? That's probably less true in some of the countries with higher agricultural resource endowment such as Kenya, but it's generally true in many countries that the first thing you want to do, if you can get out of rural areas, is stay out or perhaps be an absentee landlord, but you don't want to stay at home because it's much harder to do that than it is in Asia or elsewhere.

Certainly there are many differences in the external circumstances concerning strategy. The total U.S. contribution to OECD development assistance in Africa, someone said, was about 6 or 7 percent. That's very different from the Asian story at comparable levels of development where you had one dominant donor. It means that you have many different donor agendas. In the 1980s, there were 15 major donors to agricultural research in Zimbabwe, a country of 7 million people who are growing everything from coffee to millet. The problem in places like Zimbabwe was that to use donor resources, the national agricultural research system had to have a pathologist, a breeder, etc., etc., one on each of 15 different production projects where they were doing agricultural research, following their own lights with their own set of donor-driven priorities.

Under these circumstances, it's hard to have a set of priorities. So it's a difficult external environment, the way one gets foreign assistance. Generally, I think the proportion of investment resources from donors is much higher in Africa today than was true in Asia historically, certainly Asia now.

African countries have a lack of a reliable food aid or for that matter a commercial food market. India could do all sorts of foolish things to its agriculture in the 1950s and 1960s, and still get away with it. It is much less clear whether African governments can really count on that. Although I think the food aid situation in the Sahel for example told governments for a while they could. But I think Africa-wide that's not true.

"Governments at this stage are not prepared to support regional institutions with money anyway, so donors need to think about that."

Much has been said about latecomers and the advantages of latecomers. It's also true that it's not good to be a late-latecomer, as someone else said. You don't want to try and beat the Chinese right now, or the Brazilians for that matter, at low-cost, labor-intensive manufacturing. You just aren't going to make it.

There are also the oil uncertainties. The energy problem is after all a problem of the 1970s onwards. And, of course, there is the looming aspect of trade wars and GATT and trading blocks. So it's not just doom and gloom, but one does have to look at why there are uncertainties in development strategy in Africa. Where is the locus of comparative advantage and how one might develop it and where is it likely to go?

The third set of issues is the evolving constraints to determining a consensus or getting a closure as someone said on a new strategy for effective resource mobilization for growth. We need to recognize that out of roughly 50 countries in sub-Saharan Africa, only five have elected governments in a multi-party framework and even those have some questionable aspects. This is a reflection of the newness of nationhood.

One of the implications of a lack of legitimacy of governments to govern is that the power base of governments has typically been narrow, which means that those people who are in the power base have had an awful lot of influence. And since they are quite capable of knowing how policies affect their interests, it's been hard to get more general policy-based recommendations through.

That's changing rapidly, in part because under structural adjustments, governments have been forced to recognize that even they must adjust. The only way they can do that is through some kind of perestroika, you might say. In country after country, as governments become, in a sense, more legitimate, their ability to govern goes up rapidly. My guess is that we will in the next 10 years see a tremendous increase in the capacity for self governance in Africa. That is the greatest reason for optimism. As that happens, then the burden on foreigners is less to tell them what to do, but to figure out the countries that are going to get into that position first and how we can be supportive of them. I suspect that if they can govern themselves, they will tell us ways we can be supportive.

The second subpoint on constraints is the much touted one on knowledge, human capital, institutions of reflection, and advice. I don't have much to say here except on the question of regionalization. One must recognize that only Nigeria, Zaire, and Ethiopia have anything close to the kinds of population base needed to go national, even on a small-country basis, in institutions of higher learning and research, ones that will really be first class.

If you are talking about the other countries, many of whom have their own national universities, they still really need to go regional. Governments at this stage are not prepared to support regional institutions with money anyway, so donors need to think about that. They need to think about it in a long-term context fully recognizing that they can't expect nation-states to pay for them for the time being. That's a bit of a leap of faith. But I suggest not abandoning the regional.

The capital problem is a third constraint on finding a solution. To really have structural adjustment, you have to have economies that are capable of responding to price incentives—that are capable of responding to a change in the terms of trade that makes your tradeables worth more relative to your nontradeables. To do that quickly, you must have the basic public goods available. You must have a road system of some kind. You must have communications. You must have research institutions. These are all things that, at the present stage of development of most African countries, are public goods, and take a lot of money. So while one is giving the spur, you might say, through price incentives, there's not much horse to run with it. Fiscal constraints on Africa are only going to go up. As reschedulings come due, it's going to get even worse. I don't know what can be done, but I do think that there needs to be a more open reflection on the fact that you can't have structural adjustment when there's no money around.

"In most of Africa, basic foodstuffs account for three quarters of household expenditure, even in the formal sector."

The way I like to put it as an agricultural economist is, how do you get an aggregate agricultural supply response? And as a donor, how do you assist that? If we look at the evidence, and there have been structural adjustment programs around Africa since 1980, where there has been pure price structural adjustment, the record there of sustainability of government policies in favor of structural adjustment and of aggregate supply response of agriculture generally has been pretty poor. If one looks at specific commodities, certainly partial supply response has been good. Nigeria is a case of that. When you took away some of the things that were preventing the production of certain crops, oil palm or cotton, you got tremendous crop-specific responses, but essentially through shifting other resources from other places in agriculture.

The examples of aggregate supply response that exist have all come from attacking the cost side of agricultural production. I think of the Kenya tea development authority, the Zimbabwe maize story on communal areas, the Mali Sud cotton story, Côte d'Ivoire during the cocoa boom. There are a number of other stories here and we could get into the specifics of those because we know a lot about the commonalities of those.

But generally, resources have been slow to move back into the agricultural sector, even when there's strong reason to believe a comparative advantage exists there, unless governments are in a position to increase the confidence of people, unless there's a certain stability, and unless there's a tangible effort by governments to signal that they are serious about agriculture—that they are going to make sure that the public goods are going to be there on a sustained basis. In places where that's happened, the private sector—farmers and others—have been forthcoming quickly.

The fourth set of issues, I would like to raise, is why privatization is not a sufficient policy even if it's a very necessary one. Here I'm going to get a little more technical. Economists always get technical when they are not sure what they are saying. Most African economies fall into what are called the semi-open economies. These economies have the curious attribute that despite a strong comparative advantage in certain agricultural exports, in other agricultural commodities, which are in fact the basic wage goods of the economy, there is not much market at all. It's because the commodities are bulky. Transporting a ton of maize from Mombasa to Nairobi costs about as much as to buy it in Mombasa, free on board. And that story is true just about all over Africa.

In most of Africa, basic foodstuffs account for three quarters of household expenditure, even in the formal sector. In those situations, what determines the main price of foodstuffs is the cost of nontradeables, your costs of production, the things that really drive the cost side of competitiveness. If you want to picture it in a supply and demand graph, there is a large band between your import and export parity prices for either your cereals or your home goods, you might say.

The reason I'm going into this is that it's very difficult for governments in that position to effectively devalue the real exchange rate. You have lots of other things continually changing. In that situation, macroeconomic policy isn't easy. If the Asian experience tells us that you can't pursue sectoral price policies without macroeconomic reform, what the Africa experience is telling us is that to successfully pursue macroeconomic reform, you need a bunch of sectoral policies that are consistent with it, but that accompany it. In this case, in some areas that's going to mean considerable emphasis on either home production of cereals or better distribution of cereals, but generally doing the things that allow you to keep true wage rates—the opportunity cost of labor in terms of tradeables—from going up too quickly under structural adjustment.

The history of structural adjustment programs has been pretty grim. Senegal is probably one of the grimmest cases of all. It was one of the first cases of structural adjustment. But if you look at the countryside, Senegal was one of four countries of Africa that used fertilizer on any reasonable basis, and fertilizer use has fallen by a factor of four over the structural adjustment period. Senegal used to have fairly good capital stock in rural areas. It's all gone. The reason for this is that in semi-open economies, markets are linked. That is, some markets work and other markets don't work. And it's not necessarily because of collusion. It may be because of low population densities, lack of roads—any of a number of things. In Senegal the credit market doesn't work. That's linked to the collapse of the banking system and political factors. In other places, it may be the land market that doesn't work. Credit systems don't work well if land markets don't work. It's not enough to push for just liberalization of grain prices when in fact all the things that are serving to increase grain production cannot expand; thus, the need for complementary policies on things such as rural credit if one wants to use prices to stimulate production.

There are traditional African responses in most countries to failed markets. There's a whole host of institutions that one observes widely. For failed land markets, one finds communal cattle entrustment for example. Why do they practice that across West Africa? You find communal collective labor as a response to labor market problems. You find all sorts of indigenous credit institutions such as tontines or other kinds of credit arrangements in the absence of real credit markets. It's important to recognize that while these things have been useful as a palliative, they are all breaking down under increasing population density and the onslaught of the city, you might say, and the economic incentives driven by mineral rents and by foreign assistance.

This raises quite a question for policy. Do you try to support these institutions directly, or do you try to help government programs to go in and create a new set of institutions to deal with the same problems, or go it alone as a donor?

The fifth and final category, and this is addressed to AID, is what can be done to better reap the benefits of liberalization, that is, to support liberalization strategies? And there are five priorities in no particular order because they are all interlinked.

First, of course, is capacity building. There needs to be the capacity to fulfill three functions in this particular area and that's policy data, policy research, and policy analysis. Those are three distinct tasks undertaken by three distinct groups of people. One needs to think about what one needs in data. One needs the right institutions to conceptualize policy problems and another set of institutions to translate that up to policymakers for decisions.

The second set of priorities is really institutional development in the broad sense, not simply going in and supporting a faculty of agriculture, though that's important, but to see how one can assist the development of institutions such as land tenure arrangements and credit. Since these are fundamentally political things, one always has to bear in mind a supportive role. I think you choose the countries that you go into on the basis of the ones that seem to have the best handle on it, and most will to do something useful.

The third set of priorities is the absolutely essential transfer of capital. In the structural adjustment era, though there's been a fair amount of transfer of public capital, there's been a tremendous decapitalization of private capital. One has to recognize they are not going to get anywhere unless there is a new inflow of foreign resources.

The fourth set of issues is assistance with public investment. In places like the Sahel, one might find 95 percent of public investment comes from donor sources. So I don't think donors can avoid their responsibilities here by saying that it's not our concern. Some heavy thought has to be done on prioritizing and on sequencing. It's not an alternative to liberalizing at all, but it is essential to having some success with liberalization.

Fifth is the whole issue of regionalization. Regionalization is clearly the way to go for a whole host of things that donors actually support. Donors support research, training, and market developments. One needs to look at the regional component recognizing that nation-states will not be willing to pay for this for some time to come.

DISCUSSION

Roemer
That was a long list of reasons why liberalization policies aren't enough and also what has to be done in support of them. I think they are all legitimate. The problem is that I don't see the handles here. I guess what you are saying is you have a general equilibrium system in which everything is important and I agree. That's obviously right. But it looks as if there are no steps one can take in isolation. You know, one has to move ahead on all fronts at once. And it sounds to me like a counsel of despair. I would be less pessimistic than you sounded at least about the ability to do much on these issues. Capacity building and institutional development, of course, are long-term things that obviously have to go on. But if we have to wait until the institutions are in place before we begin to force things to happen through markets and competition, then I think we'll wait a long time, and I don't know if we have that kind of time.

On transfer of capital, we are transferring capital now. The prospect of there being much more of it is not bright. Even if the AID is itself moving ahead on loans to Africa, the rest of the world will not be. It will be going in the other direction.

On regional institutions, people seem to think that governments do not support regional institutions well, so it means that donors have to do it. That is not a transfer of inherent capacity. It's simply another imposition of an external desire. All these things together look daunting. I wonder if my more pessimistic assessment of your prescription is shared by you.

Delgado

On the counsel of despair, if it came across that way I would stand corrected. I think in some of the stuff you've done you have taken the right approach, that maybe in Kenya the first thing to do is to get rid of the regional barriers within Kenya to maize trade. But having said that, one needs to be vigilant and to see what happens to food security in some areas. I'm saying that we have to avoid being smug on the liberalization side. I'm not saying that that is characteristic of this gathering, but it is characteristic of some policy discussions. Certainly on the food security side, there is lots of evidence from household surveys in large parts of Africa that some people are doing very poorly under certain austerity programs. Unfortunately there is a large body of work that is suggesting that the targeted programs aren't working. That's a pretty shocking thought. We did talk about going cold turkey. I'm not sure people have fully reflected on what cold turkey means in some of these contexts. My plea is not to do nothing, but to do it with eyes fully open and being prepared to backtrack where necessary.

"Investment has been growing, at least in the adjusting countries in sub-Saharan Africa, by about 6 percent a year over the last 3 or 4 years. These are short time frames, but we've really had structural adjustment only since 1985 and 1986."

Wolgin

I don't want this discussion to deteriorate into a discussion of structural adjustment, but there are some real questions of fact.

There are almost no structural adjustment programs in Africa that I know of that are price, only price. They've all been accompanied by substantial flows of investment resources. They all deal with these nonprice issues such as investments in infrastructure, restructuring of government sectors, and government service delivery. It's a straw man to talk about these things as being price only.

On aggregate supply response, I think that there's a lot of debate. At least in some places, there's some evidence that aggregate supply response is in fact quite positive, though not necessarily everywhere.

The question about capital flows: overall in Africa, capital flows into sub-Saharan Africa, and sub-Saharan low-income Africa, remain quite large—about 10 percent of GDP in net terms for low-income Africa, larger than anywhere else in the world by a huge margin.

Investment has been growing, at least in the adjusting countries in sub-Saharan Africa, by about 6 percent a year over the last 3 or 4 years. These are short time frames, but we've really had structural adjustment only since 1985 and 1986. Export volumes have been growing by 5 or 6 percent a year, even in the face of declining terms of trade. I don't think the record on structural adjustment is negative in Africa. I think it's quite positive. But we are going to need 3, 4, or 5 years down the pike to see what's happened.

The final thing is on this question of nutrition levels. Nutrition levels have been low in Africa and have declined during the 1980s, not because of adjustment but because of the recession that preceded it. Some of the studies that we've been supporting document that. It's unfortunate that people continue to link that with the adjustment.

Herbst

I was wondering if I could question Chris on this liberalization and backtrack issue. To be frank, that seems the worst of all possible worlds to me. It's not enough to liberalize and to get your prices right, you have to convince investors, in the first instance domestic, but also foreign investors, that those reforms are credible and that governments are committed to them in the long term. If they are not, at best you'll get zero response and worse you could get a bad response as in trade liberalization where you could make the situation much worse. This idea that you should step into it with one toe, see if the water is warm and see what the possible effects are, always with the possibility of reversing it, just seems to doom the program or your attempt beforehand. The only way of getting a real response in trying to convince people that these governments are serious is to go ahead no holds barred and damn the consequences, if you like, especially with the knowledge that these governments don't have the administrative ability to implement the kind of targeted programs that you talked about. Targeted programs in Ghana have failed.

They failed for a really good reason, which is the governments aren't in the rural areas and don't have the ability to target the poorest people for some kind of subsidy to ameliorate negative effects.

Delgado
When I say backtrack, I don't for a minute imply revaluing the exchange rate or that sort of thing, but I do think that there is probably a role, for some time to come, particularly in the dryland areas, for public food grain distribution of some kind, not on a monopoly basis, but with a food security objective. One wants to be a little bit pragmatic in the way that one handles these things.

People keep mentioning Ghana. But you know that Ghana is back on a growth track at the current time. And that means that the urban worker who relies on the salary in the formal sector will only have to wait 30 years before he can feed a family of four.

Herbst
But what was the alternative? They are all dead? They were better off 10 years ago?

Delgado
The point is that one has to keep a sense of perspective, which is easy to lose far from the scene, which we all are. It's not to say that one wants to take a step back on liberalization, but one wants to see that it's not a panacea for all things, and there are some serious issues. You say it's all well and good to jump into things, but there are a whole bunch of people who are going to disagree with that and for reasons that are pretty severe.

Timmer
May I continue that point? I think there's two different concerns that you have with the big bang or cold turkey or whatever. One is whether you are going to do everything all at once. You are going to liberalize every sector, every industry, every commodity system, do the whole thing all at once. Then the question is, might you have to back off on that, and credibility becomes an issue.

I know there are people who want to do it all at once because they don't know how to manage pieces of it. But the evidence is pretty clear that that's probably not the right way. The real issue is the sequencing. You have to pick the sectors that you want to do, and then you do the whole sector. You don't stick your toe in on financial deregulation. You do financial deregulation, and then you fine tune it to make it work. And then you see what the next one is. It's steel or it's cotton or whatever it is. But you have to figure out which one you can manage next—in a sense which group of politically powerful people you can take on and beat this round. Then you make that one work, and then you go after the next one. That's what takes time. You can't do all of those all at once and expect to make the things stick and work. It's in that sense, I think, that we've been talking about not trying to do this cold turkey, everything all at once, but just trying to figure out how to sequence it and do each one right and completely in that sequence.

Gordon

Let me add a corollary to that. This whole question of the extensiveness of liberalization and the sequencing of liberalization can't be separated from the conditions that exist at the time. That is, if you are in a context in which you've had a long period of economic decline, in which your institutions have substantially broken down, in which a lot of the economy has shifted out of the formal sector to the informal sector, then the opportunities for broad liberalization over a wide range of things are there. If you are in Eastern Europe where you've had this decisive political transition in which the whole structure of society has been turned upside down, there are real opportunities to take on a lot.

On the other hand, for many countries liberalization is inevitably going to be a partial process. I think, Jerry, you are right that it's technically more difficult to do these second-best solutions, but in a lot of African countries liberalization is going to be a second-best issue, in countries especially where things haven't broken down. The way that we've been approaching grain-market liberalization in Kenya is very much a piecemeal approach. There's a strategy to it, but we aren't trying to get away from the existing grain marketing system. It would simply be impossible.

Wolgin
I don't disagree with what Peter has said. There are some things that are clear. You can't liberalize the exchange regime and not have control over the fiscal policy. There are other kinds of things. Senegal tried to liberalize the industrial sector without liberalizing the labor market and that doesn't work. There are things that are linked and those things have to be done all at once. Second, if you put your foot in the water and slowly wait for the temperature to change, either of you or of the water, you may be in real trouble. It is much more effective sometimes to go whole hog in whatever sector you decide to do. That doesn't mean I agree you do every sector all at once.

Brent
I would like to bring us back to this morning's discussion. We are beginning to talk in the same terms we always talk about Africa's problems. We are mired down. The whole emotional energy level has dropped. Something struck me powerfully about this morning's presentation because it was my first extensive exposure to this whole Asian experience. The things that struck me were that we are so far from the preconditions in Asia in so many areas. They told us things were internally directed. They arose from an internal national process rather than from outside. They had developmentally dedicated governments who even if they had political instability in the course of things had a technocratic continuity and dedication. They work with the private sector rather than against it. There was a respect for incentives rather than direct controls. They went to an export course, but after an extended internal development process that had a whole bunch of ingredients that we haven't even begun to start on in Africa, micro-level policy changes, institutional development, infrastructure, the agricultural sector got going.

From an African point of view, you look at this and say, oh, my God, where in the world do we start, because we have none of those things and we have a political environment that probably makes it impossible to get developmentally oriented regimes. We don't have this sense of national dedication to development. We don't have a sense of understanding of the private sector at all. We don't have an export orientation. We have extreme export pessimism. It's a poor man's import substitution approach without the capability to effectively do that either.

Are there ways of going at Africa other than just trying to drag it up the hill in this method of the donor-led adjustment? Are there things like taking African leaders to talk with some of the people that have been through this? Having even an elucidation of this Asian experience that is publicly disseminated in Africa on a video or something. You know, beginning to make governments realize that they can't possibly do this without working with the private sector rather than against it. What are your suggestions? Are there things that you might do if you've got this image of what you have to do to actually get movement?

"They said liberalize the market. What we require is identification of the market, not liberalizing. Any entrepreneur will find his market, know the market is there."

Saiers
One of the things Scott said on his return from a trip to Africa is that there is a new wave of people coming in as leaders who perhaps look at the world a lot more like the Asian leadership looked at it 20 years ago. I think that some of that necessary preconditions are beginning to evolve. There are good technocrats in Africa. Every time we send an advisor of one kind or another out there, he bangs into somebody that's as well educated as he is, knows as much as he does, understands the way markets work as well. Decisions in Ghana are driven by the Ghanaians, not by the IMF and the Word Bank. I'm not nearly as pessimistic. One has to work with those people who are beginning to build a different base and looking at things in a different way.

Ranis
I don't want to repeat myself, but I do think that necessity is the mother of policy change. The reason we are seeing all this policy change in Latin America as well as in Africa is partly because people are more capable than they used to be, but also because they feel the need to do something, which they didn't see before.

So this pessimism shouldn't be taken so seriously. I also want to remind people that what happened in Taiwan was not Mandarins sitting around saying this is what we have to do now. There was a lot of bumbling and stumbling and going back and forth. Looking back, it all looks nice and scientific. There's a fine point between retracing one's steps and thus giving bad signals and really at the same time being flexible, pragmatic.

Alintah
I am at once rather surprised and baffled at what I perceive to be the mind-set of the group I've been listening to. I am confused because I can't figure out who you want to address in Africa. Is it still the government? If you do, then your strategy should take into account all that is happening now and know that there will be no reversal. There is no such thing as going back to the old ways. Your strategy should focus on what to do to help the liberalization that is going on now, because what I hear here is you might as well not have been around for the last 2 or 3 years. We have liberalized, but not voluntarily. It has been done involuntarily. It has been forced on the governments that have liberalized. They said liberalize the market. What we require is identification of the market, not liberalizing. Any entrepreneur will find his market, know the market is there.

When you talk about export, is it export to the metropolitan countries, or the EC? They don't want us there. Is it export to the United States? Are we talking about inter-African trade, which you could help us with? Are we to export to Asia? Or is it South America? You know we can't do that because they will out-compete us any day.

We should be a bit more practical and decide who we want to address. We want to address entrepreneurs. If you now want to have the private sector come to the fore, then fashion your policies that way.

Diagne
I agree with what Alintah said. If you had had this meeting, say, 2 years ago, I would have been embarrassed because I couldn't be optimistic. But, as we have seen, nobody was expecting change in Eastern Europe. And suddenly there were changes. Without thinking, all those countries are mentally prepared for liberalization, or

they are technically prepared to move into liberalization and the private sector.

Also, if you had asked me 2 years ago if Africa is going into democracy, I might have answered, no, but by chance it happened. It happened, so we can see realistically and practically what can be done, what steps forward we can take to help Africa in that way.

AID has supported organizations, such as APDF to finance feasibility studies. APDF finances a lot of feasibility studies, but in the end, it gives no financing for projects. So there everything is blocked. You have supported Amsco to give technical assistance. In my opinion, the way Amsco is going today is not positive for Africa in terms of financing assistance because you want the company that needs assistance to pay for that assistance. I don't know why they have to pay if Amsco was provided with more than $20 million for assistance. You have given a lot to the government, but just give some to the private sector.

"When ASEAN countries were first moving into export manufacturing in the 1970s, everybody said it is the worst possible world market."

Someone has spoken about exports. We have to export, but companies need help to export. Some governments have established policy incentives to support exports. But export companies need more technical cooperation to learn how they can market and commercialize their products. In my opinion, we are not now in a position to compete with Asian products, but with more technical assistance, we might be in a position to take part of their market.

I propose that AID have a venture capital fund. It's a suggestion that I'm making because it can help in what AID is doing today for the private sector.

Saiers

Africa may have difficulty understanding where you find export markets, niche markets, and so forth. How did the Taiwanese find the niche markets? If they were relatively small companies, how did the process begin that actually got the exports moving? I don't understand the Mauritius case yet either.

Ranis

A lot of it started by sourcing to western markets. In other words, the famous textile manufacturer who has a standard product and has the Taiwanese manufacturer produce it. Textiles are a good example. There's one case that became a trademark, which was sold inside Taiwan, and then more recently with some deviation and lower quality, was sold to neighboring countries. The sequence can cause change. You can go from an internationally specified commodity to one that is somewhat lower or different quality in a neighboring country market. There is now a shift, especially in the Taiwan case, to producing goods for the ASEAN countries as well as investing in the ASEAN countries, as was mentioned. Who was doing it? Well, in Taiwan it was small companies working with small traders. By the way, I think that's the reason small or medium firms were so much more prominent than in Korea. You had a lot of small traders getting the thing started early on. Some of them came from the mainland and some of them were ex-landlords, small landlords in the wake of the land reform. There may have also been this political argument that was mentioned, but I think mainly there was a large number of these small active traders who themselves were involved in medium and small industries. And they went to market themselves. There were, of course, American and other western entrepreneurs who came over and gave them designs in the first stage. Then they moved into other areas.

Lim

I would like to address myself to export pessimism generally and then to the specifics of how you find markets. A lot of this sounds familiar to me as well. When ASEAN countries were first moving into export manufacturing in the 1970s, everybody said it is the worst possible world market. The NICs have got the whole thing. How can you ever compete against Taiwan? Well, things change. Now it's how can Taiwan compete against Malaysia? Malaysia, if you look at their plans for the palm oil industry, puts the challenge from Africa as one of the constraints that they are facing because they've run out of labor. Things change. Exchange rates change. I don't think you can take a static review of it.

There are lots and lots of ways to find markets. The original Taiwan way is by creating new products based on your resources. Those little canned mushrooms and stuff didn't exist in the West. All kinds of stuff you see in the markets here are food products that nobody ever ate, that you didn't have before.

So I think you can develop from your own resources and eventually capture some of those benefits like moving into processing it yourself and finally, as a couple of Thai companies have done, buy up the distributor in the United States and have a world monopoly on the canned tuna market. You can start from anywhere. You know, you can't actually compete with the Chinese in terms of low-cost labor. If you look at all the investment that's been going into Southeast Asia, a lot of that is theoretically competitive with the PRC and they have much higher wages, but you have to offer something else in opposition to that.

