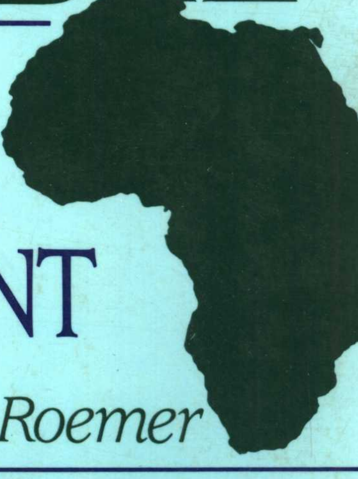
ASIA AND AFRICA

LEGACIES AND OPPORTUNITIES IN DEVELOPMENT



David L. Lindauer & Michael Roemer

International Center for Economic Growth
Harvard Institute for International Development

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LEGACIES AND OPPORTUNITIES IN DEVELOPMENT

Edited by
DAVID L. LINDAUER AND
MICHAEL ROEMER

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Preface

Africa in the early 1990s is similar enough to Asia in the 1960s to learn valuable lessons from the spectacular commercial and industrial growth of Asian countries. It is not, however, the well-known four tigers of East Asian development—Korea, Taiwan, Hong Kong, and Singapore—which provide the most relevant model for development in African countries. A basic premise of *Asia and Africa: Legacies and Opportunities in Development* is that the three flourishing countries in Southeast Asia—Indonesia, Malaysia, and Thailand—share a significant number of features with many African countries and may therefore serve as the most useful model for African development.

Unlike Korea, Taiwan, Hong Kong, and Singapore, the countries of Indonesia, Malaysia, and Thailand are relatively rich in natural resources—minerals, forests, and productive farmland—and, at the beginning of their rapid growth, were relatively poor in human capital. Their most productive entrepreneurs have been ethnic Chinese minorities, not indigenous people. Indonesia and Malaysia have enjoyed stable governments, but neither they nor Thailand and the Philippines have had regimes that have successfully imposed widespread, disciplined, export-oriented interventions. These factors establish common ground with conditions in Africa and suggest that the advances and mistakes made in Asia may provide constructive guidelines for African development.

Asia and Africa offers new perspectives on regional development: It analyzes lessons learned in Asia with reference to the specific circumstances of Africa, and it concentrates on Southeast Asian examples rather than on those of East Asia. The authors of this volume are both scholars and practitioners of development economics. Because they have had many years of combined practical working experience in both Asia and Africa, they examine development problems from a real-world viewpoint. Rather than depending on theoretically preferred approaches, they look more to the capacity of governments to implement strategy choices.

The volume editors, eminent development economists David L. Lindauer and Michael Roemer, and their contributors offer as hope and guidance for Africa the economic success that Asian countries have achieved despite barriers to growth that included war, revolution, political instability, ethnic competition, corrupt regimes, and grinding poverty. Most of what has been accomplished in Southeast Asia beginning thirty years ago, they suggest, could be accomplished by several African countries today.

This book is a copublication of the International Center for Economic Growth and the Harvard Institute for International Development. Together we are pleased to offer this unique and useful comparative work to policy makers who seek to facilitate economic growth in Sub-Saharan Africa, whether they are working from within countries of the region or from afar as members of organizations devoted to world development.

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June 1994

Editors' Preface and Acknowledgments

Over the past thirty years, the rapid economic growth and industrialization of East Asia has been a dominant story in economics, so much so that Korea, Taiwan, Hong Kong, and Singapore are viewed as models for development in other countries. More recently, it has become apparent that three countries in Southeast Asia—Indonesia, Malaysia, and Thailand—have also achieved rapid income and industrial growth and offer a development legacy for other countries.

During the same thirty years, another story was taking place in Sub-Saharan Africa, where most countries, having won independence, experienced a decade or so of moderate growth and then suffered a decade or more of economic shocks, poor policies, and stagnation or decline. Since the mid-1980s, several of these countries have been trying to regain their economic balance and start growing again, with limited success.

This book has been written with the conviction that Africa, although it has missed opportunities over the past thirty years, has not completely closed the door on sustained development. African conditions have not favored development, but neither did those in Southeast Asia in the beginning. The difference in performance has been substantially, though not entirely, due to policy differences. We believe that African countries intent on changing their economic fortunes can do so and that Southeast Asia, rather than East Asia, would be a good model for Africa.