I endorse the view that if you really can't develop your own market you can let somebody else do it for you. There are trading companies in Southeast Asia, lots of small Chinese import-export agents all over the place. I know there are 20 small Singapore companies working the South Pacific alone. Every time I go there I bump into some small Chinese trader who's doing trading for these 100,000-population countries.

So you can have somebody else do it for you or you can have the big multinational do it for you. Buy into them for market access, at least temporarily, until you get going and until your name gets going. Who would have believed even 5 or 10 years ago that you would have computers that said "Made in Malaysia" and they would be top quality? You are starting from nowhere. I think export pessimism is missing the boat.

Timmer

In the early and middle days in Taiwan and even in Hong Kong, there was either a governmental or a semi-governmental role in helping set up trade associations or groups that helped small companies locate markets overseas. It's awfully expensive, just in overhead terms, for a small company to go off to the United States and try to figure out what the market is. There are real economies of scale there.

In Taiwan, the government was helpful at setting up semi-governmental groups that captured the economies of scale in looking for markets and providing market information and letting people know what the standards were going to be if they were going to export something. How do you break into the FDA rules on canned products and stuff like that? That kind of information is extremely difficult for a small entrepreneur to get. It's easy to have it in one place, there in Taipei, so people learn what to do. Helping in that process for small-scale entrepreneurs is fairly important if you want a small-scale based industry. If you want to go the Korean route, then the big firms can do it on their own, but that's a very different strategy.

"I'm not sure I like this whole business that keeps coming around the table of, oh, well, let's use multinationals for a year or two until we know how to do without them."

Dean
Let's hear from Lonrho or somebody who actually knows how to make money.

Platts-Mills
Commenting on niche markets and exporting: if you go to California, you will find you can buy organic tea. It doesn't come from Southeast Asia. It comes from Tanzania. This was invented over lunch by myself and a friend. That's what it cost us: about 2 hours over lunch playing around and thinking, well, why don't we do that? Three months later we were making organic tea and we put it on the market 3 months after that. On the other hand, the reason why he and I had lunch together is he is probably one of the best tea brokers on earth. He helped me very much when I was trying to buy back our tea operations in Tanzania. He was wondering, well, let's think of some clever idea. Why don't we do something? I'll have lunch with Jo because he's a clever sort and it came out. That wouldn't

have happened to the representative of a small African company sitting in Africa.

I'm not sure I like this whole business that keeps coming around the table of, oh, well, let's use multinationals for a year or two until we know how to do without them. You see, we were there before you. We are bigger than you. And we shall be there after you, because actually we are a natural and logical part of what goes on in Africa. When you speak about regionalization, that's what we do. We grow tea in three countries in Africa. We taught Tanzania how to join the Malawi tea research operation because they didn't know the way there. We took them down. That's a small element of regionalization. Hopefully, we shall persuade somebody to fund re-establishing the Tanzania tea research foundation because it's necessary.

It's exceedingly difficult to find an export market. Normally, it takes enormous amounts of hard work unless you have a universal product. Platinum's fine. We enjoy exporting that. Rhodium is even better. Gold isn't bad, particularly if you get it in Ghana because that's cheap. We have very high quality or extremely cheap processing. But about this business of let's get the farmers to export beans, we tried it in Zambia. You can't do it from Zambia because the aircraft won't run. From Kenya you have three wide-bodied aircraft every night going north to Europe. So if one plane drops a wheel, the goods still go and the client is still in business. You have the business going. If you go into Zambia where every second night it doesn't go, you soon lose your client. The client is not interested in a supplier who is unreliable. He's interested in having his 5 tons at Heathrow at 8:00 o'clock in the morning. Maybe Harari is coming up now, but there's no other airport in sub-Saharan Africa that can do that. No other airport that can say, I have the aircraft, therefore, it's worth shipping the goods down to it.

Getting these markets is extremely difficult. We fight like mad. We found markets for our mushrooms. The Taiwanese are very good at them. We have a fairly large mushroom operation in Kenya. These days we pickle them in brine and put them in liquid chemical plastic jerry cans and we ship them to Germany. That's working. Fresh we never achieved because we are 12 hours drive from the airport. That was too long for fresh mushrooms. We put in vacuum freezing. We even thought of irradiating them, but it didn't quite work. Pickled, we are okay.

It's a helluva struggle. It's a helluva task. But if you are there and that's all you have to do and you have the sheds and you are growing the mushrooms, well, you struggle through until you find it. I guess that's what the Asians did. It's no use saying, oh, well, it's going to be easy. Or tell us where to sell it. You have to battle your way through it.

Weinstein
To answer the question on Mauritius, one of the reasons they made it was the tie-in with the Indians, the Taiwanese, or the Chinese. They piggybacked on markets that already existed. A number of the Asians are starting to look at Africa now because certain things are becoming difficult in Asia. They are looking to diversify and to get into different markets to play the quotas or to take care of the production costs, or the labor costs, or something else. We are finding that Asians increasingly are coming around Africa and seeing what might come up and then figuring out where they would go in. To the extent that liberalization goes forward, that's going to help. Where Africa also will need help is how to market its products. That is where Lonrho comes in. That is where local producers come in.

I don't think we should be pessimistic. I was told that when the Korean miracle was first started, everyone was pessimistic and no one thought it would go anywhere. I'm not sure that every African country is going to make it, but there are some African countries that can, and that goes back to the notion of a success model and self confidence. It would be good if we can find some products that start to succeed, and get those success stories known. We may have success stories that involve less than an entire country, but we have to get more of that known so that others who are going to attempt it realize you can do it.

Roemer
I think we are all pretty clear now there are niche markets. There are people who will market. Here's where the whole idea of liberalization and deregulation come in. Get rid of these absurd controls.

That's something AID can do a lot of. It's self serving to suggest you ought to hire academics to tell people how to do things. But sitting around this table is a good start. Things that come out of these kinds of discussions need to be written up and broadcast around. Governments need to understand there are ways of doing these things, but you have to change your attitudes. If you can get to the finance minister, he might get to the president and say so. And he might make the point or he might not. There are fundamental problems that ought to be addressed. And I think everybody knows what they are. The point is that if they are addressed, there is responsiveness in the international market to a lot of these policy changes.

"I have to tell you that as a businessman for 25 years, markets are not found. They are created. They are made."

Spangler

I can't say how delighted I am that this conversation is ending on a much more upbeat note. It's a wonderful experience for me as a private-sector person to see that when we started talking about what the private sector could possibly do, the energy level started to go up. It was the dismal scientists from economics that started us looking down.

One of the things that struck me—a number of you made this comparison—is it's tough for Africa because Asia started out in the 1950s and 1960s and times have changed. But if you think about that, when Asia was starting out in the 1950s, they had one market, the United States. In the late 1950s, the 1960s, they had two markets, the United States and Europe. Today we have the United States, Europe, Japan, the NICs, Asian tigers. We have all the oil-rich people in the Gulf who don't know where to spend their money, even in parts of Latin America—Brazil is much richer than it was. In fact, in the 1950s, the United States was much more self sufficient and a much harder market to penetrate than most of these others. So I think there's an enormous amount of opportunity.

Somebody asked, how do you find these markets? I have to tell you that as a businessman for 25 years, markets are not found. They are created. They are made. Sometimes they are made just by going and buying your way in. Sometimes they are made by great innovation. Sometimes, unfortunately, they are made by brute force as the Japanese are teaching our auto makers in the United States. But they are made. They are not found. They aren't lying out there today because if they were, somebody would have already been in there.

I think Steve identified an emotional trend, and I'm pleased that it turned around and went the other way at full clip.

Dean
We'll pick up basically where we left off, inserting at this point the response to some of the earlier sessions. We have Dave Gordon, Jeffrey Herbst, and Shem Migot-Adholla to give us three responses.

Response: Political and Social Constraints to the Transformation of Africa

Respondents: David Gordon, Jeffrey Herbst, Shem Migot-Adholla. Chair: Leslie Dean.

Gordon

Let me make a couple of general comments and then go on to address some of the issues that are raised in these questions.

First, let me speak briefly about the broad relationship between political development and economic development and which comes first. Several people made the point that in a lot of countries economic development has come first and has generated pressures for political openings, and that's what we are seeing in Korea and other Asian countries.

I don't think that you can say inevitably that democratization comes out of developmental success. Democratization can also come out of development failure. If the success of economic development created pressures for democratization in Asia, the failures of economic development created pressures for democratization in both Eastern Europe and the Soviet Union and indeed has done so in Africa. I don't think that you can make a clear statement about which comes first. It's not something that we can design. You can't design a societal evolution and say, first we'll develop economically, then we'll open up politically. These things are fairly autonomous processes. One has to look at how the relationship works at different points in the process.

The second point was about political stability. I'm an expert on eastern and southern Africa. A lot of the countries I work in have been very stable politically. Kenya has had one party that has ruled it since independence and two presidents. Tanzania has had one party, two presidents; Zambia, one party, one president. These are politically stable countries. A lot of the Asian countries aren't very stable. I'm not sure if we were on target in saying that what distinguishes developmental success in Asia from developmental failure in Africa in any sense is political stability. Obviously, something's going on at the political level in Asia that's different from Africa. There are important political sources of the difference in development outcomes in the two regions, but it's not political stability per se. I think that the empirical evidence on that is very weak.

"I don't want to get into economist bashing because they always bash me right back. But it strikes me that when economists describe their preferred world they often describe an apolitical world."

The other thing that strikes me in hearing some people talk is a desire for an apolitical world. I don't want to get into economist bashing because they always bash me right back. But it strikes me that when economists describe their preferred world they often describe an apolitical world. I think the world of states and politics is never going to be apolitical. And the world of development decisions is never going to be an apolitical world. Some politics is more conducive to successful development than other politics, but I think politics can be suppressed at best only for a short time, and that it will inevitably rear its head. It's something that has to be factored into equations.

Let me speak to some of the existing political constraints to transformation in Africa. We have to begin from the assumption that the form of governance and the form of statehood in Africa since independence has broadly not been supportive of development efforts.

It's a different form of state than we've seen in other parts of the developing world and in particular in the Asian countries that have acted in a broadly promotive way in relation to economic development. More than a few states in Africa are simply predatory states. Ann Kreuger has used that term, I think accurately, to describe several states that exist substantially to prey upon society in a way that benefits top state elites. The Zaires are examples of that. More common are states in which predatory components co-exist with other components, including technocratic components. The country I'm most familiar with is Kenya, and the Kenyan state has a component in it that is predatory, but it also has technocratic components in it. In general, we see a tension between predatory elements and technocratic elements within states. But we shouldn't understate the continuing existence of predatory elements within African states.

> **"The perception on the part of business that if they get into a conflict, either with another business or with an agency of government, they can go to a court and get a fair hearing—that simply doesn't exist in most African countries."**

What struck me in the discussion about Asia this morning was that perhaps the predominant difference between Asian states and African states is the nature of the relationship between the state and the private sector. The description that Linda was giving of the relationship of the state as a facilitator of private-sector accumulation and private-sector leading role in development simply doesn't exist in Africa. In some countries it's beginning to be talked about, but in almost no country in Africa, when push comes to shove, do states act in a way that really facilitates the private sector.

There are two dominant attitudes toward the private sector in Africa. One has been sheer hostility that you've seen in a number of states. The second one has been cooperation between the state and the private sector in capturing domestic markets in inefficient monopolistic or oligopolistic ways that have almost inevitably not been conducive to long-term development trends. So I think there's a severe mistrust of the public sector that continues to be a major political constraint in Africa.

The third point is the continuing role of ethnic and racial conflicts and sensitivities, and that interacts with the problem of the relationship to the private sector. The private sectors in many countries in Africa are dominated by ethnic outsiders or by racial minorities. In many of those states, government policy has been heavily constraining the activities of those actors. We heard of similar ethnic and racial interactions in the Asian models, but the outcomes have been much more positive in terms of keeping a constructive tension between state efforts to promote indigenous interests, while at the same time not shutting out ethnic or racial communities from the investment process and from feeling a part of the national society and polity.

Another important issue, one that comes more from the literature on Asia than from our discussions today, is the lack of autonomy in Africa for economic policymakers. In Kenya, in the early part of the 1980s, there was a powerful and highly intelligent group of economic technocrats who had laid out an ambitious program of economic reform. They were largely thwarted by the fact that they were autonomous actors. They had thought that they had been given some policy space on issues like privatization. When push came to shove, that space disappeared. Their autonomy was denied by the central political authorities. I think that pattern of the lack of autonomy for senior economic policymakers is a rule in Africa. That's not to say that the senior economic policymakers are powerless. They have a role. They have a voice. But they've hardly ever been immune to the political imperatives that senior politicians have felt.

In many countries, the political coalitions that dominate are inimical to growth. There's a whole literature on that in Africa, Bob Bates being the most prominent proponent of this view, that says that an urban-based, public-sector-based political coalition has dominated in a way that has precluded economic policies and approaches that would facilitate what are in the common interests of national development in these countries. I want to distinguish that from the predatory states, though they are sometimes connected. But these are not states that are necessarily really ripping off their societies. These are states in which the beneficiaries are a fairly narrowly based set of interests, large farmers, urban people in general, and public employees in particular. But the kinds of economic policies that are conducive to their interests are not the kinds of economic policies that we've been discussing here today, some of the lessons growing out of the Asian NICs.

There are also a series of problems, again linked to the lack of an enabling environment, as it were, for the private sector that goes beyond attitudes on the part of government. Here one thinks of the question of corruption that has reached severe proportions. Low-level corruption and predictable corruption is not necessarily a bad thing for development. But corruption in much of Africa is unpredictable and is at levels that have made private investment simply not something that will be considered, particularly by foreign investors.

Similarly, the lack of transparency in governmental operations, the lack of the rule of law, and the perception on the part of business that if they get into a conflict, either with another business or with an agency of government, they can go to a court and get a fair hearing—that simply doesn't exist in most African countries. That's a powerful constraint on investment.

The final point goes to this question of what government should be doing. It's something a little more technical, but it's also very political in the end—that is the inability of African governments to strategically direct their budgetary expenditures. The central control over budgetary processes has been very weak. African countries have sometimes been able to start a fiscal stabilization program, but they have not been able to manage that program in a strategic way. It has been difficult for central ministries to direct and strategically provide a goal for the spending ministries. That's a technical issue, but it's also a deeper political problem of the relationships among governments and the role of patronage networks in African countries.

I don't want to paint an overly bleak picture. These things are changing in a number of African countries. In general the move to democratization in Africa is positive, even though it may have some short-term negative implications, especially for economic stabilization. In the context of democratization with elections coming up, tough economic stabilization programs are going to be very difficult to sustain. But I think that democratization programs, should they be sustained, will in the long run be more conducive to creating a form of governance that will enable African countries to grow at a faster rate than has hitherto been the case.

Herbst

A few points stand out, and I'm afraid this is mostly cold water. I'm not ashamed about that at all. The first is that there's no such thing called Africa, which has been the unit of analysis that we've been talking about. It happens to be a land mass of about 45 countries. That's particularly important because of the implicit model of the African economy that we've been talking about, which is a country that has a low growth rate, potentially negative per capita, but where growth and development is high on the agenda. If we could make the necessary policy changes we could, as question 1 says, raise growth rates to 6 percent or higher. This is not the vast majority of African countries.

"One of the most important things you have to understand about Africa is that the political cost of economic decline is still not great."

The top agenda item for most of Africa today is not growth rates of 6 percent or higher, but how to prevent complete national disintegration. The future of Africa is not necessarily Malaysia. It's more like Liberia or Somalia. Until we get that straight, I think we are missing the picture. I think AID's job, in the first 5 years or more of the 1990s, is to prevent or halt complete economic decline. A lot of these countries have been barrelling toward disaster for 15 to 20 years. There's not going to be 6 percent growth for a long, long time. Other major disasters are on the way. We can only mention AIDS, which conveniently has not been talked about so far, or environmental degradation, which in the context of a 3 percent plus growth rate, is going to have a major impact.

In fact, the countries we are implicitly talking about when we say Africa are relatively few. They are the Kenya's, the Zimbabwe's, maybe Ghana, maybe Nigeria, although I have my doubts about that, and one or two others in coastal West Africa. It's important to look at, for instance, what's happening with the largest countries in

Africa—Sudan, Zaire, Mozambique, Angola, Ethiopia—all of whom have fallen apart essentially, and you are not going to be able to put them back together any time soon. When you have to look at successes like Mauritius, which isn't on the continent, or Gambia, so small as not to really count, then I think it's disheartening. So we have to be clear on what the problem is.

The problem in the first instance is preventing national disintegration. Just in the last 18 months or so, there has been a democracy movement, but there has also been Liberia, Chad, Somalia, and Ethiopia. Most of those countries are in complete disintegration now. Lots of weapons. You are not going to put them back together any time soon.

There has moreover been little change in attitude in Africa. A lot of the officials you talk to, and especially the aid people, are telling you what you want to hear. It's not necessarily what they are doing in country. Second, you are only talking to a select group of people who are in some cases brought out to talk to you, in some cases you naturally seek them out. There are a lot of people down the bureaucracy in lots of African countries who are still completely unconvinced of the virtues of private enterprise, the market, or foreign investment. The guys who approve the permits, the guys in the central bank who control foreign investment, a lot of them remain unconvinced. And the lack of a true success model in Africa only feeds that because there is some affiliation with socialism still, but there is a profound and deep distrust of the market in Africa. You could call it irrational if you want, but it is still present in lots and lots of countries. This is changing in Africa and it's going in the right direction and it shouldn't be undersold, but it's only a first small step.

One of the most important things you have to understand about Africa is that the political cost of economic decline is still not great. This is unfortunate, but again we have to understand it if we are going to see why many countries do not adopt reforms even if it's in their economic interest to do so.

Because most of these countries have large rural populations, even if there is dramatic economic decline, there are not going to be people going out into the streets to protest. What we've seen in Africa over the last 15 to 20 years is more or less continual economic decline, yet few governments, if any, have been displaced because of economic failure—people getting fed up with it, going into the streets protesting, and overturning the government. What they do instead is go to the rural areas, try to scratch out something on a piece of land, or in many cases, if they are technocrats, they leave. They don't continue to press for policy changes at home. They go and work for the UN, the IMF, or in the homelands of South Africa, quite often. So exit strategies are still common, and many African leaders can get away with extremely poor economic performance. I hate to say this, because I think AID is part of the problem here, but the international community has not made the cost of economic failure high enough yet. All you have to do is see Zaire, arguably the paradigmatic case of economic failure over the last 20 years, and that it continues to get money from the international community.

Few countries have experienced tough conditionality at all. Because of the internal imperatives in the IMF, the World Bank, AID, and lots of donors, the international community has not walked away from African countries that have performed poorly. In fact, most leaders think that if they do face a stabilization crisis they can make some reforms and get enough external finance to get by. Despite all this talk of conditionality hammering African countries, in many ways it has been weak over the last few years.

One of the challenges that AID is going to face in the next 10 years is that there are going to be demands to make conditionality much tougher and to make the cost of economic failure much greater. There are going to be lots of calls to walk away from African countries that are not performing well and to pick a few winners and devote resources mainly to those countries.

I'm not sure I favor that, because it's an extremely risky proposition as we heard this morning. We have no real idea who's going to succeed, but there is going to be real pressure as lots and lots of countries begin to disintegrate. Resources are limited. What we are seeing is that Africa is becoming more heterogeneous, and most of the countries will, frankly, go down the tube, with possibly a few countries proceeding along some kind of path that was laid out this morning.

I wanted to respond briefly to the questions about democracy. Is democracy necessary, sufficient, or inimical to rapid growth? My view is that it is largely irrelevant given our present database. It is true that there are few countries in Africa that have adjusted, be they authoritarian or democratic. In fact, there are no democracies in Africa in my view—that is, a country where there is a regular expectation that if the opposition gets voted in there will be an exchange of power. That has not happened except in Mauritius and maybe now in Benin.

So I don't think we have much good evidence to say that democracy helps or hinders adjustment. A few authoritarian countries, like Ghana, have been successful in clamping down on opposition and getting reform programs through. Many governments that are arguably tougher and have a worse human rights record have not been successful in pushing through reform programs. So just because you are authoritarian does not seem to be much of a guarantee.

Further, we have to remember that you can be authoritarian and not be stable. We are not talking about Eastern European countries of the old cloth, that is, where you had 45 years of one government. It may have worked poorly, but by God you knew the rules. It's not the case that democracy in Africa is going to introduce new uncertainty, it has already passed uncertainty in these countries—even in a country like Zaire. Where you have one guy on top, investors will not invest because there is no certainty. So I think democratization does not have any necessary effect on the investment climate, because the investment climate is already so poor in most African countries.

One optimistic note about democratization: Few African leaders reverse track and institute new reforms after being in power for long periods. If you think of who have been the adjusters, people like Rawlings, Babangida, a few others, they are guys who came to power and then went into reform programs pretty quickly. They weren't in power for 10 or 15 years developing strong power bases, and then throwing the thing into reverse. That doesn't seem to happen. So one good aspect of the democratization movement may be just a change of leaders who, without an old power base, may feel freer to introduce reforms.

I will say, finally, that the focus on democracy, especially multiparty democracy, really misses the point in the relationship between political liberalization and economic adjustment. There are other things that in my view are more important, which I would put under the umbrella of political liberalization. David mentioned before the necessity of enforcing business contracts, that is, the rule of law. A freer atmosphere for information, more newspapers, better radio stations, where people have some idea of what is happening in the national economy and government other than what they hear on the street corner, the ability to organize peasant groups and business organizations and to present your case to government: It's those kinds of things one step below the level of democratization that are most important in the relationship between political reform and economic reform. That's why I think multi-party democracy is largely irrelevant. But if you don't have the rule of law, if you don't allow more information to flow, if you don't allow some kind of associations to form, then economic adjustment is much harder than it would otherwise be.

"We complain that leadership doesn't have the vision, the will, etc. But it may be that the development agencies don't have it either."

Dean
Some sobering thoughts. It certainly adds a balance, and there is a lot of reality in what he is saying. I think most people would find it maybe is an extreme position, but certainly a lot there to think about. Shem, how do you follow up on that one?

Migot-Adholla
Frankly, the current economic crisis in Africa gives legitimate cause for some pessimism. Given the technological shapes in production of exports, integration of markets, and so forth, it's difficult to envision how Africa may get out of the present economic morass. But the future need not be as bleak as the previous speaker suggested, if indeed necessity is the mother of invention. In a sense, this after-

noon's underlying pessimism about Africa recalls some of the debate in Asia during the 1960s on the eve of the war in Vietnam. Look at the situation, look at the technology of production and the possibility of breaking into agricultural export markets—it can't be done, they are going to be eating each other. That's what we are hearing just now about Africa.

Some 30 years after the pessimism about development in Asia, we are now asking for an Asian model to guide development in Africa. Of course, the Asian experience is not uniform. There are some failures in Asia, some we haven't even talked about. Nobody mentioned Cambodia for instance. So there are countries there that have been at it for much longer with not particularly impressive results. Nepal. One can go on.

What matters is that even in Asia, even in Taiwan and Thailand, etc., we are not talking about a linear progression. But the general trend over a longer period of time appears to have been sustained. The question then is what provides that glue that will sustain a moderate rate of growth, 2 or 3 percent, maybe more, over 20 or 30 years.

It is perhaps here that David's point about stability comes in. David downplayed the question of stability. I don't think the notion of stability in this sense is simply one of continuity of a regime or two presidents in Kenya or two presidents in Zimbabwe. It is rather one of political will, predictability, and you can add in rule of law and ability to enforce contracts. The development of a civil society, the ability to debate issues openly, to hold leadership accountable—I'm not sure whether these are crucial because looking at the Taiwans of this world, it is evident that they achieved them before they realized rapid rates of development.

We complain that leadership doesn't have the vision, the will, etc. But it may be that the development agencies don't have it either. We have seen emphasis shift from the early Rostovian ideas to the superiority of the marketplace—leave it all to the market. And there's a lack of vision of what is the musical score, as it were, and who is interpreting to whom? I am a little more positive than my previous colleague. I believe that to produce an orchestrated development process, the score has to be written jointly. I get the impression that Africans are beginning to demand to write the score. There's a tremendous debate in which professional associations, the church, private-sector interest, manufacturers' associations, chambers of commerce, etc., are beginning to make demands on governments.

I would also hope that the international development community is rethinking the way we have gotten so far. Take agriculture for instance. I get the impression that there is a tremendous amount of impatience. Nothing is happening in Africa. But look at the green revolution in Asia, from the point the miracle rice was being developed until it was widely adopted by farmers over most of Asia, there was a lag of not less than 30 years.

But in the case of Africa what do we have? The International Institute of Tropical Agriculture in Ibadan is barely 10 years old. So far no very impressive developments have come out of there that would be suitable to agroecological conditions in much of Africa. But impressive results are beginning to come out with respect to cassava for instance. Maize hasn't done particularly badly in Zimbabwe, in places like South Africa, and in Kenya for that matter. And one can see advances with cowpeas and other rainfed crops coming up. These are small things. I'm not looking for the big bang. I don't think that development proceeds that way.

Some comment has been made about the size of the market—African countries are too small in terms of population in comparison to Asia. True. But there may be possibilities for innovation here. Unfortunately, I didn't hear any talk at all of regional market integration from this group. Nor in the institution I work for. We did a long-term perspective study for development in Africa. The section on regional integration was somewhat weak. Although very dramatic changes are beginning to take place in South Africa, not once was South Africa mentioned.

So there are possibilities as incomes rise and development takes place elsewhere in the world—the possibility for penetration for those markets, for tastes to change, of new markets to be created, and therefore for agricultural exports from Africa to lead economic development.

DISCUSSION

Brent

A question of clarification to Jeff. When you said there were going to be pressures to concentrate on a few solid performers, what did you mean?

Herbst

I think large parts of the international aid community are going to start to demand it. In the 1980s, people realized that economic institutions weren't working. In the late 1980s, people realized that political institutions aren't working. In the 1990s, people are going to start questioning the viability of the African countries themselves. People are going to say, so what if Mali does structural adjustment, what is it really going to get them in the end? And then people are going to say, let's hope for regional integration, and I hope there are large movements that way. But people will begin to say also, maybe we should try to sort countries into those that can adjust and reform and those that because of their internal political situation or their disastrous resource base will not be able to.

Brent

I'm not arguing with you. I just want to know, what is the political base for it? I agree that might even be a wise strategy, but is it politically undoable because of the politics of the World Bank, the politics of the Congress regarding foreign aid in Africa, and any number of factors? Where are the pressures for it? I'd be glad to see them, but I don't know what they are.

Herbst

The pressures are there actually in the World Bank. I think a lot of people aren't that happy about what the bank has done. It hasn't been that successful. Maybe they should get out. This is not what the bank was supposed to be doing in the first place. I think, although the United States would probably be the last to say this out loud, that it is a natural progression that once you question the internal institutions, try to rectify those, and don't see much in the way of results, certainly don't see 6 percent growth, then you start to question the viability of the country itself.

Ruttan

I can see another basis. U.S. foreign aid budgets have, since the late 1940s, been driven by the Cold War tension. When Cold War tensions rose, aid budgets rose. When Cold War tensions declined, aid budgets declined. They've been declining since about 1985.

I see nothing on the horizon that is going to cause that decline to reverse itself. There are a couple of potential things one could think about. One is the potential of a global health crisis. When you add together the things that have been mentioned, particularly in Africa, failure to make progress in parasitic disease, resurgence in malaria and tuberculosis, the high cost of dealing with infectious disease and AIDS and environmental effects, one can visualize situations both in developed and developing countries where there would be a convergence of interests. Environmental issues are another area. But I don't see either of these generating a substantial resource flows.

"Will the donor community finally say, 'you are cut off' to all of the countries that have been so badly mismanaged? I think for the first time that's a possibility."

Furthermore, U.S. policy toward the rest of the world has swung back and forth historically between a missionary impulse—making the world look more like us—and an opposite impulse—the world is a nasty dirty place out there and we want to hold it at a distance.

My sense is that as the post-Gulf War evaluation sets in, we are going to be moving back toward a view that we cannot do much in the rest of the world. We'll probably say, okay, we'll start paying our UN dues, and we'll see that the World Bank occasionally gets an IDA replenishment and let those guys do the dirty jobs. I see us backing out of the aid business with a whimper.

Spangler

I still am an optimist after this latest discussion. I would like to go back to a point several of you have made that leadership in a country, whether you call it will or whatever, is what really makes a country grow. We give Africa short shrift because we forget that that first generation of leaders in Africa brought an awful lot of baggage into their posts. Those men, the Nkrumahs, the Nyereres, etc., who were educated outside Africa in the 1930s, were educated in the United States or the U.K. at a time—sorry for all you economics professors—when economics was in turmoil here ranging from Fabian socialism to Keynesianism. That was on the one hand. On the other hand, the Marxist-Leninist thing was a new idea in the world, and it was a different idea than the western colonial thing. So they brought a lot of baggage into their jobs, and they weren't well advised, frankly, by those of us that went out. I think we were just about as confused about how you make an African country develop as they were.

The other group of people were those who never left the countries. Their only image or preparation for being a leader was to look at the colonial people that actually lived there. Although I have a high regard for particularly the British colonial service, if you look at it from the point of view of an African, these people sat around and didn't do a lot and got paid huge sums compared with what an African could make. All of that set a framework that was pretty tough to overcome for somebody who was just taking over the control of a country.

The new generation, the people that I am now meeting, is a whole new kettle of fish. Not only are these men educated in a time when I think that thoughts about economic development are clear, they have seen the problems that their countries and their economies have gone through, and they are as informed as anybody about the problems they face. This new generation gives me a lot of hope.

Another cause for optimism is this issue of conditionality. Will the donor community finally say, "you are cut off" to all of the countries that have been so badly mismanaged? I think for the first time that's a possibility. The French are thinking about it. The EC is thinking about it. It's discussed openly now in some World Bank meetings. It isn't easy. Probably it's harder for the United States than anybody else because these countries hire lobbyists in Washington and make it very difficult for us to shut them off. But I think that is a possibility. Conditionality of aid will help. At least we won't support the bad guys the way we have been.

The last point is that there is a misconception that with the end of the Cold War aid is decreasing. Yes, aid in total is decreasing or flat, but that's because we are not giving tremendous sums to Vietnam. Some of the ESF funds are not going. But Africa's development assistance budget has gone from $560 million a year ago to $800 million this year. Yesterday for the first time Senator Leahy said we better be thinking about getting a billion dollars next year. So it isn't quite as dark out there as some economists and political scientists are telling us.

Thursday evening, June 6, 1991

What Can Be Done to Get Private Indigenous and Foreign Investors to Rediscover Africa?

Panel: Jo Platts-Mills, Loum Diagne, Michael Davies, Esom Alintah. Chair: Warren Weinstein

Weinstein

This session will deal with a view from the private sector itself. To put this view together, we've tried to reach into the African private sector, the European private sector investing in Africa, and the American private sector investing in Africa. On the European side we have Jo Platts-Mills who runs the Projects Department at Lonrho and who will be our first speaker. The second speaker will be Loum Diagne who is from Ivory Coast of Senegalese extraction and who runs and is the founder of a movement which comes the closest to what we might call venture-capital or investment clubs, grouping together African executives and transforming them into entrepreneurs. The third speaker will be Michael Davies, who is the manager for Cargill for all of their activities in sub-Saharan Africa and in fact is quite active in agribusiness. Our final speaker will be Esom Alintah from Nigeria.

We've come to the point of asking should we be afraid? Or is there potential for Africa? Under what circumstances? Are there some

Questions posed to the panelists

1. Assuming the policy and institutional environment were more encouraging, what specific constraints impede African entrepreneurs, and how can these constraints be alleviated?
2. What kind of government, institutions, procedures, attitudes, and policies do investors need to see to become interested in Africa?
3. What kind of advantages could Africa offer potential investors, given opportunities elsewhere? What needs to be done to make these advantages real rather than potential?
4. What environment would need to be established in African countries that takes account of local comparative advantage? Are there some African countries where this might happen sooner, and what needs to be done to accelerate the process?
5. What are the key issues facing potential investors in Africa, and are there some countries where these issues are being dealt with effectively?
6. Is there a scenario whereby indigenous flight capital will return to Africa?
7. What are the implications of the evolving world economy (Europe in 1992, the dynamism of Asia, the changes in Eastern Europe) for private investment in Africa? Are all the implications negative or are there potential benefits as well?

countries that might be better than other countries? Are there some governments that are starting to take the actions that have to be taken, and is the private sector in any of these countries starting to gear up so that it can assert itself and make sure that things start to occur?

As we go through this, we are going to have several people who have certainly marshalled a lot of statistics to question whether Africa is too late. In other words, as we go to exports, is Africa behind the curve to the point where they are not going to catch up? Are there niches? Are there places where they could catch up? Can the private sector move quickly enough before the possibility of total disintegration sets in? I think a framework has been painted with a lot of questions.

That makes it exciting for an agency like AID because we have a challenge. The question is whether we can do much about it unless we have a private sector with which we can cooperate and that can help prepare the way for us to have interventions that will be meaningful.

Platts-Mills
I'm here under entirely false pretenses, which will become more clear as the discussion goes on. It's a question basically of what can be done to persuade investors to be in Africa. Well, we are. And we don't understand all these questions. We don't ask ourselves these questions because we sit there and we do it all the time because in a sense we are African companies. And we expand those companies doing our business.

"In terms of industrial development, I think the record of aid donors is between poor and abysmal."

What I didn't know was what AID was all about and how it works. I've been pleased to be here to hear the deliberations of AID professionals and AID professional critics on how the whole thing should be approached. I'm afraid I have lots of prejudices against and about all the discussion that has taken place because we see the place from a different foothold. We feel we've done quite well in and by and from Africa. We haven't done enough, but then as Sean O'Casey would say, no one can done enough.

We think the aid people have done rather badly in the area that concerns us. That's very vast and I'm going to take a very one-sided view. I'm not at all wanting to go and criticize the works being done on research, development, training, and so on. But in terms of industrial development, I think the record of aid donors is between poor and abysmal.

Whatever you do in terms of research, in terms of training, and so on, it doesn't actually do anything, doesn't achieve anything, unless there's someone to exploit that, to carry it on. If there's not someone to employ them, give them job, which creates something, then you would have wasted the training. If you have a research establishment that does agriculture research and there aren't any farmers, you haven't achieved anything. It still remains a thing you ought to do.

Perhaps I should describe what Lonrho is and what it's doing in Africa, and a bit of our history, which may explain why we are there and why so many others aren't, and why there are perhaps three or four companies in our position and not more.

In the early 1960s, we were a small mining company in Rhodesia. Our chief executive was brought in because he had engineered the removal from the company of its only profit-making business. So the directors thought he must be a clever guy. They brought him in to be chief executive and he brought with him the money he had earned from taking out the guts of their business and other personal wealth. He took on a major share in the company that has varied between 15 and 25 percent of the company ever since. We are not a private company. We are a very public company, but no shareholder doubts who the boss is, none of the 65,000 of them. We are a $10 billion turnover company, and $4 billion of that is in Africa.

In the early 1960s, when most foreign companies were running away from recently ex-colonial Africa, we were expanding there. We bought assets for very silly prices, assets that were often raped insofar as their previous owners had been able to carry stuff away. The expatriates were removed and the things collapsed as fast as they could.

But these were simple, straightforward assets and we built upon these. We expanded rapidly through the 1960s in Africa. This developed in us a habit of buying basically good assets in poor condition and building them up. Our tradition in Africa has been straightforward. If the government doesn't allow you to remit dividends, then you reinvest, either by developing the companies we have or by purchase of other companies, which surprisingly tends to be cheaper.

We have a very large spread. We are a major operator in 20 countries in Africa. We are probably the biggest in our own field in 10 of those countries. We have a big spread geographically. We have a big spread in activities in most of the countries in which we operate. We are big farmers. We are quite big food processors. We are big miners. We are big traders in machinery. We are becoming quite big hotel operators. And we are quite substantial engineers in the few countries in which we do engineering.

We have a balance between businesses—for instance, growing food for the local population. We say if you go to Lusaka, you'll eat our food. Very difficult to survive without it. We go to Mozambique—you won't survive without eating food from our farms.

"Eastern Europe is going to be a 5-year major problem for Africa because investors looking into putting money into an agro-industrial situation will see Eastern Europe as being a place where if you can put your money in, in 5 years' time it will be real money."

Then we have further businesses that import mainly equipment and businesses that export, and the balance of the three stand us in good stead. Both the geographical and the type spread gives us the resilience to changes in situations.

Being an African-grown company, we normally take a 10-year view. While people around this table are used to taking 10-year views, it's a major problem for U.S. industry. It's a problem for most modern European industry. The 10-year view is seriously out of fashion. Most of us who have reached chief executive kind of level reckon we'll be retired by then, so it's not really worth thinking about. I don't think you can work successfully in the African context unless you are ready to take a view that is that period. I don't believe there's a quick fix. I don't think any of the evidence today would encourage one to such a view.

Over the last 10 years we've been heavily investing outside Africa. Our institutional investors demanded we should. We have big investments in the United States and in Europe. But we continued steady investment in Africa—less agriculture, more in terms of industrial, hotels, textiles. Land is, for a company like ours, now a problem in the countries where we started. For instance, in Kenya, in the highlands, our land is perpetually under threat. There's a population threat to it. It's not sensible to go into buying land in the highlands of Kenya because you'll just get yourself into more and more social problems. We've been expanding farming in Mozambique where there aren't such social problems, and we shall be doing so in Angola when we finish doing the peace treaty over there, we and our friends.

At the moment we are looking into Eastern Europe. I myself am spending a lot of time in the USSR. I think Eastern Europe is going to be a 5-year major problem for Africa because investors looking into putting money into an agro-industrial situation will see Eastern Europe as being a place where if you can put your money in, in 5 years' time it will be real money. There aren't many companies in Africa where you can say, in 5 years' time I'll be able to take out dollars. So you have this problem of what removal capability is there. People generally feel Eastern Europe is now offering the same kinds of deals as Africa, but with this promise that in 5 years' time it will be West European territory. But I think it will last for 5 years, and it won't be much longer than that.

As I mentioned, we are looking to expand in Mozambique. We've done a lot of investment in Mozambique in the last 5 years. We shall be doing the same in Angola the moment it becomes possible to do so. So far we've only been in urban development, but we have several schemes up our sleeves. We've been developing in Namibia and Botswana and I think we've finally made up our minds to do something serious in Uganda.

Because we are there, we can move people across the border and all sorts of little things. We don't have to take an accountant in, even if it's a long way away, because you can do the accounting somewhere else in Africa in the right context. We don't have to take transport in. We do have to take housing in one way or another. Whereas someone else taking a decision to go into a new country might be faced with, hey, let's put in this team of five for a year and see how we go and work it all out. We just drift one man in with full backup and we don't have to make the initial heavy spending decisions. That's how we operate in Africa.

Now, how have aid chaps done over the last 20 years—leaving out carefully research, the development of research organizations, training aspects, and a number of fundamental social structural things that they've done and I think done properly—where they've tried to do things in our area, making organizations that make things that either feed people or earn money for people?

They started with a problem of wanting big projects because aid executives are ambitious. I can show you many roads that are 150 kilometers long that will last 5 years when they should have been 100 kilometers long and would have lasted 20 years. But the guy who was project leader was not going to build a mere 100 kilometers when he could have build 150. All over West Africa you'll find them. If you go fast at night you can die on them. Also, you have enormous expenditure on control and therefore you can't do little projects because the cost of mothering them is too high.

We all accept a certain amount of political override, political influence. You accepted it far too much. I don't want to show you the road to the president's village, that didn't even get to his village. There are choices of projects where the aid organization is not able to resist political intervention.

You wanted purity. You worked with parastatals even though you knew the parastatals were totally incompetent and corrupt. You desperately avoided commercial companies because we are not pure, because we are in it for money. The fact we might run the project successfully and actually make it produce the bread and jam it was supposed to be producing wasn't relevant. And they used consultants. None of you are consultants I know. I'm glad to notice. I notice from your cards. But many aid organizations are manned by consultants and they employ consultants. The trouble with consultants is they actually become consultants because they don't want to take responsibility for their actions any more. Businessmen actually carry the can. There would be a law under a proper system that no one's allowed to be a consultant more than 3 years in succession. He then has to go back to the real world. Otherwise, he's not responsible enough to be relied upon to make decisions.

Finally, of course, you have this awful problem of having to spend money because your democratically elected leaders have voted a sum. The decision to not spend all the money is a political decision. Depending on which side your government is and on which side the host or the recipient government is, you are either being a blue rebel or a red rebel in not spending all the money given to you. Therefore, you have to get rid of it. All these things have left the aid donors in a very negative posture in terms of industrial investment over the last 10 years. We think they have learned a lot. We think they are less awful than they were.

"If one could get more big firms of our sort doing export-based agriculture initially, then there's a lot of other business that could be done that could be picked up by local entrepreneurs."

We don't know if they know what's needed to do the right thing. What you are trying to do, what you are talking about tonight, is how to try to bring in private companies. I've described what we are. I guess if in Anglophone Africa there were a dozen more like us of our size, then you would have an industrial situation that is quite different. I'm not suggesting you would want to have another dozen like us.

Therefore, you have to create a situation that allows others who are not as big and nasty and aggressive and arrogant as we are to come in and do the same kind of work. I guess the main ingredient has to be stability. It has to be that people feel that if they put their money in what they decide to do, the context into which they went is that in which they'll be asked to work. And that's the main fear of any industrial organization that is outside Africa at the moment.

We would like to see the aid donors somehow coming into projects that we are doing. There are lots of ways you can join in. The easy way is to give us some cheap money. It doesn't have to actually hurt you the way it sounds. At the moment, when aid donors bring in the money, all they do is enable the local partner to charge more for the land and then pay himself by using aid money, which doesn't actually help the project at all. There are ways you could give us cheap money and then take the money out again if the project's successful.

If the project makes money, you could arrange a differential payback relating to your cheap money. This would make it easier for someone to come in, because he would then be less likely to have a loss-making operation. Because he's paying less for his money, his calculation feels more comfortable. And he knows that if he does succeed, then his proportion of benefit will be split to reflect the fact that he has had cheap money from an aid donor.

There are plenty of other ways in which you could help by bringing in the infrastructure, particularly for agricultural projects. There's an awful lot of long-term infrastructure and there are few agricultural industries that could actually support them, particularly at current prices. We do a sugar mill. We build tens of miles of roads, often bits of railways. We build dams. We control rivers, all sorts of things. A lot of it is straight infrastructure. It leaves behind a very farmable area even if we disappear the next day. But that's a straight cost on the project. That should be an area where an aid organization ought to be able to get involved if it wanted to.

The other obvious way is developing outgrowers' organizations. We might set up a central operation with spare processing capacity, and the aid organization could come in and set up the outgrowers. At the moment we normally end up doing those things entirely ourselves.

Then on the back of that, I think if one could get more big firms of our sort doing export-based agriculture initially, then there's a lot of other business that could be done that could be picked up by local entrepreneurs. In Kenya all the transport is done by Kikuyus, and in many other countries one could find a lot of backup industries that can be developed because you have some major industries happening. That's the area I would hope to see you supporting, creating conditions, helping small industries develop.

I'm going to end by telling another way we found of selling things. We built a sugar mill in the north of Malawi. That was a political decision, true, but we are rather big in Malawi. We are defending our position. We found that the world price of sugar was slightly lower than the cost of shipping the sugar from sugar mill down to the coast, which meant that if we were selling for world price, the value of our sugar at the mill was not great.

We were looking for other businesses. We started growing black eyed chilies. Many of you know about chilies. That's the hottest chili on earth. The wild Malawi chili has a black top to it. And we started growing those, but you couldn't do it for long because the workers wouldn't pick them. Because if you spend 10 minutes picking black eyed chilies and rub your eyes, you are blind for a week. It's a nasty itch. So we gave that up.

But we were growing fish. We were feeding the workers in fish because Lake Malawi is a holy lake and you must not put bad sugar wastewater into it. The water from the sugar mill had to be treated carefully, which included growing prawns and then fish in the water before it went back into the lake.

One day we found a crocodile among the fish and hauled it out, marked it, threw it back in the lake. Two weeks later there were two crocodiles including the first one and they were a male and a female. We decided there was no point pulling them out because they obviously knew their way back. They'd be multiplying. We'd never get the fish again. So we kept them, bred them and started growing crocodiles. We now have a substantial crocodile farm in Dwangua. Crocodiles grow to handbag size. Then you cut them up. But all the bit you cut up, you can feed to the fish if you like, but that's of rather low value. What we discovered was that the tails, crocodile tails, are the same as scampi. And we were selling scampi from crocodile tails in Europe. It's normal. It's the same family. The crocodile tails were going fine, but not getting the price we were hoping for. Until we realized where the real market was. Today we are sending something like 100 crocodile tails a month to Japan. We sell them as crocodile tails where they eat them.

I don't want to make a joke about trying to sell stuff abroad. It is a very tough business getting markets overseas. It's not easy. The markets aren't there. You struggle. It took us 4 years to get the right market for the mushrooms. Now it's okay. Other markets come. You fight and they disappear on you. Because we are (1) strong in Africa, (2) strong in Europe, (3) big and nasty, we find the markets. But it's not right to say it's easy, any more than I suppose it was easy for the Asians when they first got started.

Diagne

After hearing Platts-Mills, we are happy to see that he is surviving all the problems you have in Africa and that he is making money too. But he didn't tell us how much profit he's making. But the bigger the risk, the bigger the profits. That's how we do business in Africa.

I will try here to respond to some of the questions in the document that we had and that have exemplified the kind of question that people, ask when they consider investing in Africa.

"Take a country like the Ivory Coast, which is an agricultural country, which has built its infrastructure with its agricultural revenue, but the banks do not have more than 2 percent of their resources in agriculture."

One day I was speaking to one of my friends who said, I don't understand those people from Europe or from the U.S. We are such a nice continent. We are smiling. We smile to them, but they prefer to go to Asia for example, and to convince Asian people to smile is another job before doing business.

So it was polite for him to say that, but I think you must first be interested in investing in a country. You have some people who said, okay, look, we want to invest in Africa. So they have shown interest in Africa. They come to Africa, they see a smile, they sit, and if they talk with competent people, they find a way, and they invest.

Those concerns about good environment are not a good reason to neglect Africa because you do business during war, you do business during instability. We are for many years doing business in instability. We are taking those disadvantages into account to make our profit lower or higher.

But there's a second part of the question. The first question, for example, said, what specific constraints impede African entrepreneurs? When I started setting up La Financière, I never thought about politics. Was the regime good? Was it not good? Do I have good policies, good procedures? Sincerely, I have never thought about that.

And I can be considered foreign because I'm Senegalese and I work in the Ivory Coast.

But the two problems I have seen were, first, lack of local capital and, second, if capital was available, lack of management. I tried set up La Financière on those two points. I said, if an African alone can mobilize enough money to do business, maybe let's bring several businessmen together so each one can share the risk and bring whatever he has, because that is not so simple in the African mentality. Africans like to do business alone or in a family. So if they have a good project, but they don't have enough money, they won't seek friends or other investors.

I convinced them to join to mobilize funds. In a period of 4 years, we have mobilized $300,000, and we have started investing. The shareholders in La Financière are all executives, people who have studied at the universities in France, in Europe, everywhere, and are in the public life or in the public sector.

We decided to invest in projects, and we tried to run those projects to see the difficulties an entrepreneur can face. As our first project, we represented Apple and IBM in Ivory Coast. Those two franchises would be fantastic if someone had them exclusively in the USA or Europe. You could go to any bank and they would finance you. And if you have others, they would run to you and finance you more. But we could not get any financing in Ivory Coast, so we failed.

I have many examples like that of good projects that we have in which we can mobilize some funds, and we are looking for additional funds from banks, but we can't find them. That's a problem. Before talking about political problems, even education, even values,. those positive points that we have seen in Asia, without money Asia would not be in the position to make it. So the key problem is money.

Taking into consideration that you donors have partly helped Africa by setting up organizations like ADPF, like Amsco, I think the missing element is a venture capital fund. Even in the medium term, there is no way at all that we can count on the commercial banks in Africa. I don't see any solution with the local banks today. Take a country like the Ivory Coast, which is an agricultural country, which has built its infrastructure with its agricultural revenue, but the banks do not have more than 2 percent of their resources in agriculture. That's a fact that we cannot understand. And that's why we need to innovate and to create certain structures that can finance the private sector today.

As I said, the political environment is better. You have today more competent partners. You have executives who are conscious of their role, who want to do business, who want to risk part of their savings. I think an organization like AID should put investment funds into projects with Africa along with American companies or private businessmen. That would help a lot. From what you get, you will see that we will do better than our governments.

"Aid can do certain things extremely well especially rebuilding infrastructure, and infrastructure doesn't just mean roads and railways, but also, as we discussed earlier today, legal systems, which are creaking and need revision."

Davies

In Africa, Cargill is very much the new boy on the block, which may give some of you the feeling that our opinions are unformed, but it does mean that we don't have any axes to grind, any positions to defend. And we do have sharp experiences of how tough Africa is, as Jo has recently described it.

Cargill is currently struggling to become a reasonable force in Africa, and I would support that it isn't an easy market. But in the longer term it can be a worthwhile place to work. Some of the negative discussions that have taken place today are rather unfair. We wouldn't be there if we didn't think we could make money. We are not there as an aid body. We are there to turn a profit.

I've looked at the whole issue of what impedes investments in Africa, and I think we'll cover a lot of ground that's already been mentioned. I rate as my first issue the basic lack of skills and the lack of training. It's not just a lack of education, but also a lack of commercial understanding. Tanzania, for example, has had 30 years of socialism and people there today do not understand what is meant by a profit or a board meeting. There is no adequate management.

Secondly, the lack of capital. But it's true. A company like Lonrho or Cargill is expected to import its own capital requirements, but what about the indigenous investor? The figures show that the state uses 70 percent of total credits, 80 percent of foreign grants, and 90 percent of concessional loans. On average it then produces 30 percent of the gross national product. That's pretty poor. The solution is fairly obvious. If the private sector with virtually no help is producing 70 percent, perhaps that's where you ought to be addressing your attention.

We do struggle with foreign exchange controls and overvalued currencies, which is a problem from the remitability aspect, though remitting of dividends is not necessarily a key issue at this stage in our development. But foreign exchange controls and overvalued currencies do cause imbalance and erode international competitiveness, Imports are encouraged and you end up with a situation like Nigeria in the mid-1980s where the naira was grossly overvalued and the whole country was headed for disaster. That's now been resolved and Nigeria is a better and economically safer place for it.

Price controls are another good old favorite. Governments seem to be incapable of not fiddling with prices, especially food prices. They will not let the market work. Governments are good at raising taxes and they are pretty lousy at business. They are certainly awful at trying to second guess what the farmer ought to be paid or what the price of bread ought to be. It's not their role. As long as they keep on dickering around in this area, they are going to cause more confusion than they resolve.