Many writers have analyzed and advocated Asian strategies of development. This book provides three perspectives that have not been emphasized previously. *First,* our analysis of the Asian experience is tailored not to the generic developing country but to specific circumstances of Africa. Each chapter includes at least one author with extensive research or policy experience in Africa. *Second,* we focus more on the Southeast Asian examples than those from East Asia, although we use one to highlight the different characteristics of the other. Most of the chapters are written by experts with extensive Southeast Asian experience. *Third,* many of the contributors have worked for years as policy advisers, in both Asia and Africa, and take the view of practitioners as well as students of development. The capacity of governments to implement strategy choices weighs more heavily in these pages than theoretically or hypothetically preferred approaches.

This book has been written for the Africa Bureau of the United States Agency for International Development, which financed the effort through the Consulting Assistance for Economic Reform (CAER) project. Lester Gordon of HIID encouraged us to propose this project to AID; Jerome Wolgin of the Africa Bureau gave his support and arranged the funding; and Jay Smith saw the project through to its conclusion.

Therese Feng compiled much of the data used in this volume during the summer of 1992; in the following year, Markus Goldstein and Alison Barrows helped us to complete the work. Ken Repp assembled the edited chapters into the manuscript. Nicolás Ardito-Barletta, with his usual enthusiasm, saw the merits of this volume and suggested we submit it to ICEG for publication.

The authors presented first drafts of the chapters at a two-day workshop in Cambridge in February 1993. In addition to those already mentioned, we received helpful comments from Henry Bruton, Paul Collier, Forest Duncan, Clark Leith, Donald Morrison, Abby Riddell, Roger Riddell, Lee Ann Ross, Don Sillers, and Dirck Stryker. Gerald Meier, Robert Rotberg, and Donald Snodgrass read the first draft manuscript and offered many penetrating observations. We wish it had been possible to pursue more of their suggestions.

We are grateful to all of these supporters and especially to the contributors, who made this book possible.

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CHAPTER 1

Legacies and Opportunities

David L. Lindauer and Michael Roemer

Three decades ago, it made sense to speak of the "underdeveloped" countries in Asia, Africa, and Latin America as the "third world." By the mid-1990s, such terms make little sense. The "Third World" is no longer a mass of stagnant, poverty-ridden countries. Economies in East and Southeast Asia have been growing rapidly for a quarter of a century. The city-states of Hong Kong and Singapore are already classified as high-income economies, and if current growth rates persist, per capita income levels in Taiwan could overtake those in Belgium, Italy, and elsewhere in Europe by the end of the century. Korea and Malaysia are not far behind, and Thailand and Indonesia, although considerably poorer, are also growing rapidly. By the year 2000, China will probably no longer be a locus of world poverty, as it has been for most of the last hundred years.

There was nothing preordained about which regions would succeed. In the 1950s and early 1960s, Asia appeared to be caught in a low-level equilibrium trap, with large and growing populations, unstable governments, and in many cases a weak natural resource base. Many observers thought Asia's economies were destined for prolonged poverty. In contrast, as Africa gained independence in the late 1950s and 1960s, it held great promise. Although Africa started with limited educational attainments and experience in governance, it enjoyed relatively generous land and resource endowments. Destructive civil wars had been uncommon, and national independence brought a wave of optimism that anything could be done.

But Africa's promise has not been realized. Its spurt of postindependence economic growth could not be sustained. External shocks, poor policy responses, and ineffective development strategies brought economic stagnation to many countries, causing even front-runners such as Kenya and Côte d'Ivoire to lose momentum. As Table 1.1 shows, while per capita incomes in East and Southeast Asian countries increased by more than 5 percent a year from 1965 to 1990, African incomes were stagnant and in several countries were declining.

Why Has Asia Grown Faster than Africa?