Artificial trade barriers are also a government invention. In Nigeria the importation of wheat is banned. What it does is create a healthy trade in smuggled bread and smuggled wheat. You make some guys rich, but not the right guys.

Finally aid. Many of us in the private sector believe that aid doesn't focus on the important issues or the right people. It sometimes is just a handicap because they are there. We are there. Aid does things that we think the private sector ought to be doing because it does them better and for the right reasons. Aid becomes negative when it replaces the private sector.

Many of these constraints in themselves create a negativity in the local populace because they encourage local entrepreneurs to think of ways and means of circumventing these barriers, and they do. That's not constructive time. It doesn't do a lot for the business or for the country.

What do we need to encourage investment in Africa? My chairman said there are two issues that have to be addressed if we are going to work in Africa or indeed anywhere. First, we have to be needed. And I think that's generally true in Africa. We are, especially as a food business, needed. Second, which is more difficult, we have to be wanted. There are still many areas, not just in Africa, where they don't want multinationals or any foreign investment. In those areas I'm afraid that at this stage we just can't operate.

We need a government that doesn't meddle with the market. Let the incentive-based systems work because they have generally been proven to be the best and the most efficient. The market will always out in the fullness of time.

Aid can do certain things extremely well especially rebuilding infrastructure, and infrastructure doesn't just mean roads and railways, but also, as we discussed earlier today, legal systems, which are creaking and need revision.

So aid can make the infrastructure more user friendly. Make the legal system work. Make the roads work. Make the railways work. We would appreciate easier credit systems for investors.

Aid agencies could be an important factor in making governments think more about privatization. We've seen that happen in Malawi where it has been quite effective. It should be extended into other areas. Aid could do this where the private sector cannot because of the suspicion of vested interests.

Aid could provide, for some investors, especially the smaller investor, noncommercial risk insurance. Schemes like OPIC should be extended.

What we would like is a liberal environment, which means an environment where there are few constraints on access to inputs or markets, where there's autonomy in investment decisions and operating decisions, where there's a common framework of incentives that is uniformly applied across the board, where there's a well-educated, motivated work force, and where there are well-functioning capital markets. I don't think utopia exists in Africa at the moment.

"The first prerequisite for any investment in Africa would be the plain, straight playing field, both for the African investor and his foreign counterpart."

There are certain advantages that Africa does offer, primarily natural resources. Properly used and properly managed they can be a real benefit. The natural resources that, for example, Botswana enjoys have made a vast difference in the way that country can be managed and governed.

Africa has a large pool of labor, unfortunately not educated and not trained. This is a serious issue. In South Africa, for example, there's a whole generation of adults who have had no education at all. They cannot read or write. That's a time bomb and perhaps something that aid ought to be able to do something about

An advantage for an agribusiness, and we are an agribusiness, is that in Africa there are 500 million people and they have to eat. So we have a role to play there somewhere.

Regionalization is a key concept. African countries are too small. They must move toward regionalization and away from this idea of self-sufficiency in everything. But depending on others for basic foods carries a risk. Perhaps aid agencies could provide some type of indemnification against abuses of such a system.

Investors are simple animals. They look for a reasonable reward on investment. Will indigenous flight capital come back? When Africa is stable and when the returns there are as good as anywhere else, capital will come back. But until then, I think no. Why should an investor bring money into a high risk area if the rewards are not going to be there. There will be some investment from people like us but little from people who have taken their money out of Nigeria or Kenya or wherever. I don't think they will have that level of confidence in African governments in the short term.

Many people have written Africa off. Eastern Europe is now the focus for aid funds and for much private-sector development. But that may force Africa to take a more realistic attitude toward investment.

In the past, countries in Africa would always take a grant before they take a loan, always take a loan before they would allow investment. Now they are being forced to look seriously at investment as the best offer on the table. That should present opportunities to people like ourselves who want to get involved in Africa

Finally aid agencies must work with the private sector. Currently there are limitations on how agencies can work with us, but if you believe that private investment is part of the answer for some of the problems that Africa faces, you have to get closer to us. Perhaps this means direct involvement with companies. Cargill already has partners like Commonwealth Development Corporation, and we work very happily with them. It would be interesting if we had some of you around the table as partners. It would be a two-way process. We would learn something and surely you would learn something too.

Alintah

The African investor and his foreign partner have one thing in common. They both want profit from the enterprise. There is no yardstick by which you judge your investors in the United States or elsewhere that the African investor does not apply even if instinctively. It may not be documented. It may not have accounting system for you to look at, but he goes through the same processes of thinking before he invests his money or his time or his talent because we define capital in ways sometimes different from your definition of capital.

So I would say that the first prerequisite for any investment in Africa would be the plain, straight playing field, both for the

African investor and his foreign counterpart. The reason I assume that the foreign counterpart will need an African partner is because I cannot imagine much investment taking place in Africa in spite of the Africans. That situation cannot continue. Africans are there, will be there, and must be there, to play their part.

What are the constraints we face? Right now I don't know what they are because everything is in a flux. The governments that used to impose permits on top of permits have become laissez faire. Those who were administering one set of permits on top of another are now ready to administer none at all, but they still administer something and they still get paid at the end of the month.

"AID should include inter-African communication in its list of priorities because that will help inter-African trade."

Which brings me to a point that I've been trying to sell to the AID people. We know that either through your legislation or your behavior or whatever you deal only with government. Couldn't you find a way to deal with private people? Couldn't you have a two-tier system where you would allocate some of your funds, no matter how small, to the private sector. I say that with confidence because from past experience we know we can always do better than our bureaucracies. No matter how little, couldn't you allocate some of your resources to direct dealings with the private sector? There is a mechanism for that.

I belong to the African Business Round Table, which is a group initially set up 3 years ago by the African Development Bank to advise it on how to set up a private-sector initiative. We finished the task last year, but before then we had all gotten into business with each other in our different countries. We then decided to form an organization, with of course a great and high sounding name, African Business Round Table, just as you have an American Business Round Table. You have a European Business Round Table. We have African Business Round Table.

Then we went to the African Development Bank in which the United States is a major player to allocate funds for a private-sector lending effort. That has been done. Today the initial fund is $200 million, and it is administered by the private-sector development unit in the bank which is now a bank within the bank. They will lend to the private sector, not through development banks, not through government agencies, but directly. I would call on AID to see how they can support and strengthen that unit. If you can't do it directly, I'm sure you'll find your way around your laws.

Then I would ask AID if it was possible, because I know AID is a powerful organization, for goods that result from joint ventures between American companies and Africans to have certain preferential treatment in being marketed in the United States. Because one thing that has been missing in the comparison with Asia, which I found slightly unfortunate, is that nobody seems to remember that these countries had one thing going for them and that was the U.S. market. They had entry into the U.S. market that was unprecedented. They could sell their things here, and that is why they all totalled up, and still do, these trade deficits, which the American taxpayer has to bear.

The trade with America initially was very advantageous to these countries. If we could have anything near that, I'm sure the African products will compete in this market. And you know the United States has strong influence in the world. With a badge that says your product is accepted in the American market, it should be far easier for those products to get into other markets.

The third area in which you could help us is communication. If it were possible, AID should include inter-African communication in its list of priorities because that will help inter-African trade. It is now a trade that is thoroughly ignored in all the statistics we see published, but we don't mind. We just want to increase it.

Mr. Davies has talked about what amounts to credit insurance. I have investments all over the place in Africa. My country does not have a credit insurance company scheme, for me to invest in Côte d'Ivoire or in Togo or in Malawi. So if it were possible for you to use your influence with organizations of your type to get credit insurance schemes for Africans who are willing to invest in other African countries, you will have done us quite a lot of good.

Flight capital. Will it come back? Yes, if you tell us who they are. Give us their names, or ask your banks to stop taking that money.

DISCUSSION

Wolgin

All of the speakers suggested that they would like to see AID become a lender or at least an equity partner in the private sector. Let me ask a question. If we assume that AID resources are fixed, and that includes not only dollar resources, but the ability to decide what are good projects and what to do with the money, there's a limit on the ability to make decisions in AID. How would the speakers see the tradeoff between the benefits of direct loans to firms as compared with, for instance, working with governments to reduce the government deficit so that governments don't take 70 percent of credit in the economy. Generally, what do you think about the tradeoff between making specific direct investments and working at the broader level of making sure that the systems work better?

Alintah

Both efforts are not mutually exclusive. You could while you are dealing with government make certain allocations to strengthen the private sector. We are not advocating abandoning your old friends. You can stay with them, but we are saying there are some new friends who you should try to help and deal with.

Bonner

But Jerry says there is limited talent to make decisions.

Davies

But the issue is that one is an investment that is going to make money. It's a revenue-generating investment. The other is a bandage to stop the bleeding. If aid is going to be progressive, it has to start looking at things in a money-generation sense rather than just stopping the bleeding. I think that's more positive.

Roemer

We talked about a level playing field. Most economists sitting around this table, all of whom would admit to being consultants and advisors, are proud of it despite other comments made to the contrary. Governments do need advice other than that which Tiny Rowland brings around to the presidents of Africa, believe me. But the question is this, are you serious about a level playing field? Are you serious in saying that you want economies that are open in which the rules are fair, but in which there's also no protection for big industry, in which you'll have to compete in world markets and you will not find tariffs over 20 percent. In fact, if we had our way you would have them around 10 percent at most. There would be no controls over imports. You would compete in Kenya for the Kenya market against foreign firms. Is that the kind of level playing field you are talking about? Or are you talking about the level playing field in which the benefits you have remain, the protection that industry has remains, but the restrictions are gone? I think that's inconsistent, but I think you have to face up to the fact that when you talk about getting rid of the controls, you are also talking about getting rid of a lot of the protection.

Davies
I think we are talking about getting rid of controls, getting rid of protection. We would rather operate on a totally level playing field.

Platts-Mills
You can't level the playing field instantly. We've been there a bit longer. There are a number of industries which can't be set up unless you have a little tilt in the field to start with. So slightly tilted, yes.

I'm very pleased to say that that it's not only African presidents who are keen to take Tiny Rowland's advice.

Ranis
You said give money. AID should give money either in a joint venture or loans to the private sector rather than bind up the wounds of the economy as a whole. If the wounds need binding—let's say there's something wrong with the system from the point of view of AID—it seems to me it's hard to defend the notion of working with a project, private or public, but let's say private, worthwhile as that project might be, if in the meantime the economy is going to the dogs. The company may make money, especially if it gets subsi-

dized help from AID, but the economy is going to the dogs. It would look as if AID was throwing money down a rat hole, even though it's a private rat hole in this case.

Davies

I think, Gus, that's true, but it expresses the fundamental difference between the aid business and the private sector in that the private sector operates businesses that are finite and that we think are manageable, controllable, and, we hope, profitable. The aid bodies appear to favor the macro solution and have intimated that the micro solution isn't working. Perhaps what the private sector has said in the past few days is a blunt rebuttal of what the aid business is about. But I don't think that aid agencies are succeeding in Africa, so isn't another initiative worth trying?

"Good macroeconomics is okay, but it has to be supported by an actual business economy."

Diagne

As the persons concerned, we are giving our opinions of what AID can best do for us. We think that if AID wants to be dedicated to the private sector, that should be considered. Paerhaps the laws don't give them the opportunity to do that, but we think it can be done, just as CDC and Caisse Centrale are doing it, public, and maybe private. If we have that kind of support from the U.S., I'm sure it will be viable for the private sector in Africa, because the U.S. mentality is practical. I'm sure if America does that it will be profitable for us. That's a proposal.

Ranis

Would it be profitable for the companies? AID has a mandate, it seems to me, to do something for the country not for the company. You are saying AID has not been successful at the macroeconomic level; therefore, they should give it up and go to the private sector. I understand basically what you are saying. If we are here to discuss the experience of Asia and its relevance, I would say it doesn't *have* to be unsuccessful in helping at the macroeconomic level.

I fail to understand how it could be acceptable to any aid agency—I don't know what the Europeans are doing—to go into partnership with some parts of the private sector, leaving other private parties to sink, and while most companies are going down the drain, giving profits to one company or two companies.

Bork
What role have the donors had in Asia with respect to the macroeconomic environment? There is a basic assumption here that somehow AID facilitated what happened in Asia. Did we facilitate it and how? Or did the Asians do it themselves with our being supportive? It's a basic question because we are assuming that, somehow, AID can change the macroeconomic environment and that worked in Asia.

Ranis
Well, if you read Neal Jacoby, he claims all of Taiwan's success was due to USAID. I think he overstates the case.

Bork
I think so.

Ranis
I think it was the Taiwanese, but certainly AID was influential.

Shoen
What is happening here is the economists are proposing macroeconomic solutions, and the businessmen are proposing business solutions and the two aren't even communicating. A businessman's worst fear is that somebody on staff would hire an economist. The second worst fear is that they would hire a consultant. So what we are seeing is a need being expressed for the private sector. If I could preempt how they would describe it, we are going to build a level macroeconomic playing table that has no legs on it because there's no private sector to support it, because we are not doing things to encourage the development of the private sector. What is going to run the economy is the private sector, not the macroeconomics. Good macroeconomics is okay, but it has to be supported by an actual business economy. These people are saying that as it sits right today, things are okay. They are all investing right now. The playing field is good enough to get them in there, to bring Cargill over. Lonrho's been there for years, and these people are investing their

own money in the local economy. The macroeconomic structure is good enough for them, and they have figured out how to deal with it.

Finally, I would say that the macroeconomic reforms won't stick unless there is a power base in the society that's going to make them stick forever and that power base is business.

Bonner
To answer Peter Timmers's question about what impact we've had, I can only speak for Indonesia. There HIID was brought in under the auspices of the Ministry of Finance to provide advisory support. We also provided advisory support to the Ministry of Planning and helped them in deciding what direction they wanted to go. We also got involved in capital markets and development of capital markets. While it wasn't a structural adjustment program like the World Bank's, we did play a fairly large role also on the agricultural production side.

Saiers
I thought there was a difference between the African public sector and the African private sector, but what I heard tonight was the same kind of a shopping list used by some African governments in saying, what can you guys do for us. One of the difficulties is that there can be a playing field on which the Lonrhos and the Cargills can now play in Africa, but that requires cutting deals. The table without legs may be a level playing field, may be better than what's there now. We are worried about the development of countries, not the development of individual companies. This morning somebody, I guess Linda, said, there's $2.5 billion a year in capital flows from Taiwan to Malaysia. We are talking about a billion dollars for 47 countries in Africa. There's no connection between the two in terms of trying to help transform economies. It seems to me that we are talking at different levels in this. But I guess I was quite disappointed in just getting the shopping list as opposed to how you saw the African environment in this session tonight.

Delgado
I wanted to comment quickly on Sam's point, if I understood what he said correctly. Mike Davies made a point for Cargill that I also

hear ' from the other speakers that was similar to what I was trying to communicate. Perhaps I didn't do it clearly. But he said that there are at least five things that the private sector wants out of AID. Two of them I think you could fit under the general rubric of privatization, policy reform, market liberalization. That is a foreign exchange system that works—some kind of exchange rate that is realistic—and an absence of fiddling around with price controls.

But there are three other things that don't fit that are really in the privileged domain of an aid donor: doing something about lack of skills, doing something about lack of capital or lack of a banking system, and doing something about lack of infrastructure. Someone also added the question of risk-management kinds of schemes. I didn't get the exact list of which countries each of the major multinationals is operating in, but I'm willing to bet that they are operating first and foremost in countries that already have a pretty good infrastructure and a pretty good stock of human capital. If the idea is to have big impacts in Africa, that's fine. But AID should look at where it can contribute to really making an environment that makes the country attractive to the private sector. That's the point I was trying to make. I don't see any opposition between that and what the businessmen are saying they want, unless I misunderstood.

Roemer
What Chris said is dead on. Look at the things that Mike Davies talked about as the private sector needing to make a good investment environment. These are precisely the kinds of things that are on everybody's structural adjustment loan list, and AID's been as much in the forefront as the World Bank on these things. If these loans are successful, if economies do reform, you'll get the environment that you are looking for. On the other hand, that's really the role that AID should play. In addition they may want to invest in education, health systems, and the like, which will also help improve the human capital with which the private sector works.

On the other side, however, I don't see that the multinationals have made any case for the need for AID. What do you want AID to do for you? You are supposed to be raisers of capital. That's your particular role in the world, that plus management, plus the ability to be entrepreneurial, to put things together and make them work and make them profitable. But if you can't raise the capital, there's a real question about at least part of your role. For African entrepreneurs who may lack capital, there is a case for foreign aid. As you say, that's been addressed in some AID programs.

But I would go back to the question of whether the role of AID shouldn't be to get governments to change and to channel their capital into the private sector instead of channeling it into government consumption, particularly, let's say, hiring more civil servants and paying them higher wages and investing in public enterprises that are not doing well. That's the role that would put more capital into the private sector for those who can afford to pay for it, which is the way that governments have assurance of getting profitable investments, both for the private sector and for the economy as a whole.

Davies
Both the multinationals represented here have put their money where their mouth is. We are in. We haven't gone around with a begging bowl.

If aid agencies were to get more involved with the private sector, be it multinational or local entrepreneurial, it would allow for a little more understanding of the problems of operating in the country. Going back to the discussion I had with Gus, the private sector wrestles with the many real, specific problems of running a business. Attention is focused on finite points. The attitude of aid agencies appears to be more general, more broadly based. It would be interesting for both parties to be more involved with the other, to be able to explain the reality of the business community's problems to aid agencies and vice versa. I believe that focusing on specifics rather than looking at generalities might help us both.

Platts-Mills
We were asked what would AID do to help foreign investors. We can't do anything but give you a list. It's not a begging bowl and there's no reason why you should, say oh, we had better give that to Lonrho and Unilever and those who are there already. I fear there's quite a large step between those who are there and those who aren't there yet. Those who aren't there have to be persuaded to go there

now instead of going to all these recently attractive places, whether they are Asian or Eastern European. It may be that if you were able to listen to their list, then you could persuade some new boys into the field. Please be assured we would be the first to welcome them in, to help them into business, because sometimes it's a bit lonely there. What we feel is necessary, what we are trying to get, is not to stop bandaging those bits that are wrong, stop trying. But get some more legs under it or players on it—I'm not sure which role they are supposed to have—so that when you do have a structure that could handle taxes properly, there's something to tax, not just one large guy at the bit. There's actually a number of people there who are earning money and wanting to pay taxes, or not wanting to, but paying taxes on their turnover on their business. What you are trying to create is a volume of business. I think there could be a role there, and that's what we were trying to suggest that this is an additional possibility that is available to AID to encourage new boys in so that there will be more people playing.

"It's not the case that AID is only working with government. There's more that we can do and we need this kind of a dialogue, but I don't want people to get the impression that AID is doing nothing with the private sector in Africa, because we are doing a lot."

Diagne
I think there may be a misunderstanding. AID is willing to import the environment for the private sector, for us as African businessmen. So we are just giving opinions. Maybe it fits in the AID politics or maybe not. Consider even developed countries. They have financial support with direct access to the private sector. I will take Canada as an example. In Canada, if you are an entrepreneur, they can lend you money for equity. For reimbursement, you will do it when the profit or when the company can allow you to reimburse that money. You have risk insurance to help private sector and so on and so on.

Gordon
I think that the discussion here has taken an unfortunate turn. It's as if we are only working with governments, and that's not the truth.

In the countries in which I work, we work directly with business organizations. We work directly with the business community. We design our policy agendas with governments after long consultation with business people, both domestic business people and international business people. We've been giving support to business organizations so that they can play an active role in better supporting their members and in creating a voice for the private sector in the public debates about policy. We've been involved in programs to support small enterprise development and to improve the legal arrangements that entrepreneurs face in countries. There are a lot of activities that we've been involved in that are directly focused on the private sector. We've been working hard to ease the access of the private sector to imported goods through some OGL mechanisms in a number of African countries. It's not the case that AID is only working with government. There's more that we can do and we need this kind of a dialogue, but I don't want people to get the impression that AID is doing nothing with the private sector in Africa, because we are doing a lot.

Dean
I guess maybe it's just a question of which spigot the money comes out of that you use for equity investments in corporations, but the U.S. government does put money into firms overseas. In Zambia, we had money going into local private firms that had American partners and European partners. We had $3 million in one firm there. We provided that firm OPIC insurance and we provided $3 million equity to be repaid at some later date.

Weinstein
That, by the way, was the Mastock project for those who aren't aware of it.

Friday morning, June 7, 1991

Can Africa Be Transformed Rapidly, and If So, How?

Panel: Gustav Ranis, Larry Saiers, Michael Roemer. Chair: Tim Bork

Bork

This morning we are going to address a couple of major issues. One is the constraints to development in Africa. We are going to look at the constraints and talk about whether those constraints could be overcome and in what time frame. Second, we want to look at the key lessons learned from Asia that we believe should be internalized by African governments. To address these issues, we have Gus Ranis, Larry Saiers, and Mike Roemer.

Ranis

Let me start with a brief summary of what I consider the major lessons from Asia. One that perhaps hasn't been emphasized enough is that Asia should teach us that there are no basket cases. No matter how depressed we might be about parts of Africa, we ought to remember that in the 1950s Taiwan and Korea were viewed as hopeless. That perspective is something to keep in mind when we talk about constraints and the ability to do something about them.

A second major lesson is that societies have to organize themselves, and their leaders have to have vision. There also has to be pressure

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Questions posed to the panelists

1. **What are the key lessons from Asia that African countries should internalize as they think through their development strategies?**
2. **What are the key constraints inhibiting African development, and to what extent are these constraints amenable to change in the short run, medium run, or long run?**

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on a society to do something, and that pressure was there in Asia and is currently available in Africa, for reasons we have talked about.

The third is that the human capital is essential, that is, some measure of literacy, numeracy, the ability to change the educational structure, emphasis on both primary education and vocational education of at the secondary level.

I want to emphasize one thing I think is shared by all the economists and all the AID people here. We all believe that the private sector is the mainspring of development. Any impression last night to the contrary I think would be entirely misleading. The issue is how does one mobilize the private sector?

This bashing between AID and the multinationals obscured the fact that what the Asian experience teaches us, if it teaches us anything, is that private-sector development carried the day. The government didn't unduly obstruct the private sector, but accommodated it through selective rather than across-the-board and mindless kinds of interventions. That is the key lesson of the East Asians.

The same thing is true for local government. There is a great disdain for the capacity of local government to do anything. Everything has to be settled at the center. People pay lip service to devolution or decentralization. When I mention decentralization, by the way, I don't mean government officials going out from the center. I mean devolution of certain powers, fiscal and decision making, to local bodies, which is part of the necessity for getting small and medium enterprises going.

Sometimes we get carried away by exciting things like exports, imports, and international capital flows. That's an important part of the picture, but I don't think we should neglect what goes on in the rural areas away from imports, exports, and capital flows. It is that, I think, which was an important part of the development success of Asia, balanced growth in the rural areas between agriculture and small and medium industries.

Saiers
What do we say to governments from what happened yesterday? I came out with four broad points. One, seen universally in the East Asian experience, is that government does play a very determinant role in what happens. African governments need to understand that better. I didn't hear anything about laissez-faire models yesterday.

The second point is that you need a vision. That certainly has not been available to most African countries. That vision should be used to make both short-run decisions and long-run decisions. But you can allow many things to go on. It doesn't have to be step one through step ten. Linda Lim talked about all kinds of subphases that were going on in Asia at the same time. They were import-substituting and export-promoting at the same time. But there has to be a vision, and the Africans have to develop one about their future.

Third, keep the macroeconomic balances in place—budgets, exchange rates, real interest rates, incentives, and prices seem to be the key points.

Fourth, the private sector is not the enemy. And throughout much of Africa the private sector has been the enemy in a sense. Everything that I heard yesterday was that there was a real partnership, whether it was big business partnership in Korea or lots of small businesses other places. There was a real partnership for getting to long-run economic growth and development. Part of the partnership also has to be more dialogue between us and the private sector. Mike Davies and I were talking after the session last night about the need to get together to try to understand each other better than we do. We got off track last night. It got to be an intellectual thing, but there's no question that the private sector is the engine of growth. It was the engine of growth in East Asia. The Eastern European model certainly proves that without it you are not going to go far. So that's an important issue that Africans have to learn.

On the key constraints: one is the constituency of government in Africa. I heard yesterday that there was a rural constituency in Malaysia and Taiwan perhaps. You had a big business constituency in Korea, but it was a constituency that was again working toward some objective. In my mind, most of the constituency in government in Africa is government. That is, most decisions are made by government for the benefit of government, not for the benefit of the economy. Hire more people. Guarantee jobs for university graduates and bring them in as part of government. They become part of the constituency. That's a pretty narrow constituency and one that leads to a wrong vision. It seems to me the constituency issue in Africa is a real constraint that has to be dealt with.

"There's no way for a government to build a vision when it has 15 donors, each running around doing their own thing, and oftentimes not with a vision of their own."

Second is the more technical issues that we all deal with. To me infrastructure, human resource capacity, population, and environment are key. If you don't do something about them, you are going to eventually fail. The lack of integration of infrastructure in Africa is a fundamental problem. We have a lot of little vignettes about Ugandan exporters and the problems that they run into. Unreliable air freight, lack of payment, lack of banking facilities, and lack of contract procedures are all things that make doing business in Africa difficult and often are beneath the surface. Those are constraints that need to be dealt with.

Third, governments in Africa basically have an inferiority complex, for lack of a better name, and they have to get over it. Exports are looked at as exogenous. I don't know of a country, except perhaps now Uganda, that really has pushed export-led growth. That's something that has to be overcome, a lot of this "we can't compete" attitude.

One other aspect of this inferiority complex is that government must do more for itself, or the country must do more for itself. Donors now implement projects. There's not much sustainability. We don't insist that Africans implement their own projects. We all fall all over ourselves to do it for them, and that is part and parcel of this inferiority complex. I find it hard to believe that a Korea or a Taiwan would allow donors to come in and do whatever they like in a particular sector.

That leads to the fourth problem area and that is the donors. We have donors clamoring all over the place to do this, that, and the other kind of project. There's no way for a government to build a vision when it has 15 donors, each running around doing their own thing, and oftentimes not with a vision of their own. So you end up with a hodge podge and you end up with chaos.

One of the fundamental differences between Africa and Asia in agriculture is that the foodstuffs the Africans can grow in over half the countries tend not to be what the urban areas want to eat. The urban areas don't want to eat sorghum and millet anymore. They want to eat rice and wheat. So that the natural trading patterns that could evolve in Asia with rice as the overwhelming commodity and the linkages that could get established are harder to establish in the African context, and AID has been a part of that nexus. We do huge numbers of sorghum research projects all over the continent without one thought about where the market for that sorghum is going to be. There's not one AID project to look at cocoa research or some other cash crop research activity. There's a shibboleth about food self-sufficiency that we have to overcome.

There's the problem that we don't all speak with one voice as donors. There's the French view of agricultural systems and there's the American view of agricultural systems, and we go right down the line arguing about it. We are part of the problem.

There's the IMF-World Bank struggles that go on. At any time, there are at least a dozen countries on the continent where the IMF and the bank are saying almost diametrically opposed things. That can happen because of the inferiority complex and the fact that the African governments aren't taking charge of their own destinies. Somebody said yesterday that donors ought to be a little bit more passive and make the Africans get into the lead and come to the donors with what it is that they want to do, and then seek the financing for what they want to do. I think we have to stop trying to set all the priorities unless we have a better vision for Africa than we currently have among ourselves. So those are the four key constraints that I think have to be overcome

In the end, can Africa grow rapidly? I'm on the optimistic side. Yesterday people talked about good policies as being a one-time ratcheting up effect from a 10 percent jump in GNP. I don't agree with that. I think it does push out your production frontier, but it also puts in motion forces that cause that production frontier to keep shifting outward. You get more capital inflow and technology inflow. That pushes the production frontier outward. You begin to get back flows of people that have moved out of the country. There are a hundred thousand Ghanaians living in the United States. That's a resource that could flow back to Ghana, pushing that frontier outward.

Second, when good technocrats work in Africa and take charge in Africa, you get the same syndrome that occurred in Asia. Gambia in the late 1980s had growth rates just like the East Asians, and there were all kinds of investment coming in. In Ghana, where the technocrats make a lot of long-term decisions and stick to them, you are getting 6 percent growth rates. That's not unlike what the Asians got. In Uganda, you are beginning to see export promotion occurring, and those are all from technocratic approaches to this. It's also interesting that two of the biggest changeovers occurring in Africa right now involve technocrats: in Benin the technocrat who won the election, Sogle, is an ex-World Bank official and in Mali, when they had to get somebody to run the day-to-day affairs of government, they bring back a Ph.D. from the University of Pittsburgh—not ex-politicians, not military, not friends of former regimes.

The third point that makes me optimistic is that donors are beginning to respond in their own right to the problems that we've caused on the continent, and we do cause problems because we run the whole development budget or capital budget in most countries. For the first time ever, donors are trying to get together to figure out how best to manage $8 to $10 billion a year of flows in government budgets or outside of government budgets. There's better coordination between the donors as a whole. There is more talk with the World Bank. Other donors do participate in World Bank appraisal missions. Overall, the process is moving in the right direction.

So those are the three reasons why I tend to be optimistic about the possibilities for Africa.

"Macroeconomics is absolutely fundamental to the profitability of the private sector. If the macroeconomy is not right, the private sector will not operate and the implementing force in development will not occur"

Bork
Thank you, Comrade Saiers. We have asked Mike Roemer to not only talk about the two major issues here, the lessons learned and constraints, but also to reflect on the role of AID in the Asian experience.

Roemer
If I had to point to two of the most important lessons from Asia, they would be the following: First, the private sector is the only game in town. It is what implements development. It is the energy for development. This discussion should have started, I suppose, yesterday by saying that, and we wouldn't have had the discussion last night quite the way we did. There is no choice. Whether we like it or not, some do and some don't, that's what makes development work. It did in Asia and it has in Africa and it will again in Africa. It probably is continuing to.

But, and here's where the real misunderstanding comes, the other lesson from Asia is that that won't happen unless the macroeconomy is righted, is balanced, and the markets are freed up for people to operate to make profits in them, and instability is reduced. Macroeconomics is absolutely fundamental to the profitability of the private sector. If the macroeconomy is not right, the private sector will not operate and the implementing force in development will not occur, and you are back to doing it the way North Korea does it or Vietnam has been trying to do it and many African countries have been trying to do it. So there should be no problem here. It doesn't matter whether officials at AID or the governments like the private sector or not. That is not the issue. Love is not at stake here.

What's at stake is profits for the private sector earned in such a way that the poor people and the rich people of those countries all improve their lives in the process. That's the vision if you want. But the profits will be there and the profits will be earned in the business of promoting countries' development, of making farmers better off, of creating jobs for people who don't have jobs, of making middle class people much, much better off, and of making richer people richer. It may be a vision, but it's also a realistic vision. It has happened in Asia and it can happen in Africa. In fact, I've often argued that if we could just guide the Kenya government for 5 to 10 years, Kenya would become Taiwan. I don't see any problem. There's no mystery to it. The problem is that government is in the way of it happening right now and that's what most economists who talk about reform, structural adjustment, whatever you want to call it, are dealing with.

Okay, so much for the religion.

There's only one thing I would put before everything else, and that's balance the budget. Because until the government does that, credibility ain't there, and that's Latin America's problem. No point in saying more about that. Without the balanced budget, you'll have inflation and you won't have productive investment.

Then the next thing probably is dealing with the exchange rate, which means adjusting it, probably devaluing it, and then managing it flexibly. Managing it though, not letting the market determine it, because the rate would fluctuate too much. Then begins a whole series of things to be done, not necessarily in any order. Any controls over quantity, especially import controls, should be ended early. Also internal price controls should be dismantled soon. Then you need to start a long series of tariff reforms, probably not all at once.

But in this case, again, pre-announced tariff reforms, probably a 5-year program, maybe embedded in legislation with the finance minister having zero control over the tariff rate instead of total control over the tariff rate. That is hard to do, but any finance minister worth his salt will ultimately realize it is a power that he can well do without. If he has the power to adjust tariffs, he'll have to exercise it in ways that will get him in deep political trouble.

Deregulate financial markets. I put that a little down the list, but it is important because if you are going to start restructuring the reward structure, you have to allow resources to move in different directions and that means good, well-functioning capital markets.

Remove controls over investment, especially foreign investment. Let foreign investors come in at will. Let them go out at will. Let them repatriate all their capital tomorrow if they want to. But do that once you have the economy adjusted so they will earn their profits in the areas where you want them to, which is to say where goods are scarce and profits are high. That's exactly where you want foreign investment to go.

Move toward a convertible currency. I put this down the list. I would like to do it first, but I think it's probably unrealistic. A convertible currency will seal in all these other reforms, make them difficult to reverse, particularly stabilization, for reasons I discussed yesterday in the case of Indonesia and other countries.

Finally, begin the long, slow, hard slog of privatizing public companies. Don't start right away. That's a tough one to carry out. It has to happen, but there's a long way to go before it becomes realistic. But it can be done at the margin. And, certainly, don't create any more public entrprises in the process, because some countries have announced privatization and quickly start new ones.

That's the structural adjustment program. But three other long-term measures must be taken. The first priority is to invest in agricultural productivity increases of a self-sustaining nature. That means research and extension. It means a whole lot of things. Again, it's a long investment process, but unless agricultural productivity increases, in food crops especially, but also, of course, in export crops, economic reform is going to run into all kinds of constraints that will make it difficult to sustain, particularly releasing resources from agriculture into the industrial and service sectors.

The second priority is infrastructure, particularly that which serves agriculture but also industry. Those are huge capital requirements, but the capital isn't there, so it's not going to happen right away. Investment has to start with agriculture, then infrastructure, and then education and perhaps, health, before you do other things, whatever those other things might be. In the case of education, the third priority, the problem is not quantity so much as quality. The expenditures may not be that large. It may be more a matter of reforming the system, though it takes a long, long time to reform an educational system since you have to create teachers to do it.

"Say to a recipient country, we are going to give you more money than you ever dreamed of having. Here's what you have to do to get it. But at the end of 5 years, successful or not, you are not going to have this money anymore."

Let me quickly talk about AID in Asia. My understanding of the Korea and Taiwan situation is that in the late 1950s, early 1960s, both those countries had large inflows of aid. The announcement of the end of that aid was partly the spur, not the only spur, but partly the spur to doing something about righting the economy, about liberalizing it.

Aid continued for a while, but it really did taper off rapidly in Korea. I know less about Taiwan, but it's somewhat similar. In Korea, in particular, capital aid was followed by technical assistance that did go on for a while. AID, by the way, sponsored technical advice, sometimes directly out of AID's office. In fact, my co-author on the Korea study was a man who worked for AID during the late 1960s and was part of the reform. He was basically on loan to the government from AID. Some of the American advisors also were paid for and worked out of the AID office, but had close ties to the Korean government and helped with those reforms.

Indonesia is somewhat similar. Marge spoke to this. There were large inflows of capital into Indonesia. However, the Indonesian government itself is the leader here, not the aid agencies. The IMF doesn't have a program there in any real sense, and the World Bank is basically quite constructively running after the Indonesians and putting money where things are looking good because they want to be a part of success. I think that's a good thing to do.

HIID by no means has the ear of the government exclusively. Lots of other advisors, including World Bank and AID advisors are there. Indonesian policymakers like a lot of advice. The policymakers themselves don't need convincing anymore. They know what they are doing. What they need is just technical help in getting things done. That's what advisors are there for now.

Malaysia, as I understand it, was not a major recipient of aid. I don't know if it ever was, but it certainly isn't now. Thailand, of course, got a lot of U.S. aid. I know less about that. But aid played a major role in Thailand.

I guess the lesson you would get from the history of AID in Asia is to focus on a few issues and impose a terminal date. Say to a recipient country, we are going to give you more money than you ever dreamed of having. Here's what you have to do to get it. But at the end of 5 years, successful or not, you are not going to have this money anymore. That would be a possible strategy, and it might be a lesson you could draw from Korea and perhaps Taiwan. I'm not wholly confident of it, but it's a strategy certainly worth considering.

DISCUSSION

Wolgin

I wonder if we could get below the surface on a couple of issues that I think haven't been resolved. One is whether using export processing zones is a useful first step to getting broad liberalization of the economy and what the experience has been. Second, I've heard that investment in agriculture and increasing agricultural productivity, particularly in technology, is a necessary condition for long-term sustainable growth. I don't think that there can be high rates of return to investments in agricultural technology and even in some cases to rural infrastructure in Africa. That may change. I think the initial conditions are very different from a rice culture in most of Asia. Therefore if we are looking for high rates of growth, we are going to have to look at a different strategy than that which was followed in Asia.

One more point, Gus. On rural industry, in most places in Africa it's my understanding that somewhere between 30 and 50 percent of incomes come from nonagriculture, either through labor or through processing like beer making or textiles, or through remittances or through a number of kinds of activities. So we already have a diversified rural base. The last part of that is, how do you build? My sense is that the best thing to do about all farm activities in the rural sector is to leave them alone. Again, you might want to make some structural changes. You try to get people out of the way rather than try to push them.

Bork
Mike. You want to take the export processing zone question?

Roemer
Let me take the first question about industrial liberalization or restructuring, starting through the export sector. One example was in Indonesia. In 1986 the government decided to allow exporters to have access to imports, duty-free, and irrespective of any controls over those imports, so that the monopolies that were astride the import markets were not allowed to impede exporters. They set up a whole mechanism for doing so. It was administratively intensive, and that was one of the problems. But it worked well in Indonesia. It was the opening gun of a whole series of reforms. In fact, it even preceded the devaluation of 1986. Aside from the obvious point that it got around the costs and delays of importing for exporters, it also set up a constituency for further reforms. Soon after, the government began to liberalize imports and began to move the two reforms together. Eventually the first set of steps became less and less important in the scheme of things.

It could have been export processing zones. They could have done it that way as well. I don't see any reason why export processing zones shouldn't be part of the process. Kenya is starting that way.

But there are some caveats on the export processing zones. First, there's a tendency when governments offer export processing zones to do more than just offer duty-free areas. They tend to build them. They tend to actually use their own capital and that's a terrible mistake, I think, unless they know they are going to get that capital remunerated quickly.

The other thing they often do, and Malaysia did both these things, is subsidize the inputs. By the time you take an export processing zone industry, which basically is paying foreign exchange for labor, and subsidize the infrastructure and the services, you haven't got a lot of value left for the country if the export industry isn't taxed, and typically it isn't. There's a tendency for export processing zones to be more than just a mechanism for getting exporters free of import regulations. Either way you do try to help exporters, there's a certain administrative capacity that needs to be there, and that's a drawback. But on the other hand, administrative help to exporters can be effective while waiting for general import liberalization to work for exporters.

"I think it's time that the donors begin to take the issue of institution building seriously or in 2010 you are going to be having this same conversation."

Ranis

On the export platforms, there are also good economic reasons, beyond the political demonstration effect. Initially, I agree what you are often getting from them is employment, and that's not to be sneezed at. The value added may not be large, but it adds to employment, income, improved distribution results, and so on in an efficient way. What I've seen happen in Korea and Taiwan is that over time you then have linkages and begin to use some of the raw materials from inside. Gradually you begin to have local sources. You give up some of the benefits of the duty-free importation because you begin to have the benefit of local supply.

On the second part of Jerry's question, I know that trees don't grow everywhere. I don't think you want to say agriculture has to be the leading sector regardless. I certainly don't think we should talk about the leading sector in Saudi Arabia being agriculture or something extreme like that. But the question is an empirical one in large part. Are there bargains to be had in agriculture? I think we have to turn to the agronomist, the agriculture economist, those who work in the research institutes who have told us that it's possible, at least in the central belt, for "green revolution" breakthroughs to occur. I don't know if that's right or not. Neither do you. But it seems to me that that's the question. Are there bargains to be had in agricultural productivity increases? If so, we should certainly exploit them because in the absence of these breakthroughs it's going to be much more difficult. For all the reasons that agriculture has to play a very important historical role in a successful development process, it's more helpful if the potential exists.

Ruttan

Jerry's comment was very much the kind of comment frequently heard in South Asia in the 1950s and into the early 1960s. It didn't really change until the food crisis of the mid-1960s. My sense is that it's too late to continue talking about Africa as land abundant. By the year 2000, population density in those areas of Africa that are suited for agriculture will be comparable to those of India of 1950.

The thing that bothers me is that the donors have consistently tried to avoid the issue of institution building in Africa. In South and Southeast Asia in the 1950s, the donors were building the institutional capacity it took to create the growth that began in the 1960s. In the 1970s, we didn't do it in Africa because we were on a basic needs and rural development kick. An agronomist was viewed as doing elite stuff. A plant breeder was even more elite. I think it's time that the donors begin to take the issue of institution building seriously or in 2010 you are going to be having this same conversation.

I have two other comments. One, it would have been useful to bring up the JCRR model. Much of the AID program in Taiwan was run by a joint Chinese-American commission, which the Chinese chaired. Now we need a joint commission on world reconstruction. The chair and a majority of members should be from the host countries.

Finally, if I were in charge of the Africa Bureau, I would not assume that I could get away by ignoring the governance issue and the issue of ethnic diversity. It's still an issue, after 1,000 years, in Europe. You ought to get something like a CRSP, but in the political science area, maybe political science and economics, in which U.S. and African scholars look jointly at how to construct governments in countries with mutually hostile ethnic communities. We have to get away from this old 1950s and 1960s nation-building concept. It simply isn't going to work. We need to begin to ask how to design governments in which diverse ethnic groups can live and cooperate. The Basques are still there. The Welsh are still there. It's not going to go away.

Havener

As to whether there are technologies that can rapidly increase the agriculture productivity and production in selected African countries, there's no doubt in my mind whatsoever that that is so. The locations are diverse, but they are important. We were in the Arusha area in Tanzania 2 weeks ago. We drove through and walked through thousands of hectares that are producing 3.5 to 5.5 tons of maize per hectare that 2 years ago were producing three-quarters of a ton per hectare, and it was from technologies that were on the shelf. It was technologies that were broadly thought to exist, but nobody had made the effort to apply them to farmers' conditions under the circumstances that would reward farmers for increasing agricultural production. Farmers responded exactly as Taiwanese farmers did or exactly as Punjabi Indian farmers did. And that's true in wide areas in Africa in maize. It's true in wide areas in Africa in sorghum. It's true in wide areas in Africa in some new rice varieties.

So there are technologies there. There are methods that work. It's getting the economic policies right, getting the people off the experiment stations and into farmers' fields, demonstrating what's available, and putting them in an economic context that makes them work or allows them to work. I've seen it all over Africa.

Alintah

I have a little experience that makes me wonder about all this encouragement for agriculture from AID. My dilemma as a rice farmer is that my rice is inferior to that used in the United States. It is not parboiled. It is not polished. Yet, the cost of production of that rice and shipping it to Senegal is more than the cost of the rice that the American government provides—its food aid or whatever you call it. It's more expensive. Therefore, I cannot sell my rice in Senegal or Gambia because the American government has made rice available to these countries cheaply. Now, how am I going to manage to export, to earn foreign exchange, and to remain in farming if this continues?

Lim

It's a valid point and you hear it all over. Asia says the same thing. They could sell more rice if the USA would stop dumping. In Thailand, the 1985 U.S. Farm Act was widely considered to be a spur to keep the Thais from concentrating so much on rice and to make a bigger push for manufactured exports. I mean, they won't let them sell rice, so they make computers instead. Higher value-added and manufactures are now about 60 percent, I think, of Thailand's exports.

I also wanted to address an export processing zone point. First on Mike's point on not subsidizing, it depends whether you say subsidizing or building. In 1967, Singapore was a free trade zone. So they had the duty-free trade requirements. But nobody read that. What the Singapore government did was built industrial estates with everything there. They had infrastructure. They were a port. They had free trade and so on. Texas Instruments was the first company that showed up and they called it the 60-day wonder—60 days from Texas Instruments' first flight out there to when the first product came out. Speed was one of the big things. The same thing happened in Malaysia. When Malaysia got into it, they built the full estates and people came. That might have been a necessary first step. The important question is, who are you asking to go there? What kind of companies? What is their capacity? How much do they know about the place? What is their confidence that they can go there and get into the construction business? Or how many construction companies, local or foreign, are there who will be able to do that?

Over time things change. The most recent wave of EPZ-type investment in Southeast Asia is the Taiwanese, and they are different. They are not like Texas Instruments. In Malaysia, Philippines, and Thailand, they have bought up big lots of lands because the Chinese are into land buying. So they said, wow, this land is so cheap compared with Taiwan. They buy it up as a commercial enterprise, and the Taiwanese entrepreneurs themselves develop it, build the infrastructure, build the factories, and then lease it or sell it to 40 Taiwanese companies at a time. So you drive around the rice bowl of Malaysia—and this is related to the agricultural question—and all of a sudden you see these 40 companies making Christmas tree lights with Taiwanese type names like Lightning Flower or whatever, so you know what the ethnic origin is.

"I remember driving up one hill and down the next and seeing 12 different agroclimatic zones and 12 different cropping patterns, and 50 different crops. I couldn't believe the complexity of the farming systems."

All I'm suggesting is it's a staged thing. It depends on who you are trying to attract, what the capacity is, and what your stage is. Maybe in the beginning you have to provide a few export processing zones; once they take off, other people will come and do it for you.

Bork
Mr. Alintah has noticed that there was no comment on his distress about food aid prices.

Saiers
I want to comment on it, particularly in the Senegal case. One of the things that's happening in U.S. food aid is that when it goes in other than for emergency programs, it's sold on a commercial basis. It's not sold in a subsidized way in Senegal. In fact, U.S. rice doesn't compete. We've had trouble with our rice in Senegal because the Thai rice coming in is cheaper. And there are real limits on what it is that we can do.

Timmer

We can't let this pass. U.S. rice is subsidized. The 1985 bill provides an export-enhancement scheme that overnight knocked $120 off the price of U.S. rice and thereby off the price of Thai rice because Thai rice had to compete with it.

I understand what Linda's saying. Yes, that's a real spur to Thailand to go into high tech manufactures, but it left some terrible rural poverty in Thailand. I think we run a real danger here. You are talking about Asia now as a model for Africa. We have to talk about Asia in the 1950s and the 1960s as a model. We are not talking about Texas Instruments going into Africa and setting up an export processing facility that will work in 60 days or in 60 months. That's not what's going to happen. We are going to have to build it out of agriculture. If it's harder to build it out of agriculture, then we better face up to the fact.

Rice is a whole lot easier technologically. I can drive from Jakarta to Krawang, the rice bowl of West Java. It's 60 miles, 70 miles, out and back, and it's rice fields. And it's one variety or another, but it's rice all the way out. Come back a different road and it's rice all the way back. I haven't been in Africa much, but the one time I was in Kenya, I remember driving up one hill and down the next and seeing 12 different agroclimatic zones and 12 different cropping patterns, and 50 different crops. I couldn't believe the complexity of the farming systems as they varied up and down the hills. I'm sure it is possible with the investment to raise productivity in those farming systems. Farmers are going to have to have a lot of say about how it's done, but it isn't going to be as easy as it was to raise the productivity of the rice sector. Nor is it going to be as easy to manage it, in the sense of providing the stability, the extension service, the links to the rest of the economy, the marketing, the processing. All of that is going to be more complicated.

My sense is that Africa's going to be a helluva lot harder than Asia. Now, I've thrown cold water on a lot of our discussions through this whole session, but I can't walk away from here with this sense of, you know, there's some magic bullet out there. If we just get a couple of things right, Africa's really going to take off. I don't think we've made the investments. It's going to be a long time. It's going to be expensive, and we really have to make those investments.

Ranis

The subsidies for agriculture all around the world, U.S. subsidies, European subsidies, and the GATT round are all terribly important for all of this. We ought to try to use all our resources, political, economic and otherwise, to ensure that our governments come together on a successful GATT round, especially with respect to agriculture.

Spangler

I don't think we answered Mr. Alintah's question here. Larry Saiers said that we are selling rice in Senegal at commercial rates. Peter Timmer just said it's sold at $120 a ton subsidy. Which one is right?

Saiers

There are different programs. Export enhancement isn't what we run and I'm answering in terms of what we do. I don't know how much USDA stuff goes into Senegal under export enhancement.

Timmer

But the point is the world price for rice is determined by our export enhancement scheme. We subsidize rice all around the world and he has to compete against that. I understand that he can't.

Weinstein

I wanted to go back to the tax-free zones to correct a few misconceptions. We have tax-free zones working already. In Togo, we have over 20 companies that are tax-free points. What's happening in Togo is interesting because of government problems. The creation and construction of a physical export processing zone as happened in a Malaysia or an Indonesia is being held up, and companies are coming in as tax-free points. We do, by the way, have an American construction firm that may be willing to build a zone. And then there is an existing zone at the airport.

In Togo, we have a country in total political disarray. Yet, companies continuously are showing up, and some are still investing and setting up, because they sense that after this blows over, things will be okay.

What Are the Implications of the Past Day and a Half for USAID?

Panel: Margaret Bonner, David Lundberg, Warren Weinstein.
Chair: Myron Golden

Golden

As the private-sector people would say, we are coming to the bottom line, and the bottom line is that in this session we would like to get your recommendations about what AID should do in promoting transformation in Africa. Over the last day and a half we've listened to the analysts, the private-sector people, the technicians. Unfortunately, the bureaucrats haven't said much. We have thrown in our 2 cents every now and then, but I'm sure there's a lot dancing around in our heads in terms of ideas and things that we should explore.

Before we start, I would like to throw my lot in with the optimists. I've worked with Africa for 20 years, and I think if ever there was a propitious moment for AID as an agency to do something meaningful in Africa, the time is now. I certainly hope that we will seize the moment and I hope that everyone in this room will be partners with us in doing that.

There's reason for being optimistic, at least from the perspective of a bureaucrat. We've talked about the political and economic change and reform that's under way in Africa. Our African colleagues have told us that much of it is real. I think we believe that and we can build upon it. We can build upon the structural adjustment that's

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Questions posed to the panelists

1. What implications does the discussion so far have for AID programming, in terms of strategies, emphases, and types of interventions?
2. What changes are needed in U.S. Government policies (for example, with respect to debt or trade issues) and in the policies and strategies of the donor community at large?

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taken place to date. We can build upon the political transformation that's taking place. And I think that we can work with a new group of leaders that are taking seed.

You know, we've always complained about a lack of financial resources for working with Africa. Well, we are in the position right now of possibly having more resources than we've ever had in recent years to work with. We have to do something about that. And as important, we have flexibility in what we can do in Africa. We have a flexibility that we've never had before. For those of you who may not be aware of it, we have a piece of legislation, called the Development Fund for Africa, which was given to us by the Congress 2 years ago and mandates AID's work in Africa. It mandates our work in terms of policy reform, mandates us to work with the private sector, allows us to make cash transfers, quick dispersing assistance, mandates that we concentrate at the sectoral level, but that we have impact at the macroeconomic level. It demands that we demonstrate some impact in what we are doing in Africa, and gives us a sense that they would like to see AID concentrate its efforts to be able to demonstrate this impact.

We are in a situation that we've never had before. With the new leadership of Scott Spangler and with the people we have working in the African context now, both in the bureaucracy and outside, I think that we can take advantage of this moment. That's what this session is about, to receive your advice and suggestions and process them.