The macroeconomic data of Table 1.1 suggest some broad explanations for the differences in African and Asian economic performance. One obvious possibility is that Asian countries invested a larger share of their income. The average rate of investment for Africa is 17 percent, below that of all Asian countries in the table. But investment is not the whole story. Several African countries—Cameroon, Côte d'Ivoire, Kenya, Tanzania, and Zambia—invested at least 20 percent of their GDP during the twenty-five-year period, however, without coming close to the growth performance of the Southeast Asian countries and Taiwan, which also invested 20 to 25 percent of their GDP. Only Hong Kong, Singapore, China, and Botswana have invested massively in their growth since 1965.

By rough approximation, we can measure the total contribution of investment and labor force growth to the growth in GDP, through the familiar sources-of-growth equation.[1] In the formulation used here, the residual includes all factors other than capital and labor force growth, including gains in human capital and productivity. The fourth column in Table 1.1 shows that for all Asian countries except Malaysia and the Philippines, the residual accounted for growth of 2 to 5 percent a year. In Africa, except for Botswana, the residual was small and, in several cases, negative, as it was for the continent as a whole. To understand Asia's legacy of accelerated growth, we need to understand why the residual has been so much higher in East and Southeast Asia.

One reason may be that Asian countries started with greater endowments of educated people, as Dwight Perkins and Michael Roemer document in Chapter 2. Asia's investment in education since 1960 has not, however, been greater than Africa's, as shown in Table 1.1. A second reason for Asia's higher residual is that pure productivity gains, not attributable to investment in human capital, have been central to Asian success and generally lacking in

TABLE 1.1
Growth, Resources, and Productivity, 1965–1990

	Annual growth rate, % p.a.					
	GDP per capita	Population	Exports: goods and nonfactor services[a]	Total factor productivity[b]	Years of schooling per adult[c]	Ratio (%) investment to GDP
East/Southeast Asia	**5.3**	**1.9**	**13.5**	**2.4**	n.a.	**30.6**[i]
Korea	7.3	1.7	18.9	4.9	3.5	26.7
Taiwan	6.9	1.9	15.2	4.9	n.a.	23.8
Hong Kong	6.1[j]	2.0[j]	11.0[d]	3.6[j]	1.0	29.7[d]
Singapore	7.0	1.9	12.1[p]	3.6	1.9	35.3
China	6.1[d]	2.2[d]	10.7[j]	3.2[d]	n.a.	31.5[j]
Indonesia	4.3	2.2	13.6	2.7	4.3	21.1
Malaysia	3.0	2.7	8.7	1.1	2.7	25.4
Philippines	1.4	2.7	7.2	0.0	2.1	20.7
Thailand	5.1	2.5	10.5	3.3	2.0	24.3
Sub-Saharan Africa	**0.2**	**2.9**	**4.5**	**−0.4**	n.a.	**17.3**[i]
Botswana	7.9	3.7	15.9[f]	6.4	2.4	28.0[f]
Cameroon	1.5[k]	1.8	4.4[n]	2.5[n]	5.3	20.2[n]
Chad	−0.6[j]	2.2	1.3[j]	n.a.	n.a.	n.a.
Côte d'Ivoire	−0.7[j]	3.9[i]	4.8[o]	−0.7[n]	n.a.	20.0[g]
Ghana	−0.7	2.7	1.5	−0.8	5.7	9.6
Kenya	1.3[h]	3.8	3.3[d]	0.2[j]	3.0	20.5[h]
Mali	1.8[j]	2.3	6.3[j]	1.2[j]	9.1	13.2[j]
Nigeria	2.1[i]	2.8	10.9[i]	1.3[i]	n.a.	17.4[i]
Senegal	−0.3[j]	3.2	2.5[m]	−0.6[m]	−1.3	14.1
Tanzania	0.3	3.2	3.0	−0.7	−2.6	19.7
Zaire	−3.0[i]	2.0	−4.5[i]	−4.3[i]	4.9	14.6
Zambia	−1.9[d]	2.7	−1.3[k]	−3.1[e]	2.9	21.1[e]
Zimbabwe	1.0[j]	3.0	3.8[k]	−0.5[l]	2.2	18.1[l]