The panelists are colleagues from the Africa Bureau. They will talk briefly on what we have gotten from this seminar. I would like to start with Marge Bonner.

Bonner

One point I want to add about the DFA is though there is the ability to support macroeconomic reform and though there is the possibility to work with the private sector, there still is a real feeling on the part of Congress that AID is a basic human needs organization. We have 10 percent of our budget earmarked for family planning, 10 percent that has to go for child survival activities, 10 percent that has to go for the environment, and we have to do at least two new starts every year in basic education. So some of the opportunities Myron indicated are there, but it's not fully supported by all members of Congress. We have this tug going on now between how much we can go in one direction and how much we have to continue to follow our socialist mandate.

"In the recent years in Africa, AID has backed away from some of the aspects of infrastructure that you are talking about."

What I tried to put together here was a combination of things that I heard over the past couple of days, not necessarily that we are going to take action on all of these, but these are the kinds of things, both activities and processes, that I've heard people say need to take place.

One of the main things I've heard over and over again is the need for investment in human capital. The point was made that this should be quality, not necessarily quantity. I'm not so sure we need to sacrifice one for the other. I would have liked to have people talk a little bit more about what they mean when they are talking about human capital. What are the skills that you want there? What are the attitudes that you want there?

The second was on infrastructure. In the recent years in Africa, AID has backed away from some of the aspects of infrastructure that you are talking about. I heard a cry for infrastructure in the more normal ways that people think of it, in terms of roads. I heard a cry in terms of things that will help outward-oriented information systems to happen. To me that means telecommunications. I guess it means breaking down some of the trade barriers that exist. Another way I heard it expressed was in terms of trying to make sure that the regulations, especially on the rule-of-law side, were there for people to be able to operate.

One problem for AID when we look at hard infrastructure—roads and telecommunication systems—is sustainability. We have lots of roads and a number of you are well aware of roads that get put up and are there for a while and then they just disappear. If you don't have some system built in to continue to sustain that infrastructure, your initial investment just isn't worthwhile.

The third thing I heard was export-led growth. Jerry, yesterday, talked about leapfrogging to export-led growth and there was no challenge. I was surprised. But then it all came up this morning.

It seems to me there's a number of ways we could help. We could help with the infrastructure. There also seems to be an opportunity to change research emphasis, both in the public sector and also in a way to start to get the private sector involved in what some of that research might be. It can also involve work with regulations and changing attitudes. I'll get to the attitudes a bit more later on.

I heard a cry for capital, both in a simplistic nature, give us some money right now, or give us the opportunity right now to be able to get capital. But there are other ways that we can look at that.

Under the program for Poland and Hungary, an enterprise fund was established that allowed businesses the opportunity to get either loans or venture capital deals. I don't know that that's what we need right now, but it's a possibility. Looking at capital means not only looking at the money being right there, but also what can we do to try to develop capital markets? Are there other opportunities for trying to stimulate joint partnerships? Also, Gus asked, can you try to get a reserve of capital? This may be one of the ideas we want to think about a little more. Again, in Poland, the USA put in $200 million and, along with a number of other donors, a backing of almost $1 billion to act as stabilization fund if the country decided that they were not only going to devalue their currency, but put it as a free-floating currency. So it can be done. We have done those kinds of things before.

I heard that we should stay supportive of macroeconomic policy and in doing that we should try to be selective about the countries that we work with. Possibly we should pick a few countries where there is real change happening, a commitment, and a vision of where the country is going, and try to put resources behind that.

The other thing I heard was a need to change attitudes. Mike said we don't need to get the government to love the private sector, but we at least have to get them to like the private sector. And it's not just the government. It's not just changing the policies at the top. It is, how do we start to work on the attitudes of the people all the way down? And that may be a much longer term process. It's not just a process of saying things are going to change now. It's starting to work back even in your curriculums and with school kids in terms of the private sector not being the bogeyman.

The aspect that again is process oriented is trying to get the governments to take responsibility, not only for where their country is going, but what the donors are doing. The first country I worked in as an AID employee was in Ethiopia. The Relief and Rehabilitation Commission there had a means by which they decided what needed to be done. They pulled all the donors together and they said, this is what we would like to do. Tell us what part you can take. How do you make that operate? I thought that was standard operating procedure for governments.

I then went to a few other places and found if you were lucky there was a donor who was doing the same job. I think we are starting to take a slightly wrong turn. UNDP and World Bank, although they are on the African side, are trying to pull donors together. I think that is not a donor responsibility. It should be the country's responsibility to pull people together and get them to do what the country wants to do.

Agricultural productivity was brought up again. But what we can do to try to increase agricultural productivity, whether that means extension, links to the market, agricultural research, change in the kind of research we are doing, is still open, still on the docket of something we need to look at.

Although there was a a little bit about natural resources and the environment, there was no mention at all of family planning or population. There was general agreement that population in Africa is sparse, but there are strong population pressures. To me it is still a major issue in Africa. Although the population is sparse in comparison with the Far East, the way it's located and the pressures on the economy right now are not an issue that we can ignore. I think that is one of the areas we are going to have to continue to work in.

Lundberg
I would like to start with Marge's "putting our resources behind the vision," Gus's "passive assistance," and Jeff's "cost of failure is too low."

We are basing much of what we do today on performance at the country level. In the Africa Bureau, probably 80 percent of our resources are going to 20 countries. Among those 20 countries, 10 are getting the bulk of that 80 percent. So there is a great deal of concentration, but what I was hearing was that we are continuing to force feed or provide resources to some of those that maybe we ought to be backing away from until the vision is clearer or commitment on the part of the host country is there.

The point was made that the host country has to be in the lead as opposed to ourselves. We totally agree. For example, in East Africa there are a couple of countries, probably Uganda, probably Madagascar, that we could go into in a major way, in terms of maybe $100 or $200 million a year when you were convinced that you did have that commitment. Maybe we ought to be thinking about that more than we have. Maybe rather than have 20 countries or 10 within that 20, we ought to be thinking about 4 or 5. In Asia probably four or five countries that AID or aid donors have been involved with have truly succeeded. Maybe we ought to be thinking the same way in Africa.

The implications of that are strong. We are a modest donor in Africa. Getting the other donors to go in the same direction we are is a major problem. How we are going to handle the other 35 or 40 countries in Africa is a major problem. Presence is a big issue with the Department of State—the political presence of the United States. It's AID with its money that provides that presence in a lot of cases. So how do we handle that?

Congress, as has been pointed out, is interested in basic human needs. When we start talking about putting our emphasis on four, five, six countries in Africa, that is not going to go down well. Congress is going to say, what about the Ethiopias or the Somalias where people are really suffering today?

"We have to look at institution building again in a different fashion—as much more of a sister relationship, a mutual benefit relationship."

So we have to think about how we deal with that. I don't think we should forget the other countries, but one approach that we could proceed with, and I hear it in a way here, is human resource devel opment, That is, while putting your resources behind the real com mitted places, in the others you could set up a human capital devel opment approach where we would simply be providing train ing—training that would not only give them the technical expertise, but a real exposure to the United States, either through short-term visits or through academic training. That's something that we may want to give some more thought to as we proceed here.

Another area that I want to talk about is what Marge referred to as increasing agricultural productivity, the whole balance of agriculture versus what else we do. Some are going to say I'm biased because I spent the first 20 years of my AID career as an agriculturalist. The agriculturalists in AID would say that I abandoned them when I moved into the geographic office side of things. But I firmly believe that you can't forget agriculture. At the same time, I don't believe that we can continue to handle agriculture in the same way that we have for the last 20 or 25 years.

A couple of examples. Vern talks about the importance of institution building. When I went into Kenya in 1981 as the agricultural officer, one of the first things I did was to stop what we were doing in agricultural research. We had been in agricultural research for about

15 to 20 years there. We had one huge success in consort with other donors, and that was Kitale maize. I went to the Kitale station and it was if no one had ever been there from anywhere. I mean, there was no institution left. There wasn't a commitment on the part of the Kenya government to deal with agricultural research in a permanent manner. I said that we think you need to develop technology, you need to be in agricultural research, but until you are serious about it, there's no point in either one of us wasting our money on it.

Before I left, we started a major agricultural research program, but we focused on management and administration of the national system as opposed to picking a commodity and making an ad hoc approach to agricultural research. What I'm saying is you have to be selective in where you do institution building. I believe we need to be doing it in a number of countries, but you have to have the commitment before you start.

Another example, a positive example, in Kenya is Egerton University where we did the same thing and there was commitment. I think that we can look at it, and the Kenyans certainly look at it, as a major success story and one that is still growing as far as a success. So we can't forget agriculture, but we have to think about how we handle it.

In the case of agricultural research, instead of bringing in a contract team to deal with agricultural research in a Rwanda or Burundi, I think we have to begin to look directly to the international agricultural research centers.

We have to look at institution building again in a different fashion—as much more of a sister relationship, a mutual benefit relationship. I believe that's why, particularly in the later years, Egerton has succeeded. Egerton has been in charge of that program for the last 7 or 8 years with the University of Illinois, and others, following their lead. That's the only way it can work. The University of Illinois and others have learned just as much from Egerton as Egerton has learned from them. You have to begin going in those directions. It's a very different relationship and a very different way of going at it.

Weinstein

One thing that comes from the discussion is that Africa Bureau would do well to start looking at some countries in Asia, such as Taiwan, Thailand, Indonesia, and Malaysia, to see where some of the entry points lie. What also came through was a lot of good advice. It won't be easy. It isn't necessarily linear. It isn't evident all the time. It takes time to happen. It requires that there be a vision and a consensus. The private sector has to be part of it. But whether you call it a partnership, a joint venture, a relationship, whatever it is between the government and the private sector, it has to be something that reinforces that vision. That's not easy to pull off, but that has to be worked at.

"Move away from having mission directors with 'my program,' office directors with 'my program,' to an Africa program that's a DFA program that will give continuity, so that when we change people, we are not always changing gears and shifting.

What also came out was there are constraints. I don't think it's a matter of being optimistic or pessimistic. Those people who are involved in Asia stuck with it. Sometimes they were probably terribly pessimistic and sometimes they may have been terribly optimistic, maybe overly so at different points in time. The lesson for us is to avoid both the valleys or the peaks and to stay with it. I think that's an important lesson.

Someone didn't like it when I mentioned the "Berkeley mafia" in Indonesia. But nevertheless, let's talk about these groups that are emerging. What we are seeing in Africa is just the beginnings of where Asia was. Maybe we have to learn a little better how the interaction with these groups of well-trained technocrats and AID officials or other donor officials worked. We have to understand that process because we are just at the threshold of perhaps being able to do that in Africa and we don't want to mess it up. It would be interesting to know more about how that worked, how it didn't work, what happened.

Because we are at that threshold, we have the chance to perhaps see more of a political will created. It was mentioned that the long haul requires a political will. It requires development of the capacity to intervene strategically. If I understood what the Asian specialists were telling us, that didn't happen right away but developed over time. We are at the beginnings of seeing a group emerge in Africa that can do that. We can nurture this process, but we have to be careful in how we do it.

We also learned that keeping the same people on something for a long period of time is important. Through the Development Fund for Africa, we've been trying to push the horizon. We've started by getting money that can last for 2 years, which allows us to do planning that can go for up to 5 years. Perhaps over time we'll get a little further in our horizons. But we have to find a way so that when one AID official comes in or another goes out, we don't continuously shift tacks. In the Asian model, you had a continuous movement of trying to add on, not always just change, fix, tinker, move around. It was a continuum.

That's something that the Africa Bureau, through the DFA, is grappling with. That is, trying to move away from having mission directors with "my program," office directors with "my program," to an Africa program that's a DFA program that will give continuity, so that when we change people, we are not always changing gears and shifting. The constraint there, as Marge mentioned, is always the Congress and some of the other domestic audiences that we have to grapple with. That is a challenge for our assistant administrator and for us as a group.

On private-sector selective interventions, we've talked about capital funds. We've talked about trying to figure out are there selective interventions in agriculture? Is it agribusiness? Is it processing? Is it things beyond that? We talked a little about export processing zones. Here it seems to me we have to have more of a dialogue. We've just hit upon a lot of these. It would be presumptuous of me to say what the selective interventions ought to be. I can talk about those we are doing, but you can read about that.

DISCUSSION

Golden
We want to do three things. We want to clarify your recommendations as to what AID should be doing. We also want to entertain direct questions about the presentations you've just heard. Before we get to those things, I would like to give you something else to think about, in terms of our information base. We have at least one burning question that has to do with the East Asian experience. The question is, was the cessation of donor capital, as opposed to technical assistance, a contributor to the Asian success stories? Was it a cause? Was it an effect? Was it irrelevant to the takeoff? Just how did this impact upon economic growth? What year did capital aid flow cease in some of the Asian countries? What years did the growth begin, or at least the growth policies begin to take effect? If anyone can answer any of those questions for us, it would be helpful.

Also, I would like to give Jo Platts-Mills about 2 or 3 minutes that he has requested. I'll get back to the Asian question after Jo.

Platts-Mills
In this morning's session some nice olive branches were offered. It would be churlish of me not to accept them. I would like rather to apologize for something I did last night and to blame AID for this because it was an AID representative who suggested to me in the lift coming up from dinner that as the first speaker it was important I should wake everybody up.

I did so, but unfortunately I rather set the tone for the meeting. It was my intention to take an aggressive turn because we are the outsiders in one sense. Certainly in this meeting we are very much the outsiders. What we are trying to do is obviously not the same thing as what you are trying to do. They are parallel. They can interfere. They normally complement.

It wasn't at all my intention, and I'm sure it wasn't Mike Davies' intention, to offer you a shopping list. It certainly wasn't our intention, and I don't think I did that, to undervalue the work that's done by the aid organizations throughout Africa, particularly in the area of institution building, of research and training, and, of course, the basic human needs that Marge mentioned. I did want to get across a point where perhaps our relationships could be developed in a constructive manner. One of the questions in yesterday evening's discussion was, how do we get private enterprise going in African countries?

Now, the multinationals, who are there, are there, and we are doing what we are doing. We see a number of projects that we don't pick up because they are not quite good enough commercially for us to get into. And I think there are a number of companies that don't quite come into an African situation because they don't see the project that is quite good enough for them.

If somehow we could arrange a system with you where you could give a little push to the right project or to the right person, then maybe we could get going, rather than having to wait until the playing field is fully flat. I think it's dangerous to forget private enterprise until such time as the playing field's fully flat. Otherwise, we may find ourselves with a beautiful synthetic pitch and nobody playing on it. I'm not convinced that you can actually do these in sequence. There has to be a quite substantial overlap. It may be important to try to be bringing in new projects, new people, rather than waiting until everything's perfect because the local governments and people will reject perfection if it's not producing any results.

It could be that there are ways in which you could help with given projects and given people to push them over the edge and get them into operation. One is by taking an aspect of a project and saying, okay, we are going to call that infrastructure. When we take up a big agricultural project, there's an awful lot of infrastructure involved. We might put down 30 percent of the capital cost in just water engineering. On a sugar mill you can have that sort of number. The water engineering is for that sugar mill. There's no doubt it creates a lot of farm. And if you didn't put a sugar mill onto it, the farm's still there. Indeed, there are many occasions where we wonder whether we shouldn't be growing cotton on some of our sugar land.

The other possibility, and that needs proper economies to work it out, is that you might be able to put in an amount of cheap money unattached to any specific aspect of the project. But giving that money a priority once profitability is achieved so that you would increase the chances of the project succeeding. But if it were to succeed, you would take a priority benefit out of it, for yourselves or for the host government; the way in which you structured that wouldn't be important. I believe there are many situations where due to the unreliabilities of business in Africa, people don't go in because the calculations don't look good. If the calculations are good enough to mean, yes, we have a sufficient probability of success, we are not then disturbed at the fact that we actually get less benefit from it at the back end. When we do succeed, we would rather have one that works okay, and then acceptable return, but not the big boom, than to have one where there is a little bit more money, potentially at the back end, but a much greater probability of failure. There may be other ways of approaching that, but that's an area I would much like to explore and discuss perhaps outside these meetings.

I'll give you a simple illustration of a case which made a big difference to us. When we bought back our tea estates in Tanzania, we didn't pay real money. We just paid back some of our compensation to get them back. A thing that made a big difference to us was that Norwegian aid allowed us to buy $100,000 worth of Norwegian krone to spend without restriction on equipment. We were able to spend that on replacement vehicles for our staff so we could have an 8-year recycled program on vehicles, which in Africa is not exotic. But that actually made it possible for us to work. Without that input on about a £2.5 million-turnover company, it would have been almost impossible to get in the business. That little contribution made a tremendous difference.

Golden

Does someone have an answer to our Asian question?

Ranis

I would like to say something about Taiwan. As I mentioned the other night, the initial period in Taiwan in the 1950s was one marked by runaway inflation. AID or its predecessor agency came in with fairly substantial amounts of budget assistance to help the Taiwanese achieve budget stabilization. Then the sequence that Michael was talking about really was very much in effect—stabilization, interest rate reform, then moving to a unitary exchange rate, which was kept more or less realistic over time, then shifting gradually to tariffs and export processing and so on was followed at the end of the 1950s and early 1960s.

The early 1960s were marked by a major package of reforms, the so-called 19 points. Both the ballooning of foreign aid at that time, through program loans, and the announcement at the same time that this would have a definite terminal period were helpful. The ballooning in 1961-62, with two major program loans, gave the reassurance that Michael was talking about in terms of resources, both fiscal and foreign exchange—reassurance to the government, the kind of structure that JCRR provided, but with the notion that we are going to be in there to help bind the wounds and risks of these reforms, the 19-point reform program, which was carried on from 1961 through about 1963-64. At the same time we were saying we are not going to be in this forever, so you have to be on your own. The cutoff date was 1965, to answer your specific question. There was no more economic assistance after that. There was military assistance that continued, but economic assistance terminated. So that combination of being in there with a major package and yet seeing it wasn't going to be a continuing dependency situation, both of those are important.

Havener
I would like to add something to what Gus said. Simultaneously, the human resource development aspect of the Taiwanese was not neglected. The chairman of the JCRR happened to be a plant breeder, trained at Cornell. A group of people were trained at Cornell, Chicago, Yale, Princeton, in economic planning, in management, in a number of the basic agricultural sciences. They comprised the people that were taking over from the USAID-sponsored experts. They were the ones that began to make what we now consider to be the rational policy decisions that led to many of the later developments in Taiwan, and they still are. The president is a former ADC

fellow. The chairman of the State Bank is a former ADC fellow. The chairman of the Council of Agriculture is a former ADC fellow. They are running Taiwan and they came out of a very aggressive human resource development program that focused on merit and quality.

Wolgin

Again, be careful about taking irrelevant lessons from Asia, or lessons that are less than relevant. It seems to me that one of the differences between Africa circa 1990 and Asia circa 1960 or 1965 is the debt overhang. The idea of putting in substantial resources and then going away is fine if it weren't for the fact that all of our predecessors working at the World Bank and the IMF and other agencies created this huge debt overhang that Africans are going to have to deal with. I mean, if we could take that debt and reduce it and reduce aid by the same amount, then that prescription might work a lot better. But it seems to me that we are going to have to be responsible for providing resources to pay back the debt that was unfortunately contracted in the earlier period.

"I think Malaysia is in some ways more interesting for Africa because it's no accident that the crops that Malaysia chose to specialize in were African crops."

Timmer

I want to add to the question that Gus addressed on Taiwan, but to look at South Korea, Thailand, and Indonesia, which are the other countries we've been focusing on not as models, but where there are some lessons. The real question is where did the resources come from to get their investment rates up from 5 to 10 percent to 20 to 25 percent. In the early stages, the late 1950s and early 1960s in both Taiwan and South Korea, that came from foreign assistance. There's no question but that a significant share of GDP came in from foreign assistance. That tailed off very rapidly, but then was substituted by foreign investment rather than foreign assistance. Thailand never had large flows of foreign assistance, and only recently has it had large flows of foreign investment. But it did have an agricultural sector that it used to generate substantial investable surpluses. Malaysia was the same.

Indonesia had a substantial amount of resources that flowed in, in the late 1950s and 1960s, mostly from the Soviet block. Indonesia had a large debt overhang, both in Soviet and in dollar-denominated terms in 1965, which was immediately renegotiated, simply disappeared as a factor in economic planning. Indonesia has had reasonably significant foreign assistance, but it's a much bigger country. So the share hasn't been as large. But it had petroleum as a source of savings that were reinvested through the government account, primarily. So the real question is where do those kinds of resources come from? With those resources, the rapid growth process really gets under way. But it took substantial investable resources either generated domestically or from foreign sources.

"There is no question that when you expand education, quality declines. Suddenly, the elites who were educated before cannot be compared to the average."

Roemer

Peter, the switch from financing by foreign aid went pretty much directly to domestic financing. There was a major budget reform in Korea and an interest rate policy change, which may have been the cause of it. In any case, they had a large surge in domestic investment in the middle to late 1960s. Foreign investment in spite of what most people believe, never was very important in terms of its volume. It may have been important for other reasons. So that was the switch. It occurred in the mid-1960s and I would say that the decline in aid was probably not a cause in any sense, but it was a stimulating factor in reforms.

Lim

Malaysia, as has been mentioned, never received much aid. From the beginning it financed investments largely through agricultural exports until they hit petroleum and then through borrowing at mostly commercial rates in the world markets within the last 10 or 15 years. I think Malaysia is in some ways more interesting for Africa because it's no accident that the crops that Malaysia chose to specialize in were African crops. It is a land abundant place or labor scarce. They never went into rice to the same extent because of the land-man ratio. They also have a major ethnic division. The way that they managed, the private sector came from one ethnic group and the public sector from another. So it's a rather extreme case, and I think quite an interesting case.

They had some foreign aid, but for very specific projects that they selected, and they did get technical assistance along the way. But the main thing that they did, and this is the bridging part of it, is invest heavily in human resource development early on. Again, there was a political reason. The political base of the government was in the rural areas where the Malays were. So they began, I would say, in the 1950s and 1960s with primary and secondary school education in the rural areas. I have lots of colleagues around my age who walked 4 miles to school, for example, every day. But it was a good system. By the 1970s, in fact around about 1972 or 1973, they had a massive program of sending Malays overseas. It happened at one shot. When I was a graduate student here in 1972, the Malaysian Student Association was 95 percent upper middle class Chinese. In 1973, it was 70 percent Malays from rural areas. There was a huge increase of Malaysians. Malaysia had the second largest foreign student group in the USA, behind Iran, for a large number of years through the early 1980s.

They did this in a lot of different ways. Lots of inefficiencies, lots of wastage, lots of inequities. When you talk to Malaysians, they will always complain about how quality declined. I think there is a tradeoff. There is no question that when you expand education, quality declines. Suddenly, the elites who were educated before cannot be compared to the average. This is true in Singapore. Whenever you may have a massive increase, the quality declines and people always go around saying, oh, you know, people who are younger than us don't speak English as well. That's true, but there are a lot more of them. They are educated not to our high level because it's not an elite system anymore.

But what the Malaysians did was quite interesting. They made deals with places like Louisiana State University, Ohio University, University of Illinois, and they sent large numbers. There was a goal to create a Malay bourgeoisie within half a generation. It was very explicit. They sent them here to second-level, third-level schools to do things like marketing, accounting, agriculture, train high-school teachers, math teachers, all at once. They all went back to Malaysia, and of course they did have some oil money to help with that. By the 1980s when oil had slumped, they changed to training relationships with American universities. The University of Maryland is a well known one where students in Malaysia go for the first 2 years and then they come out. You almost cannot go to any remote village in Malaysia and not have one or more persons who have gone to the USA for education and very often for a Ph.D. It has become so widespread. So they run their own system, and it was done in less than 20 years.

"Until you can produce school teachers as fast as children, you will have a major problem on your hands."

Golden
We do come back to this whole issue of human capital. I would remind all of us that in the late 1960s, early 1970s, we had programs where we sent a number of Africans to the United States for training at various universities. It's these people who are emerging as technocrats that we want to work with. So I don't think that we ought to overlook the importance of the human capital question.

Lim
One point with respect to credit to small companies: As part of Malaysia's new economic policy, which a lot of people, particularly in the private sector will complain about in Malaysia, the government offered small grants, subsidies, or low interest rates to Malay entrepreneurs who wanted to set up businesses. And things change. Fifteen years ago, I had Malay fellow students at the University of Michigan who said, "You know, I'm a Malay. I can get a grant. I'm going to set up a disco," and they did. A whole bunch of them failed. Now there are people doing things. I have a Malay relative who is doing things like buying up old rubber tires and retreading them. You move progressively. There's a time thing. But that doesn't mean you don't start. And there's a lot of wastage in education. There's a lot of wastage of capital. But there's enough demonstration and enough skills acquired that people run all over the place and do productive things.

Herbst
One of the things AID has to do is have demonstrated successes. Part of the problem with Congress is that structural adjustment doesn't have successes, demonstrable successes. We know that if a country has a flat growth rate instead of a 2 percent annual decline, that is in fact success. But that is not going to sell on Capitol Hill. People want to see positive growth rates of the kind that East Asia had. The problem is that people understand the effect of inoculations, but they don't understand the effects of getting your fiscal house in order, especially in Congress.

Another problem that AID will have in the years to come, which I think will make the basic needs problem look pretty insignificant, is the democratization question. If you want to worry about Congress, that's where I would be worried. It would be a horror, for instance, if a country like Ghana suffered aid cutoffs or aid reductions because it wasn't perceived as moving as quickly on democratization as other countries. And I think stressing the primacy of economic success, and hoping that these other things will come along, would go some way to meeting that challenge before it emerges fully.

Antoine
I think education remains the major constraint to development in Africa. We can be optimistic or pessimistic in regard to some of the areas of Africa, but I believe that the reports that have come out in the past few years are pointing toward the degradation of the quality and the quantity of education: quality, when you look at the curriculum and the knowledge of the people who are graduating from universities or from high schools; quantity, when you look at the ratio of students per school teacher. The number is increasing in Africa, and until you can produce school teachers as fast as children, you will have a major problem on your hands.

I'm concerned also about the fact that there are few universities with graduate level courses in Africa, with the exception of Kenya, Nigeria, and possibly, Uganda, In the Francophone region there is just one center in agriculture-related programs. It's in CIRES in Côte d'Ivoire. Yet, it's only for socioeconomic sciences.

At the same time we have the paradox that in almost all the countries, the graduates of universities don't find a job. So I don't know what to recommend to USAID. I say first support education, but maybe they should change the emphasis, go to vocational and technical skills, rather than university degrees, which buy you a place in the bourgeoisie, but without the salary to live as a bourgeois.

The second comment I have is on agricultural research. I agree that maybe the approach to agricultural research was not ideal in the past, but a lot of governments are making mistakes and they have a lack of focus on the institutionalization of agricultural research. The major motor of development in Africa, except for some countries like Zimbabwe possibly, will be agricultural development. Agricultural development cannot be sustained without a strong agricultural research base. We have to change our approach to agricultural research. We have to ensure that the farmer is listened to, that he participates in the planning and even in the implementation of research. There are too many technologies that remain on the shelf and then you need someone like Norman Borlaug and his Global 2000 program to show that they exist, but we cannot abandon research. I'm not in agreement that large technical cooperation teams are useless right now. I would say half of the countries of Africa have research systems with few well-educated scientists who often are asked to focus on administrative problems rather than on technical problems. I think that technical cooperation in agricultural research is there for another generation.

Ranis

I would like to follow on what Jeff said. If you look at the history of what's been going on in terms of foreign capital and its usefulness, it's a double-edged sword. If it's concentrated and carefully negotiated, it can in fact have these successes that I think are essential to put this business back on the right track. If not, as we saw in the 1970s, the free flow of commercial capital in fact can thwart reform because it takes the pressure off. If you compare the Taiwan story I told earlier with the Philippine story I can tell you about, this is exactly what happened. It seems to me that you have an opportunity here, and I am glad you have additional flexibility and 2-year money in the Africa Bureau. I wish you had 5-year money because it really takes 5-year money to make the credible package that would induce a government to make major changes.

So both the aid flow and the notion that you have a multi-year possiblity are important. Maybe, unlike Taiwan, you are not going to say we are never going to come back. We may come back again for another package down the road.

How do you get this cemented? I think that takes a little time. It's not just a flying mission by the World Bank or something like that. It seems to me it has to be unique, even some kind of a blue ribbon wisemen's group, which was used in the OECD after the war to fashion such country packages for Europe.

"If we are going to move forward from here it won't be just by sitting down and talking together, it will be by working together, operating businesses together, getting to know each other on the job."

It may require using the other donors as well. You know, there is a lot of expertise elsewhere and I think the real problem is that the World Bank says one thing, AID says another thing. It's never going to work that way. It has to be a concerted group mechanism that is feasible to put in place once the country decides what it wants to do and the donors, as a group, believe it makes sense.

E. Simmons
I want to ask for recommendations from the private sector in the area of tied aid. AID is very conflicted. On the one hand, we are being told we should support the American business community. We should be channelling procurement, channelling contracts and so forth to Americans so that we develop American contacts in Africa. On the other hand, our economist consultants tell us, no, that's the least efficient way to go. Americans are not competitive in providing services in Africa. And I heard from you folks yesterday that indeed looking at using African businesses more would both stimulate growth of private enterprises in Africa and would be in some ways more efficient.

I would like to hear whether you think that the investment, the procurement, the contracting for goods and services, either from the international firms in Africa or from African private firms is sensible, given what I heard from you about the need to bring in outside expertise, the need to bring in outside technology, and the need to get more American investors interested in Africa. How do you weigh the incentive effect versus the efficiency effect?

Platts-Mills
For a company like ours, we can offer you an American company with whom you can deal, that will be highly efficient, and that will know exactly where to sublet all the business. It's important to do work to bring in African companies. If you have a large project and you can incorporate in that a number of African contractors and suppliers, then you are helping to construct a genuine African business base. We live with tied aid. We live with untied aid. Obviously, we prefer untied aid. But you would be amazed how quickly we reconcile ourselves to a particular type.

Davies
We shouldn't perhaps get too hung up about the efficiency effect. The important thing is to make a start. My overriding emotion during the last couple of days has been my confusion over the approach of the aid bodies to our mutual problems. I'm sure that an equal and opposite confusion exists in your minds.

It's been a useful and interesting couple of days and I've certainly gained by it. But if we just leave it there, it will have been wasted. Peter Timmer said there's been a lot of rhetoric and that's true. I think that has been a cover for the confusion and the lack of understanding that exists between the various groups at present. We don't use words to mean the same thing, we have different motivations and different constraints. If we are going to move forward from here it won't be just by sitting down and talking together, it will be by working together, operating businesses together, getting to know each other on the job. We should get on with that aspect and not worry too much about the efficiency aspect.

Golden
In other words, we have a lot more to learn about the private sector and there is a way to go even given where we think we are now. I

would like to give Scott a chance to respond to that and share with us his perspectives.

Conference Wrap-up

Scott Spangler

Spangler

First, before I start with these comments, because I may not get a chance to personally thank each of you and say goodbye, I thank you all for not being polite. I hate these academic things where they say, "Oh, well the good professor is right." You all have been very direct. I think that's been helpful. And especially thanks to the Winrock folks for taking the leadership and putting it on.

This has been a wonderful answer to a plea that I made several months ago to the Africa Bureau staff. I had been going around talking to people in the missions and in the Washington bureau. Everybody spent their time talking about this wonderful project that they had and how successful it was and what great results they had had. Yet, at the end of the day, I knew that the truth was that the average African is worse off than he was 30 years ago. My question was, why are we winning all of these battles and yet we are losing the war in Africa?

Second, I came back from my first trip to Africa after becoming involved with AID with a great concern that 25 years ago in Africa, AID was building dams, farm-to-market roads, and really trying to do economic development, not well, but they were at least trying. I had this concern that we had gone from that to giving out PL480 food and handing out condoms, that we had gone from being the

Agency for International Development in Africa to the Agency for International Welfare, and that we might end up creating some welfare states in Africa. In the last day and a half, it has been wonderful to hear from all of you that it isn't quite as glum as that.

I've listed comments in three areas. I tried to gather my reflections into what I call the differences between the Asian experience and the African experience, the differences or the negatives for African growth. But then there's another list of comments that are the similarities or the positives for African growth. Then I would like to leave with you the questions that we have raised but not firmly answered, at least not to my satisfaction. Let me start with the differences or the negatives that I heard over the last 48 hours.

First of all, Jerry Wolgin pointed out the small size of African countries. He said the average African country has less than 10 million people. I multiplied that in my mind. A number that sticks in my mind is that the average African country has less than $300 GNP per capita. That means there's less than $3 billion of GNP in the average African country. For those of you who don't know, that would not qualify for the Fortune 500, i.e., the 500 largest companies in this country alone are bigger than almost all African countries.

The second one is the instability of Africa. Will Africa's future be Somalia or will it be Mauritius? That is a very real question in our minds.

Jeff, I think, pointed out that the goal of most African governments is not to try to grow at 6 percent per year, but just to survive for another year or two. I think it was Mike Roemer who pointed out that that creates a fundamental difference between Africa and Asia. The African governments plan 1 year ahead. The Asian governments plan 25 years ahead. The point was made by more than one of you that there's no overwhelming national security or threat to the existence of the nation in Africa as there was, for example, in South Korea and Taiwan, where if they didn't grow, if they didn't produce wealth for military reasons, they would go out of existence as a nation. Everybody in the country felt that, whereas in Africa, yes, governments feel threatened, but the nation, the people, don't feel threatened.

Linda pointed out that there is a belief in Malaysia and I think in other Asian countries that the best-educated minds should be in the civil service. But whereas in Africa, I think Jerry said the theory is that all educated minds should be in the civil service.

The last difference, and the one that I think may be the most important is, there's no successful neighbor. There is no Japan, so far, in Africa.

What about the similarities or the positives that I heard? First of all, I was surprised at the unanimity. Nobody here suggested that the fundamental policies that would trigger economic growth were different or would be different in Africa versus Asia. You all talked about the importance of the following factors. I know I didn't get all of them, but these are some of them. First, the importance of getting the prices right, whether you are talking about agricultural prices, whether you are talking about the price of capital, the price of foreign exchange, or the price of industrial goods. You all talked about the importance of free competition, both within the sectors in the country and competition on the world market. Everybody here, in spite of our contretemps last night, said that the private sector is the most efficient means of producing wealth and that without it, growth would not happen.

At the same time at least the economists said that it's very important to get the macroeconomic policies right and without the two you would not have growth. There was a lot of discussion that you have to get the agricultural policies right. There was a lot of discussion about the importance of the transfer of knowledge—bringing knowledge in from foreign sources—and capital in from foreign sources. Finally, over and over again, you talked about the importance of human capital, education. And I also put into that health because you can be educated, but if you have malaria, you are not a very productive person.

The second similarity or positive was that several of you made the point that growth has happened in a wide range of cultural and political regimes. There isn't a single regime under which it will work. In Asia there was wide variety from Buddhist to Islamic, from democratic to almost totalitarian.

Finally, under the similarities, you concluded that the Asian growth phenomenon worked because Asians took the lead. African growth will work, if it will work, because the Africans take the lead.

You left a series of questions in my mind, I think it was Vernon that said something that I hadn't thought about before, and that is we need to ask ourselves what kind of an AID program is instability proof? That's probably even more applicable in Africa than in Asia.

The second question that's still very much open in my mind in spite of our debate this morning, is what is the role of agriculture in Africa? There were questions raised about the R&D capability in agriculture in Africa. Somebody mentioned the soils, the great variety and weakness of soils, the great variety of climate. Peter's contrasting the rice bowl of Indonesia with the 15 climatic and cultural zones within the same 60-mile drive was a very important point. So in my mind that's a question that we in AID need to research more. We need your help in understanding it better.

"Why is it that in some countries that tension between different cultural groups has added to economic development, or at least has not been an impediment, whereas in other countries it has been a tremendous impediment?"

The next question in my mind is what is the proper relative emphasis on microeconomic policies versus the private sector? For you private-sector people, I, as a private-sector person myself, agree with all of the points you made last night, and I would summarize them in my own mind.

Many of the people in the Africa Bureau have heard me tell this story. Some years ago I sat down with an African acquaintance and he was trying to convince me to invest in his country. I was telling him, no, that my company would not do it. He said, well, what would it take for you to invest in our country? In a very short discussion the two of us agreed, because I said to him it would take exactly the same things it would require for him to take his private capital and invest in the country. We agreed, as you said last night, that there has to be a rule of law. Businessmen constantly get into conflicts between themselves, with their suppliers, with their clients. They need to know that there's an impartial way of settling disputes without picking up a gun and shooting each other.

The second thing you need is this human capital thing that we've talked about. In my mind that's both education and health. You can't have a productive workforce without both of those. The third thing we talked about a lot is that you have to have a level playing field. To me that means there's no parastatal or other favored group inside the country that you are competing with either for resources or for the market.

Finally, and most important, there has to be return on investment. It will shock some of our people here in the Africa Bureau, but I obviously am not going to invest my money anywhere if I'm not going to take more money home pretty soon. That's the only purpose as a private individual that I have for investing. I'm delighted if I employ people. I'm delighted if I contribute to the growth of the country. But my purpose in investing is to get return on my capital.

The next question that we haven't settled to my satisfaction, and I would like to hear more, is the effect of the world's diverse cultural and ethnic groups on development. Why is it that in some countries that tension between different cultural groups has added to economic development, or at least has not been an impediment, whereas in other countries it has been a tremendous impediment?

As kind of a sub-question under that, to me it's fascinating why some ethnic groups in a country are the businessmen, the producers, the leaders, and they often, in fact almost always, are not the people that are in power? We can all cite them: the Ibo in Nigeria, the Kikuyu in Kenya, the Chinese in Malaysia. You can go all the way around the world: the Lebanese in Liberia, the Asians in Uganda. Why does that happen? Is that something that we in AID need to be not only aware of, but do we need to be able to respond to and promote, rather than ignore?

Another question that you all raised over and over again is, are the 1990s different? We all know that agricultural production is in surplus. There's hardly a crop that anybody can name that isn't in worldwide surplus. Somebody mentioned the tremendous debt problem that we had in the 1990s that we didn't have in the 1940s and 1950s and the competition that Africa faces for world resources that maybe Asia did not face in the 1940s, 1950s, and 1960s.

Last, a fundamental question for me is, can AID make a difference? I don't think you answered Myron's question. You talked about the importance of technical advice, but did the capital transfers actually make a difference in Asia? In other words, is the billion dollars that Congress may be about to vote for Africa going to be good news for Africa? Or is that bad news for Africa? Maybe they should cut us back to $100 million and we should just send out teams of the brightest and best people we can find to advise them on their policies.

"There are huge differences in Africa. There is as much difference within Africa as there is between Africa and Asia."

We should issue a challenge to all of you, the three groups that you represent: (1) the economists, the agricultural economists, the consultants, if you will; (2) the political scientists; and (3) the African and expatriate businessmen who are operating in Africa. My challenge is will you communicate with the Africa Bureau? We are setting up, for lack of a better name, a troika, Tim Bork, Sam Shoen, and Steve Brent, who will be in my office and for the next year will focus on this issue of why are we winning the battles and losing the war. So you now have somebody you know with whom you can communicate.

My second challenge and this is more to the academics than the consultants—can you help us define and initiate research and development projects that are relevant to the African growth effort? Is there something equivalent to comparative anatomy, i.e., what can we learn from what you've been doing here that separates the similarities and the differences, country by country in Africa? One person here said, and I think it's extremely important, that there are huge differences in Africa. There is as much difference within Africa as there is between Africa and Asia. Comparative analysis will be a useful thing.

The third thing is, again, primarily for the academics, can you help us initiate research and development with other donor countries? Because I believe that one of the new things in the 1990s will be greater and greater coordination among donor groups in Africa. Instead of competing with each other, we are going to try more and more to cooperate.

In conclusion, if you will meet that challenge, I will make a commitment to you. I bring no special knowledge or skill to this position. In thinking about whether to take my present job or not, the thing that finally made me decide to do it, other than a fascination for this process of economic development and a love of Africa that goes back 25 years, was that I felt the one thing I could do was to take risks. It makes no difference to me if in 18 months or 6 months President Bush decides I'm too much of an irritant, too much of an iconoclast and sends me back to Paradise Valley, Arizona. That's not the worst thing that could happen.

But I don't want to take foolish risks. If I'm going to go to Congress, Jeff, and lecture them on fiscal and monetary behavior, I need a lot more persuasive data than I have right now. If Mr. Greenspan can't lecture them and get a hearing, then I have to do it, and I hate to say it, but I have to do it in sound bites. This is the only way that I can stop senators and congressmen from having us chase rabbits. There's a story or analogy that I've used quite a bit with them. And that is the fellow that sets out one morning to catch a rabbit. He sees one and starts after it. But he's just a few steps after it and somebody hollers, well, wait a minute, there's another rabbit running off here to the right. Chase it. So he goes after that one. Then somebody says, no, no. There's a fatter one going off to the left. So he starts after that. This goes on all day. At the end of the day he's exhausted. He has worked hard, but he hasn't caught a single rabbit. That's what's happening to us in the Africa Bureau. We have too many people hollering at us saying please go chase this rabbit.

The problem is that every one of the rabbits that they describe is on its own facts a necessary thing. How can we say that there's not a need for a student dormitory in Mozambique? How can we say that there's not a need for another hospital here? How can we say we don't need to feed or subsidize food for people that can't afford it? The only way that we can beat that is to go in with facts and figures. The most effective is if we can say, look, this is how Taiwan got off the AID welfare bill. This is how South Korea got off the AID welfare thing. They did not worry about the rabbits. They focused on economic development. If I can do that and you can write the books and editorials, then maybe we can make it happen.

Havener

One of the things we heard in Africa from non-USAID people, by and large, is that not many people in the U.S. Congress care very much about Africa. I've been raising the question, who cares about Africa in the U.S. Congress? In a sense it would be helpful if you could guide us toward people that we ought to be educating about the development issues of Africa. We can't educate everybody, but we can pick strategic people that we send success stories and relevant reports to. Identify 25 people that we ought to be trying to make informed Africanists and we'll help you do it.

"From the early 1960s to the early 1970s during a crucial period in India's development, U.S. assistance alone accounted for about a third of Indian savings. That was a very important factor in India's emergence from a rather substantial crisis in its development process."

Spangler

Let me give a partial answer to that without specific names. Obviously, the people that care about Africa fall in several categories. The first and strongest is the Black Caucus. They care about it for deep and humane reasons.

The other people that should be caring about it are American businessmen. We've just done a study. Jerry pulled together some statistics that showed that in the structurally adjusting countries that are working well, just four countries, between the depths of their lowest point during the economic recession of the 1980s to 1989, increased their imports of American machinery from $450 million, in round numbers, to $950 million. In other words, by half a billion dollars per year. Now, that will go on forever. It doesn't take one additional dollar of aid. This tied aid issue to me just pales and goes out the window by comparison. There's a half a billion dollars of U.S. exports in four countries, just because we got them to begin to change their economic policies. So that's the second group of who cares.

A third group that cares is the environmentalists—those people who think that Africa may represent our last chance to preserve nature and also feels our own welfare in the United States of America is dependent upon keeping a balance of nature, which is dependent upon keeping it in Africa.

So those are three groups that have an enormous effect on us. And under the environmental group, I've put all the population groups.

The last, obviously, are those, and I don't mean this in a derogatory sense, but the do-gooders, the people who are worried about education, the people who are worried about health, the people who are worried about AIDS. Within those four groups, there are some powerful lobbies. That's what's driving AID to Africa. It's no longer the Cold War.

Vern, in answer to your point, the Cold War probably was the most negative thing that ever happened in Africa. Because an evil African government could get a lot of aid just by saying, we are your friends, United States, and we'll vote against Russia in the UN.

Ruttan

You raised the question did our dollars ever make a difference? Clearly in India from the early 1960s to the early 1970s during a crucial period in India's development, U.S. assistance alone accounted for about a third of Indian savings. That was a very important factor in India's emergence from a rather substantial crisis in its development process.

Money didn't do it alone. Today our dollars are the same color as other dollars. During that same period, we probably had the best-qualified AID mission in India we've ever had anywhere—really top people from the American academic and business communities. That technical assistance, which complemented the resources, made a big difference in Indian policy.

Ranis
The same kind of point can be made about Taiwan. At that time, about 25 or 30 percent of the total investment was foreign aid. But if you take the whole period from 1950 to 1980, only 6 percent of the total investment was from foreign sources. So in a sense that is a critical point. If it comes in at the right time, accompanied by price reforms and local participation, then you can in fact do without the foreign capital over time.

Spangler
Yes, but is that foreign aid or foreign investment, the 6 percent?

Ranis
Total. Both of them together.

Spangler
Private capital and donor capital.

Ranis
That's right. The question I have is this. I get a lot of feeling from the rabbit story and other stories I heard today that Congress is saying that you have to get back to the 1974 attitude toward the "new directions," as they used to be called, chasing poverty projects and so on.

Spangler
Basic human needs.

Ranis
Basic human needs, right. It seems to me a case can and should be made that what we've been talking about here in fact addresses poverty issues in a most effective way.

Ruttan
The only way.

Spangler
As time has gone on, that case has been made. People who used to talk about it gave it the terrible name of the trickle down theory,

i.e., the way you help the poor is that you have economic growth. I think we have to readdress that issue, use another terminology and facts and figures, i.e., when Taiwan began to grow, yes, some Taiwanese got wealthy, but the average person also got a whole lot wealthier.

Ranis
That's easy to do.

Spangler
That's the thing we need to do.

Roemer
And it wasn't trickle down.

Timmer
It takes a particular kind of growth. Not every kind of growth gives you poverty alleviation.

Seckler
That's right.

Timmer
You have to worry about poverty alleviation as part of the growth process, but you have to have the growth.

Ranis
But they are not competitive. They are complementary.

Timmer
They are complementary when you do it right, absolutely.

Spangler
Someone needs to explain to me what kind of growth you can have that doesn't do that.

Timmer
Brazilian.

Ranis
Pakistan and Brazil.

Friday afternoon, June 7, 1991

What's Next? How Can This Discussion Be Deepened and Broadened?

Chair: Richard Cobb

Cobb

I want to begin where we left off and ask four questions related to the challenges that Scott laid out. Then we would like to describe what we hope will come from this in the way of an output.

The four questions that came from Scott's challenge are, if I can make a liberal interpretation of them: First, how do we get the universities interested in dialoging with us and the countries in which we want to work? Second, how can we expand the private-sector dialogue? Third, what about this question of a partnership in helping us deal with Congress? Fourth, what about involving the Africans in the kind of discussions we are having here and what may follow from it?

Let's start with the university question. The issue is this. What does it take to get the same analytical depth over a long period of time in Africa as we have had in Asia where underpinning the AID policy dialogue was work by Stanford, Harvard, Ford Foundation, Agricultural Development Council, other groups that worked in those countries for 20 years and that had access at the ministerial level? What does it take to interest your universities and your students in this kind of relationship with Africa?

Timmer

I think it's going to take interesting students in Africa and finding mechanisms to fund them to work on Africa in conjunction with faculty who are working in Africa themselves or who have worked on development questions. But I don't see how you will get good university faculty involved in Africa unless you can get good university students involved in Africa. Some of those will have to be U.S. students, many of them ought to be African students. But you need a funding mechanism that will permit you to do both, and you know as well as I do that it's extremely difficult for AID to fund student research. You have to be imaginative and bend the rules. It's a time consuming process to do it. If there were any way to speed that up, I know at Harvard we could find four or five good Ph.D. students a year. If you told me that you could guarantee the funding for that, I could find the students.

"In recent years, one sees a dwindling of interest in Africa area studies by American academics. This is also showing up in the quality of students that are being turned out in American institutions."

Ruttan

There's a model that is less formal perhaps that could draw on what people are already doing. In the 1960s and into the 1970s there was something known as the Southeast Asia Development Advisory Group, SEADAG. Basically, it involved a set of informal dialogues between AID people and the academic community around AID issues. It was run from the Asia Foundation in New York with a small grant. There are a lot of people working in Africa. There must be 20 people in Mali doing some kinds of projects. SEADAG took advantage of such people when they came back to the States, and pulled them into dialogue. It had an agricultural development subcommittee, etc. Many of the contacts I have among AID people now are contacts that I established during that period. So I think in addition to the kind of thing that Peter is talking about, a mechanism to take advantage of what is already going on and focusing that knowledge would be useful.

Roemer
HIID has a number of staff here right now. We have been staffing up for more. Our problem is always that we usually hire people, often university people, but only on a 2-year basis, and sometimes maybe for 4 or 5. But we don't hold them on board very long. If AID were interested, for example, in ensuring that some group like HIID or other university people had projects that could cover 5 to 10 years, one might begin to think about making permanent appointments, quasi-tenured appointments, at a place like HIID, which would build our capacity to do this kind of thing on a regular basis. We've actually talked about doing that, but there's always the risk that we do it and we don't get the projects.

In the 1960s AID used to support institution building, which was based mainly on research, but it also helped to fund our capacity to work in Africa. A lot of people who we now have working there were brought in at that time. So there is at least that possible mechanism, but it is a long-term investment. It can't be done on a short-term basis.

Migot-Adholla
You started by calling on the experience of ADC and other actors in Asia. In the 1960s there was a tremendous amount of interest in Africa led by foundations, the Rockefellers, Ford, etc. That interest appears to have thinned out in the 1980s. There was also interest in the 1960s, I suppose, because Africa was a novelty at the time. Studies once supported by the State Department and other government agencies appear to have thinned out, too. In recent years, one sees a dwindling of interest in Africa area studies by American academics. This is also showing up in the quality of students that are being turned out in American institutions.

I happen to have been participating for some 6 years now with the Social Science Research Council, the Rockefeller Foundation, and Carnegie in reviewing proposals that are coming in and various projects funding Ph.D.s for African students in the USA or for U.S. students who are interested in carrying out projects in Africa. We are concerned about this decline in quality, focusing particularly on agriculture and related social sciences.

I myself was part of the institutional-building project by the Rockefeller Foundation that tried to strengthen institutions in Africa and especially social science capacity in East African universities for about 10 years. Many of my colleagues are still working in their home institutions. But that program was stopped. There's no consistency at all in the activities of the foundations or government agencies.

"Most of the experts are middle aged or beyond, and in order to replenish that missing generation with a new one, we have to involve graduate students and provide them with the incentives to do research in these areas."

Good students will follow good teachers. So it's not just, "give us good students and we shall turn out good people." There has to be a good program in some recognized institution. If you look at the way that USAID fellowships are located and where students are directed, it's as if the goal is to scatter them all over the face of the earth to satisfy Congressional or other constituency needs. Some of the students end up in institutions in which there's no faculty with interest or specialty in Africa. They turn in proposals that get rejected out of hand. This just won't do. Another little thing. I'm intrigued that among most students that have been brought in by USAID to study agriculture, funds are not provided to send them back to do research in their home institutions or in other developing countries. So they end up studying some disease of the red cedar in Arizona or someplace in California. This is just not on.

I've never understood why the model of ADC's 30-year commitment to Asian training has not been followed in the case of Africa. I made a review for ADC, at the time it was shifting to become Winrock, in Indonesia, Thailand, Nepal, and India, looking at that experience and trying to tease out of it what might be done in Africa.