a. Revenues from exports of goods plus nonfactor services in constant U.S. dollars.
b. Total factor productivity calculated by the approximation explained in footnote 1 of text. Regional averages are roughly indicative only, as they use figures in this table, which are not all for the same years.
c. Annual growth from 1960 to 1985 in the completed years of schooling per population over age 25 as computed by the World Bank (unpublished) in connection with World Bank (1993).
d. 1965–89. e. 1965–88. f. 1965–87. g. 1965–86. h. 1967–89. i. 1970–90.
j. 1970–89. k. 1970–88. l. 1970–87. m. 1970–86. n. 1970–85 o. 1971–86.
p. 1975–89
SOURCES: For growth of GDP per capita, population, and investment ratio, International Monetary Fund, *International Financial Statistics Yearbook* (Washington, D.C., 1992). For summary data for regions (except productivity growth), World Bank, *World Development Report 1992* (Washington, D.C., 1992). For export growth, World Bank, *World Tables 1992* (Washington, D.C., 1992).

TABLE 1.2
Reductions in Poverty, East and Southeast Asia

	Share (%) in poverty			No. of poor (millions)	
Country	1970	1980	1990	1970	1990
China	33	28	10	275	100
Indonesia	60	29	15	70	27
Korea	23	10	5	7	2
Malaysia	18	9	2	2	0.4
Philippines	35	30	21	13	13
Thailand	26	17	16	10	9
East/Southeast Asia	35	23	10	400	180

NOTE: Poverty line is the cost of 2,150 calories per person per day, 90 percent consumed as grain.
SOURCE: Frida Johansen, "Poverty Reduction in East Asia" (World Bank Discussion Paper 203, Washington, D.C., 1993), 42.

Africa.[2] A central premise of this book is that productivity gains are associated with the outward-looking, market-friendly policies associated with East and Southeast Asian development.

This book is about economic growth. It is important to note that in every Asian country experiencing rapid and sustained growth in incomes, there was a striking reduction in poverty. Table 1.2 summarizes data on the incidence of poverty in six Asian countries from 1970 to 1990, taken from a study by Johansen (1993). The poverty line is defined as the income needed to purchase 2,150 calories per person per day, 90 percent consumed as grain. In China and Indonesia, the largest and poorest countries listed, rapid growth helped to cut the incidence of poverty in 1990 to a third and a quarter, respectively, of 1970 levels. Korea and Malaysia started with less poverty and had even greater reductions. Data provided by Fields (1991, 23–27) reveal that, over a twenty-year period beginning in the early 1960s, Thailand reduced its incidence of poverty by more than half, from 57 to 24 percent, and Taiwan enjoyed an even sharper drop, from 35 to 10 percent in only eight years (1964–1972). The development strategies employed by Asian countries to achieve rapid growth were consistent with, and may well have directly contributed to, significant improvements in living standards for the poorest members of society.

Comparable data are not available for African countries. However, based on partial evidence from a few countries, the World Bank (1990, 42) concludes that "poverty in Sub-Saharan Africa is severe and has been getting worse."

Asian Models of Development

How has Asia invested more than Africa and employed its resources more productively? By the early 1970s, as evidence mounted that economic growth in East Asia was rapid and could be sustainable, development practitioners began to look to these newly industrialized countries (NICs) for a model that might be transplanted to other, more slowly growing regions.

The early consensus among economists identified the NIC model as a market-based, outward-oriented development strategy supported by relatively low and uniform protection of imports, a stable real exchange rate, well-functioning internal markets with factor prices reflecting real scarcities, and private enterprise as the engine of growth.[3] In recent years, this neoclassical interpretation of East Asia's success has been challenged. Several observers of Korea and Taiwan have noted that considerable government intervention, import and investment controls, and highly differentiated price and tax incentives existed alongside neoclassical features of open economies.[4]

Enriched by these revisionist views, the emerging consensus now sees East Asia as a continuum of development strategies. At one extreme lies Hong Kong, perhaps the purest open, neoclassically managed economy in the world. At the other end lies Korea, where government did intervene, but within a matrix of sound macroeconomic policies, flexible factor markets, and export targets that forced firms to compete in world markets.

None of the four, however, appears to be a relevent model for most African countries.[5] All are resource-poor countries; Hong Kong and Singapore have no rural economies at all. Populations are well educated and ethnically homogeneous (although Taiwan is split between mainlanders and native Taiwanese, and Singapore has a significant, if politically weak, migrant population). Governments are managed by highly effective cadres of officials, capable of implementing interventionist policies and running competitive state enterprises.

A basic premise of this book is that the three countries in Southeast Asia that have achieved sustained, rapid income growth—Indonesia, Malaysia, and Thailand—have more in common with many African countries and may therefore offer more relevant development legacies than any of the four East Asian tigers. The three ASEAN[6] countries are relatively rich in natural resources—minerals, forests, and productive farmland—and, at the beginning of their rapid growth, were relatively poor in human capital. The most productive entrepreneurs in all these societies have been ethnic Chinese minorities, not indigenous people. Indonesia and Malaysia have enjoyed stable governments, but neither they nor Thailand and the Philippines have had regimes that have shown themselves capable of disciplined, export-oriented interventions.

All the Asian economies shared two features: sound macroeconomic management, including especially flexible exchange rate management, and flexible factor markets. They differed mainly in trade and industrial policy. Southeast Asian countries had highly protective trade regimes, but they did not have the political or bureaucratic discipline to use protection and subsidies as tools of export policy, as Korea did. Instead, the Southeast Asian countries promoted exports by establishing mechanisms, such as duty-free zones and drawback schemes, to insulate export firms from the high costs of protection and rent-seeking. This policy mix satisfies neither the old neoclassical orthodoxy nor the proponents of intervention, but it has worked extremely well.

Asian development strategies are rooted in patterns of governance, designed to take fullest advantage of factor endowments, and implemented through economic policies that have become identified with Asia. This chapter discusses each of these before considering Africa's prospects under a similar policy regime.[7]

Governance and Economic Strategy

Perhaps the central question in comparing the economic performance of Africa and Asia is this: why, over the past three decades, have Asian governments been more development oriented? Political stability has certainly played a role.

Park's eighteen-year reign in Korea, the Kuomintang's hold on Taiwan, Britain's colonial regime in Hong Kong, Lee's long dominance of Singapore, Suharto's twenty-seven-year rule in Indonesia, and the long-tenured prime ministers of the United Malays National Organization (UMNO) in Malaysia all coincided with rapid developments in those countries. Thailand is a special case: although prime ministers changed frequently until the recent political reforms, the popularly revered monarchy has been able to protect and entrench the high-ranking officials who make economic policy.

Although political stability may be necessary for sustained rapid growth, it is obviously not sufficient. The Philippines, despite long-lived regimes, has not developed rapidly. Africa also has had stable governments for a decade and often much longer in Côte d'Ivoire, The Gambia, Kenya, Malawi, Senegal, Tanzania, Zaire, Zambia, and Zimbabwe, none of which has maintained rapid development into the 1990s.

For a regime to become developmentally effective, the government must value economic development so highly that it is willing to risk political capital to achieve growth. Dwight Perkins and Michael Roemer observe in Chapter 2 that several Asian governments saw rapid development as essential to the survival of their regimes, as in Indonesia and Malaysia, or even of their countries, as in Korea, Taiwan, and Singapore.

The choice of long-term development over short-term political and personal gain manifests itself in different ways. Rent-seeking is a common feature of Southeast Asian and African countries. Yet leaders in Southeast Asia, with the notable exception of Marcos in the Philippines, have understood that growing rents require growing economies; when rent-seeking threatened sound economies, the rents were curbed. Leith and Lofchie (1993) observe that in Ghana before the reforms of the 1980s and in other African countries, leaders extracted rents without heed to sustaining growth in the economy that produces them. The result has been economic decline, much as if a renewable but limited natural resource had been overexploited.

The accommodation of entrepreneurial ethnic minorities is another choice for development over politics. Ethnic Chinese have played major, even dominant roles in commerce and industry in Indonesia, Malaysia, and Thailand, where governments have secured the political and economic rights of their Chinese minorities despite strong, sometimes violent, popular pressure for their suppression. The position of former colonial European residents in Africa, of Lebanese in West Africa, and of ethnic Indians in East Africa has been far more precarious, discouraging their investment. Even indigenous Africans are disadvantaged if they belong to an ethnic group that opposes the government or is unpopular with a more powerful group. Few African governments have pushed forcefully for accommodation among different racial or ethnic groups either explicitly, as in Malaysia, or implicitly, as in Indonesia and Thailand.