I would recommend a commitment to a program with a long time perspective, the same way that ADC committed to Asia and trained more than 300, perhaps 500 people. We are constantly being told that in Thailand that such and such a person in this ministry is an ADC fellow, in the ministry of planning, the director of agriculture, research, etc. Those kinds of networks would work in Africa.

Ruttan

I haven't heard such a great testimony in such a long time. When I became president of ADC in 1973, the ADC model involved having a limited number of staff stationed in Asian institutions to select fellowship students to assist in institution building. I tried to get the resources to extend the ADC program to Africa. I went to the Ford Foundation. I went to the Rockefeller Foundation. I went to AID. Everybody said, there's nobody to work with in Africa. That's the point. If the institutional capacity had been built, there would be people today.

The remarkable thing about ADC is that somewhere in the neighborhood of 80 percent of the people we trained ended up working in the countries that they were from. Many of those who didn't, worked in regional institutions in that area. It's partly because we had a capacity to keep people linked to their home institutions. They went back to do their thesis. They established professional relationships. They didn't feel like foreigners when they went home.

Ranis

I would like to support what Peter Timmer has said. It's fine to talk about involving faculty, but there is in fact a missing generation. Most of the experts are middle aged or beyond, and in order to replenish that missing generation with a new one, we have to involve graduate students and provide them with the incentives to do research in these areas.

There is one hopeful note. The foundations are coming to realize the need for area studies again. SSRC has a new program and the Mellon Foundation is starting a program of support for area studies with functional specialization, but it's not enough.

The second point I would like to make is that there are still some points of strength. I think one should at least concentrate on points of strength, whether it's Harvard or Michigan or Michigan State. I won't mention Yale because it's currently not a point of strength on

Africa (which shows how objective I am). That you ought to do. The important component of all of this is the ability for students to do research in the field.

Havener
Winrock, as the successor, in a sense, of ADC, a role we take very seriously, has been able to keep that program operating in several Asian countries. We inherited the ADC program in CIRES at the University of Abidjan, and that program continues. But it's been a constant fight to mobilize money to keep it together. We patch the funding together with our own money and support from Ford Foundation, IDRC, and GTZ. It is a very difficult problem keeping what I think is just one little component in one little country. We had a start in the University of Nairobi. We were unable to get anyone to join us in that one. We had to walk away from it. It's a tragedy that we are not able to mobilize these resources to train that next generation of Africans we are talking about.

Cobb
It seems to me this is an issue that we need to come back to as we decide on next steps. Not only with regard to doing more comparative work between Asia and Africa, but in the process of helping us decide to implement concentrated programs in Africa. We would like to draw upon university talent over a long term and we need to think that through a little bit more clearly.

Antoine
One possible mechanism is that in projects of technical cooperation, you might consider the equivalent of junior positions that have been used before. The problem would be to convince the local systems with whom you cooperate that it is valuable for them as well as for the cooperating universities. But if you had a few slots that are much cheaper than the standard technical assistance positions to do research in a given country under a national government program, I think that you would respond to the need of having graduate students.

Weinstein
Through SAFGRAD and the other programs where we can send people for significant periods of time, it may be that one thing we

want to ask is whether there's a group that could come out of this that we could turn to, because often our missions are saying where should we send the person, what program, how do we proceed? There may be some way of providing some unified advice so that we could start informally without having any center set up, concentrate, and send people to certain areas and start building in this direction.

Cobb

Let's explore briefly this idea of continued dialogue with the private sector. Should the Africa Bureau, should Scott, think about setting up a council of business advisors, drawing upon multinationals and Africans to continue discussion on how to promote investment in Africa, getting at constraints and policy issues and that sort of thing? Is that what we should be thinking about?

"Have AID figure out how really to become a joint-venture partner with three or four firms working in Africa as soon as possible."

Diagne

I would say yes. It's good to have that kind of dialogue because if you are doing things for Africa it is important for you to listen to the Africans for whom you want to do those things. I attend many meetings, many seminars, but that kind of seminar at a high level with a person who knows a lot about Africa and what to do for Africa is very important. So I recommend that kind of a relationship.

Davies

I would agree with that. You have to do something, as long as we don't perceive it as the be all and end all. But it's a start in a series of long overdue communication. I think it's a very good thing.

Ranis

The administrator in my day in the agency used to have two advisory committees. One was an advisory committee on economic development, mostly economists, the other an advisory committee on private investment, mostly businessmen. I would argue that you should not have two committees. You should have a mixture of the two. The dialogue started here should be continued.

Bork
Just technically, the reason we don't have a lot of advisors to the United States government is because of our sunshine laws. If you set something up like this, it has to be set up by a private group and they are not really advisors to us. If they are advisors to us, then the public has to be informed of the meeting. We've been through this several times in the past, as Larry knows. So it's feasible, but it would have to be done outside the agency, something we could attend and listen to.

Ruttan
Why don't you bring this up with the Institute for Policy Reform? You could get the Institute for Policy Reform to be much more useful to you, and you would have a mechanism already in place.

Alintah
I would suggest that next time you have something like this you invite some more Americans who have either interest or businesses in Africa because the interaction would be far more pervasive, I think.

Cobb
Are there any other things that we should do to continue this dialogue involving the private sector?

Weinstein
Another avenue is the U.S. Chamber of Commerce, which has a special section that deals with overseas. You could have the chamber set something up. But I would support the notion that in having this we might want to have a few key public-sector people involved as well as part of the debate because the marketplace and the private sector in Africa right now require the two sides. It's not just the one side. I don't know how the other private-sector people feel about having some other involvement or if we should keep it purely private.

Seckler
I get a little alarmed by that approach. There have been these forums for as long as I can remember. I know that this would be more directed to AID than the business council things that everybody sits through endlessly, but I think as an alternative an experiment should

be considered. That is, have AID figure out how really to become a joint-venture partner with three or four firms working in Africa as soon as possible. Start figuring out how to do that and get operational in this field. I'm always afraid of sessions because the rhetoric tends to drive out the business of these things.

Brent

The U.S. role in aid thinking has to go beyond AID. The whole policy reform thing did not come just from AID. It was heavily influenced by Americans at large. I think this private-sector business is a clear area of U.S. relative advantage. I'm not speaking against anything we talked about, but going beyond it. If the business types here think we have a hard time understanding private sector, go over and talk to the World Bank and the Europeans and so forth. This bringing together of the existing development community, which is a major actor in Africa, with the private sector is something that the USA is probably going to be in the forefront of, whatever happens. I don't have a good suggestion on how you do it, except that it has to go beyond AID. I think it's partly academics writing things. It's partly the business community engaging in some way, but it has to be a broader U.S. effort. There are a whole range of things that can fall out of that if we can get something going. We can talk about Treasury Department policy toward the World Bank. We can talk about the public perceptions of adjustment and all the economic issues. There are a whole range of things that can follow.

"The issue is what can AID do and what's the most effective use of AID, its people, and its resources in helping facilitate the development of Africa through the private sector."

Bork

I would be interested in viewpoints from the private sector of how AID itself can come to closure on this issue. We have a basic problem in our institution—the tugs and pulls among us about private-sector development in Africa are major. The reactions of AID people around the table last night, how they felt, what side they took in the debate last night, showed that we haven't reached closure internally and that we need some help in doing that.

Wolgin
We ought to state that issue clearly. It's not an issue of what the role of the private sector in Africa is. The issue is what can AID do and what's the most effective use of AID, its people, and its resources in helping facilitate the development of Africa through the private sector. There are legal limitations. There are policy limitations. There are staffing limitations. I think dialogue would help us understand what problems the private sector faces. What we then can do depends—they don't know the constraints under which we operate. We have to take that information and translate into our system. So what we need from folks in the private sector is to understand better what their problems are. Then we have to figure out how best we can adapt to that set of problems.

Davies
One of the things that AID ought to do to develop better communication with the private sector is to look at communication from the bottom up. African business is in Africa and you have a number of mission leaders in Africa who need to understand some of the discussions that have taken place here so that they can give you feedback from entrepreneurs in the field.

What you have here are four people who represent diverse interests. We all have axes to grind. What you have out there is a huge pool of operators who have different problems and you need a link to them, too.

Gordon
I think the field missions are way ahead of Washington on this in terms of talking to the private sector. That is, in all the missions I've worked in, they are out there talking to the private sector now and working with them to think about some of the very questions that Jerry's just posed.

Wolgin
But they are there and we are here.

Gordon
That's the problem.

Cobb
Let's move to the question of partnership and dealing with Congress.

Timmer
Larry and I were talking today about the conversation that Vern Ruttan and I and a number of others had with Senator Lugar. We happened to intersect with him and staff in a reception room on the third floor of the state guest house in Hanoi. But we had his undivided attention for 3-1/2 hours and he listened. The question was do you know the key senators' and representatives' staffs well enough to know their travel plans? Are there opportunities where you could plan to intersect with them for a couple of hours, just one-on-one or two-on-one, to sit down and talk about some of these development problems?

"It is useful for Africans to go to Asia on study tours where they have an opportunity to meet not just government officials who are responsible for policy transitions, but also the private sector, not just business, but perhaps some academics and so on."

Bonner
Larry asked earlier what can you do to help us build an understanding in Congress of what needs to be done and what things we should be involved in besides basic human needs. I would make a plea, however, that you don't do that just in your own private interest. As Scott mentioned earlier, we already have enough rabbits out there that we are chasing. While we are looking for support, we are not looking for support if it's going to be giving us another rabbit to have to chase. So what we would be asking is to try to help us turn to Congress and say there's a broader aspect of things that we need to be involved in, in terms of stimulating economic growth.

Roemer
I hope this is not another rabbit, but it's another home grown idea. The Kennedy School at Harvard every second year takes the new members of Congress who have just been elected and gives them a 1-week course. They sit still for a week and hear what the Kennedy

School has to tell them about government and how it works and a number of other issues, big issues of the day.

Maybe do not shoot for the Congressmen, although it would be nice to get them. Maybe shoot for their staffs and put on something like that. It doesn't have to be at Harvard. It can be anywhere, but get them for a week, if this is something that AID can do. I don't know if it's even legal for you to do it. Or get somebody else to do it perhaps. Sit them down for a week-long session on basic development, so that there are no special interest groups being promoted.

Cobb
Is this something that HIID might do?

Roemer
Absolutely.

Spangler
Now that I've been through this day and a half, I wish we had invited about 10 people I can think of from Congress, from the staff of Congress, and I think they would have come. They would have learned more in the last 48 hours than they have in the last I don't know how many years.

Ranis
In the meantime it seems to me that on this question of rabbits, which Congressmen seem to adhere to, versus a development program that in fact addresses those deeply felt concerns, a lot of people around this table and elsewhere have written on this subject. It seems to me that those of us who have written on this question of how growth and equity and poverty alleviation go together in consistent programs might send those materials in to whomever you appoint and somebody could translate it into something which could be used. It's not as good as having a conference, but you are not going to be able to get everybody to a conference, and you could disseminate something of that sort.

Cobb
Final charge or question. What about involving the Africans in the Asia experience?

Lim
I suggest that it is useful for Africans to go to Asia on study tours where they have an opportunity to meet not just government officials who are responsible for policy transitions, but also the private sector, not just business, but perhaps some academics and so on.

One of the things that has not come up in this conference is that the politics of the Asian transition is different in each case. We heard about politics in Africa. We haven't heard about the politics in Asia. And we haven't heard anything about the so-called underside of the Asian experience. There are lots of negative things that people in these countries themselves raise, and I think it would be helpful to have an knowledge of them before you go and try and do the same thing.

Timmer
There's a lot to be learned from study tours, but if the Vietnam study tour is any indication, it takes a lot of preparation. You have to think carefully about who they need to see. They need to see people in the private sector. They need to see people in the public sector. It has to be pretty well structured. Somebody has to at least have thought through the kinds of lessons that you want people to learn and you have to structure the team going. We couldn't let the Vietnamese nominate who they wanted to send. We took 6 months just negotiating the right people for the tour. Just getting visas and sending airplane tickets doesn't work. I mean, it takes a lot of organization and so on to make one of those study teams successful.

Weinstein
We've organized some tours around duty-free zones. I think you have to have a specific subject or area that you want to organize it about. We have these new technocrats in Africa. It may make sense if some of the people here could identify a way in which we could pick some of these new technocrats to meet with some of the people in Asia who have been through the process, who have been up and down over the last 20 or 30 years, and get them to start talking to each other.

Cobb
Loum, I'll let you have the final comment on this.

Diagne

I think that point is very important because seeing it gives you the feeling that you can make it too. As I said, we heard a lot of bad thing about Asia, and today they have made it. So it's good to see, you know. For myself, I invited more than 120 businessmen for a 1-month trip to Asia to see what those countries have achieved. Recently when I came back from Asia, I spoke with some government officials and told them you have to go to Malaysia to see that the cocoa problem is not so simple as you think. Because coming from Malaysia, I was worried about what the Ivory Coast could do to compete against Malaysia. So first of all it can give them a certain vision that if we work, maybe we can make it.

Cobb

I'm going to say something about that now as a preface to closing. The first thing to do is get the notes and the summary of the outcome of this conference. Then we want to have a broader discussion of the Africa Bureau because we like to bring our staff up to the level of this discussion. Then while Scott is gone, we want to do several things. We want to think about this idea of concentration and see if we can put together a proposal for him and Larry to look at when they get back. At least we'll see how far we'll get with that. We have a number of research issues. We have to think about exactly what is the issue that we want to pose and how do we want to look at it, what resources do we want to put against it. We have a whole series of questions regarding networking and further dialogue and contacts that we would like to suggest. Larry might want to get involved. So there's a lot of follow-up that we need to talk about among ourselves as a result of this. Certainly the troika that's helping Scott has an agenda that they should sort out once they all get together. There are some ideas for them that have come from this as well.

I want to thank the panelists and the chairpersons and the wrappers up who have helped keep us on track. I particularly want to thank Dave Seckler who has been one of the architects of this whole thing in terms of selecting the issues and inviting the speakers. He was well supported by Vicki Walker, Jane Mold, Guner Gery, and Stan Peabody were also helping.

On our side it was really a team effort. Marge Bonner, Warren Weinstein, Steve Brent, Jerry Wolgin, with a lot of help from Dave Gordon and Emmy and the other office directors really put this together over a series of meetings. I think this is the most invigorating 48 hours I've spent in a long time. I am grateful personally that all of you came and stuck with it and got us from the beginning to the end. It's an unusual thing to happen in a conference, particularly with the kind of people that we have here with us. And I hope that we can see you again on these same topics.

Afterword

Robert Wade

I'm going to talk about what drove the outstanding economic success of East Asia including Japan, Taiwan, Korea, Hong Kong, and Singapore, and the role of government policy in this success.[1] I shall then address the critical but neglected question of what, given the awesome amount of power in the hands of the state, has disciplined the use of this power.

I think the absence of natural resources, coupled with a high population density, was one of the factors that drove the East Asian experience. Natural resources can be something of a curse. They can impede industrialization. They can especially impede the growth of manufactured exports via their effect on the wage and exchange rate.

But there is also a more indirect effect, via the politics of education. When the exploitation of natural resources does not need much highly or basically skilled labor--as is generally the case--and when the natural resources are owned by an elite which has a predominant influence on the orientation of government policy--as is commonly the case--then the extension of education throughout the population is likely to receive a low priority. Conversely, where there are no

[1] Adapted from "East Asian industrialization: Lessons for African and other developing countries," seminar given by Robert Wade at the U.S. State Department, Washington, D.C., August 28, 1991.

natural resources, a government committed to development must focus on improving the skills of the labor force.

However, there are plenty of cases where natural resources are not abundant and where education still received low priority. so we can identify heavy investment in education as the second great driver of East Asian success.

The result of this investment was to give Taiwan, Korea, and Japan unusually high ratios of basically skilled to unskilled people, and subsequently, unusually high ratios of skilled to basically skilled people. This made is possible for these countries to produce manufactures for export on a large scale, because these exports require large relative quantities of basically skilled labor.

"If the country doesn't have a large supply of relatively cheap, 'basically skilled' labor, labor which is literate, which has basic numeracy skills, and so on, you can forget about manufactured exports."

One of the things that figures on the educational level of the labor force do not show is the quality of this education or even whether it is vocational or nonvocational education. In Taiwan, a very high proportion of the population had secondary or tertiary education in science, technology, and engineering.

What I'm saying about the importance of education is well known in general terms, but I'm making a more specific point. The standard theory of comparative advantage says that what matters is the relative endowment of land, labor, and capital, and labor may be segregated into various kinds of skills. But some recent work by my colleague Adrian Wood at the Institute of Development Studies at the University of Sussex, and also by the Liverpool economist Patrick Minford, suggests that what matters to comparative advantage, especially within industry, is the skill level of the labor force. You can put machines on ships and send them around the world and you can borrow money to buy them. So a country's (physical) capital endowment is not a key determinant of the kinds of products which are socially profitable to make there. The key determinant, rather, is the endowment of skilled people to make those machines work year after year. If the country doesn't have a large supply of relatively cheap, "basically skilled" labor, labor which is literate, which has basic numeracy skills, and so on, you can forget about manufactured exports. They won't happen.

Now, skills can be built up not just by formal education, but also by a learning-by-doing effect. One of the most telling details in Alice Amsden's book on Korea is the case of the Korean steel industry. Korea was strongly advised not to go into steel. It lacked the cheap ores and hydro of its Brazilian and Mexican competitors. Nevertheless, it went ahead in the early 1970s. It emphasized its only comparative advantage—a disciplined labor force—even sending workers into a green field to shout orders along imaginary production lines before the physical facilities had been built, so when the facilities were put in front of them, they knew exactly what to do. The Koreans and the Taiwanese have given a great deal of emphasis to this notion that you can, in a sense, stretch comparative advantage beyond the formal endowments of educated people by learning by doing.

The phenomenal increase in education, especially of engineers, has not been entirely because of consumer preferences. The Taiwan government has steered the demand for education through a series of manpower plans. What is more, some of the targets have run counter to social demand. For example, post-junior-high-school enrollments in vocational institutions have expanded much faster than enrollments in academic institutions. In 1963, the ratio of enrollments in vocational to academic institutions was 40:60. By 1986, that ratio had been turned around to 69:31. The government was deliberately restraining the growth of academic institutions.

What about the trade regime? Most economists consider that a country's trade regime is a primary determinant of its development success or failure. I consider that a country's stock of basically skilled workers relative to the stock of unskilled workers is the primary determinant, with trade regime coming in as a modifier. Take Korea and Sri Lanka in the early 1960s, for example. They looked roughly the same in terms of endowments of natural resources, capital and labor skills. But Korea has had fast growth of manufactured exports, while Sri Lanka has not. Here the trade regime matters: Sri Lanka's discriminated against manufactured exports, Korea's did not.

This is emphatically not to say that Korea and Taiwan had near free trade regimes, however. Both governments used the trade regime to steer industrialization, using both tariffs and non-tariff barriers. There is a great deal of misinformation abroad about the trade regimes of these countries, misinformation which is cultivated by the governments to conceal how much real protection there has been. East Asian trade regimes are inconsistent in important ways with even a modified version of the standard economist's account of what a good trade regime looks like.

"Sheltering of their domestic sales allowed them to practice discriminatory pricing, charging higher prices on the domestic market and using the higher profits to subsidize exports, which then allowed them to gain economies of scale and experience in competing in international markets."

In Taiwan in 1984, after successive waves of muchadvertised trade liberalization, over 50 percent of Taiwan's imports by value were still covered by quantitative restrictions of one kind or another. The most comprehensive of these quantitative restrictions required prior approval by either the maker of domestic substitutes or by a government department as to whether that import should be allowed. For example, until 1987, all steel imports into Taiwan had to be approved by China Steel, the big public steel-making firm. This is replicated across many other key imports.

Taiwan has not been an unusually low-protection country, and still less has Korea. Neither has Japan. It is amazing and even scandalous that the distinguished academic theorists of trade policy like Jagdish Bhagwati, Anne Krueger, James Riedel, and many others have not paid close attention to the East Asian trade regimes. They have not tried to reconcile these facts about East Asian trade regimes with their core prescription for sensible development policy. The reason why this neglect of what is, prima facie, a set of contrary cases is so serious is that trade policy is not just one policy among many. It is, according to these theorists, the queen of policies. Get your trade policy right, and everything else will be much easier.

How was it then, that Taiwan and Korea apparently were able to avoid being damaged, to a significant degree, by the predicted neoclassical costs of protection? The answer is, a great deal depends on how the protection is organized, and what conditions are attached to the granting of it. The key point about the East Asian protective regimes is that the policies of protection operated in a context of a strong government emphasis on exports. The government created a special regime for exporters that allowed them to attain imported inputs quickly and at near world market prices. Moreover, it came to take export performance of firms as a general criterion for all kinds of discretionary judgments. A firm could lay out its export record, and according to that record could get more or less help from the government on nonexport issues.

Exporting became what in the language of game theory is called a focal point for government-business relations, with players on both sides knowing that export performance would be used as the key criterion for adjusting to or adjudicating unforeseen contingencies. Firms therefore sought to export not just because they got cheap bank credit in line with their export volumes, but also in order to build up credit in their future dealings with the government. Even firms enjoying protected domestic market sales were under pressure to enter export markets. Indeed, the sheltering of their domestic sales allowed them to practice discriminatory pricing, charging higher prices on the domestic market and using the higher profits to subsidize exports, which then allowed them to gain economies of scale and experience in competing in international markets.

Even in some heavy upstream industries, where firms directly exported rather little and where they enjoyed substantial protection, firms were under competitive pressure to lower their costs to international levels. Pressure was applied continuously on the upstream people to bring their costs down because they knew that if the exporters could show that they were being harmed in international markets, the government would probably allow more imports for a period. The exporters would go to the government (e.g., the

Industrial Development Bureau in Taiwan, the Ministry of Trade and Industry in Korea), and they would petition the government to allow in more imports, saying that their export prospects were being harmed because they were having to pay substantially more than world market prices for their imports. In this way, the upstream people who didn't export were indirectly exposed to international competitive pressure.

And, in this way, the government attempted to balance the competitiveness of present-day exports and the need to change the industrial structure toward higher value-added activities, especially in the upstream sectors, at rates that were faster than unguided market decisions alone would produce.

Given all this power in the hands of officials, why has it not been misused relative to the way public power has been misused in, say, the Philippines and India? First, these regimes were committed to private property and to the market as the basic mechanism of resource allocation. Second, there was the discipline of a rapidly growing pool of technically educated manpower. Third, they were culturally fairly unified countries compared with many other developing countries, especially much of Africa. And fourth, perhaps most important, the civil service had a culture of social responsibility that was inculcated by the education system. So the education system comes in yet again as a key factor.

The schools in East Asia were responsible both for developing an intellect and for developing a conscience, and they did this by means of the explicit teaching of ethical rules. There is no equivalent in the West, where the teaching of morality is, in comparison, almost completely lacking. High prestige has accrued to public officials because they are considered to embody the idea of social responsibility. And it is still the case today that many of the best and brightest still opt for a low-paid civil service job rather than a more lucrative one in private industry. The civil service operated within a larger structure of state/society relations that allowed it to operationalize this sense of social responsibility with relatively little concession to narrow interest groups. There were plenty of business associations and industry associations. They were sponsored by the state and they acted as the arms and legs of the state, implementing schemes of quality control, collecting information and so on. They did lots of useful things, but they did not have enough independent power to be able to press their demands on the state in particularistic kinds of ways.

In conclusion, here are six points of advice for governments of low-income countries, which emerge directly from East Asia's experience.

1. Get agriculture moving. The East Asian success could not have happened, especially given the high levels of population density, if they had not had very productive agricultures giving average yields of 4 to 6 tons per hectare. These yields allowed resources to be extracted from agriculture and also provided a source of demand for manufacturing products. If agricultural productivity and output is not raised in most low-income countries, it is unlikely that dynamic development can be initiated.

2. Be aware of the dangers of natural resource wealth, and study how some countries like Malaysia seem to have managed to avoid these dangers.

3. Raise the ratio of basically skilled to unskilled people. The government must promote literacy, numeracy, and then technical education in the labor force. Without high levels of literacy and other indicators of basic education, there will be no significant growth of manufactured exports. Bangladesh, for example, is not going to have any economy-transforming growth of manufactured exports until there is a much greater diffusion of skills in the population. To have manufactured exports, you must have an abundance of basically skilled people.

4. In manufacturing, first emphasize new products for the domestic market (which can later be exported). I find it very implausible that African countries, especially with the current levels of real wages, can go straight into markets for manufactured exports on any significant scale.

5. The government should establish some sort of equivalent to Taiwan's Industrial Development Bureau, Korea's Ministry of Trade and Industry, Japan's MITI. The government needs some kind of pilot agency, located in the heart of government, given a lot of importance and prestige, lobbying for a long-term perspective to be taken and seeking out, then disseminating information about national supply capabilities and foreign markets. Taiwan has a marvelous institution called the Science and Technology Advisory Council. This is a microcosm of the sort of institutional innovation that can be done elsewhere. The Science and Technology Advisory Council consists of 7 to 10 foreign experts and Taiwanese counterparts on the science and technology issues that are relevant to Taiwan, people like the former president of Texas Instruments, former French minister for science and technology, a former White House science advisor, a former senior vice president of IBM, and so on. They have two functions. One is to bring to the attention of their Taiwan counterparts, developments in the world at large that are relevant to Taiwan. The second is to scrutinize proposals coming from Taiwan (what kind of robotics to make?) in terms of their knowledge of the rest of the world.

6. The government has to be persuaded of the importance of formulating and then pushing on the population at large, a vision of a more developed society 25 years down the line. That's the kind of time that one is talking about before significant changes can be brought about.

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