The insulation of economic policy making from politics is another important manifestation of Asia's development priorities. In Korea, Taiwan, and Singapore, where economic prosperity and national survival were linked inextricably, good economic policy was considered good politics. In Southeast Asia, however, where rent-seeking was inherent in the clientelistic style of governance, regimes made self-denying choices to establish planning commissions, finance ministries, and central banks as bastions of economic technocrats entrusted to manage the economy. These officials have enjoyed long tenure in their jobs. One Indonesian finance minister spent fifteen years on the job before he became coordinating economics minister for five more years. Protected by the monarchy, the leading economist in Thailand outlasted several governments. Malaysia's technocratic policy makers were less influential, but Malay political leaders acknowledged that rapid economic growth underlay their political and social goals. Although Africa has had a number of excellent economic policy makers, few of them were as influential over so long a period as their counterparts in Asia.

Where political aims conflict with and supersede development aims, governments are often hemmed in by the forces that have sustained their regimes, unable to reform either their administrations or their economies to promote growth. In Chapter 3, Jennifer Widner suggests that for determined leaders, there are paths out of this thicket. In Thailand, the reforming government of Prime Minister Prem Tinasulanond struck alliances with trade associations that had interests in reform, overcoming the barons who had supported previous clientelistic regimes. Indonesia's Suharto also appealed to business when he brought in a Swiss firm to perform many tasks of the customs administration, dramatically reducing costs and waiting times. Yet in Côte d'Ivoire, which also has active trade associations, Houphouët-Boigny did not take advantage of their potential to support reform.

Governments in Asia have been able to choose economic development and reform without sacrificing regime stability, and African regimes could do the same. The governments of Korea, Taiwan, and to a lesser extent Singapore, threatened by foreign enemies and anxious to spur growth, chose to intervene forcefully to push their economies faster than unaided markets would develop, although in the same general directions. Determined political leaders, well-educated and generally honest officials, and militaristic discipline combined to elevate public goals above private gain as officials interacted with businessmen to generate export-led growth.

These characteristics were not so strong in Southeast Asia. Disciplined intervention to promote public goals was almost certain to be thwarted by the clientelism and rent-seeking that were entrenched features of governance. Consequently, the governments of Indonesia, Malaysia, and Thailand left development more to the market than did Korea and Taiwan. They have actively managed their macroeconomies to establish stable and productive climates for investment; invested heavily in infrastructure and agriculture; and acted to insulate exports from the distortions of protection and rent-seeking by making inputs available to exporters at world prices, free of quantitative controls. Other interventions have occurred, especially public investment in large-scale industry, but for the most part these industries have not played a central role in export-led growth in Indonesia, Malaysia, and Thailand (the ASEAN three). Export growth in Southeast Asia came from multinational firms (especially in electronics); from medium-sized firms producing labor-intensive goods, many owned by East Asian investors; and from agriculture. Market incentives, not government intervention, played the major role in guiding export growth.

The application to Africa of Asia's experience with government seems clear. African regimes, like those in Southeast Asia, have limited capacity to intervene decisively in private decision making to accelerate development, as Korea once did. In both regions, clientelism and rent-seeking are characteristic of most regimes. In Africa, these regimes have weakened only where economies were largely destroyed, as in Ghana and Uganda. In contrast to Southeast Asia, Africa's low government salaries, declining standards of performance, and weak official leadership have eroded morale in the civil service and forced many of the most competent officers to seek jobs elsewhere, often overseas. Until these conditions can be overcome, African developers should choose strategies that are no more interventionist than those in Southeast Asia, where civil service capabilities have been improving. For many countries in Africa, policies even closer to those of open market economies, as described below, are likely to be more effective until the governments themselves are transformed.

Factor Endowments: Making the Most of What You Have

Each of the rapidly growing economies of East and Southeast Asia followed the dictates of comparative advantage. Korea, Hong Kong, and Singapore, with few natural resources and capital but abundant unskilled labor, based their early development strategies on labor-intensive manufactures. Relative to its population, Taiwan had more land than the other tigers and used it intensively in the early stages of growth, while emphasizing labor-intensive manufactures and eventually more skill-intensive exports.