Asian Tigers, African Lions

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Asian Tigers, African Lions

Comparing the Development Performance of Southeast Asia and Africa

Edited by

Bernard Berendsen, Ton Dietz,
Henk Schulte Nordholt &
Roel van der Veen

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PART ONE

INTRODUCTION

1

Tracking Development: Design, Process, Organization, and Results

Bernard Berendsen & Roel van der Veen

The Tracking Development project researched the question of why Sub-Saharan African countries since independence have not become richer, while countries in Southeast Asia have. Most Southeast Asian nations showed a 'turning point' in their developmental trajectory (i.e. the year in which average incomes started to increase and continued to increase), whereas the African countries did not. What was the answer to this crucial development question? Why are there Asian tigers, but no African lions? Starting from the assumption that policies might have a lot to do with this, the Netherlands Minister for Development Cooperation in 2006 decided to finance a research project to come up with answers. The project set-up was innovative: both African and Asian researchers were included to conduct research that was strictly comparative: what was researched in Southeast Asia was also researched in Africa, and the other way round. In addition, the African and Asian researchers had to work together as much as possible, so that they could learn from and be inspired by the point of view of the other. In the end, the project concluded that indeed major policy differences could explain the differences in success between the countries in Southeast Asia and those in Sub-Saharan Africa, the most remarkable difference being the strong emphasis on agriculture (also financially) in the Southeast Asian countries at the time of their turning points, while such an emphasis has been lacking so far in Sub-Saharan Africa.

Why Compare Asia and Africa?

From the donor's point of view, international development cooperation is usually problem-oriented. This stems directly from the motivation to get involved in this kind of work at all: it intends to solve problems in connection with poverty in poor countries. This approach has its own logic and advantages, but it also has a disadvantage, which is often overlooked or neglected. When focusing on the problems of poor countries, successful developing countries more or less automatically fall outside the focus of development agencies working with 'aid money'. The latter countries have somehow been able to improve their circumstances, so there is no need to use scarce donor resources on their behalf. As a result, not only donor resources, but also donor attention has shifted elsewhere.

An academic argument legitimizing the separation of the study of poor countries and richer or rich ones is that the circumstances of these countries are so different that there is no point in comparing them. Poor countries have little to learn from richer ones. In fact, this seems to be the *raison d'être* of the particular academic field of development economics: poor countries have special economic problems, which warrant a special field of study. Various opinions exist on the logic of this, but there is yet another reason—and in our view a reason with inescapable logic—why poor countries and donor countries alike should study richer countries, which has to do with the history of those richer countries. At some point in time those richer countries were poor themselves, usually just as poor as the countries which are the poorest in the world today.

Take the countries in Asia. That continent has been on the rise for some time now. But you do not have to be an historian to know that their situation was very different not that long ago. Only a few decades ago Asian countries were extremely poor, poorer on the whole than the newly independent countries of Africa. When you wanted to draw attention to the misery of populations outside the Western world in the sixties and seventies of the twentieth century, you would draw attention to the poverty of Asia. Just remember that famous book *Asian Drama: An inquiry into the poverty of nations* by Gunnar Myrdal, which was published in 1968. And also recall that first great pop concert to draw international attention to a disastrous situation faraway, organized by Beatle George Harrison in New York in 1971. This was not done for Africa, as the more recent *Live Aid* concerts, but for Bangladesh in Asia.

In the meantime, hundreds of millions of people in Asia have escaped from extreme poverty. The development of Asia, which of course is still continuing, has been a tremendous success. In the sixties and seventies of the last century nobody would have believed such progress could be possible. The Netherlands is proud that it has played a significant part in the substantial reduction of poverty in one of the Asian giants, namely Indonesia. For years the Netherlands chaired the international donor consortium Inter-Governmental Group on Indonesia (IGGI), which supported the development policies of the Indonesian government with both advice and money. But as Asia became richer, Dutch donor attention shifted towards countries which remained poor. Over the years, and especially since the 1980s, poverty became concentrated more and more in Africa, and likewise Dutch development cooperation was directed to the countries on that continent.

With Asia disappearing from the donor's view, we were forgetting something. Yes, there was no longer an urgent need to support the development of those countries in Asia. But should we not at least have studied their success in being able not only to increase the average income of their populations dramatically but at the same time also reduce the poverty inside their countries? For some reason people and organizations involved in international development cooperation spend very little time in analyzing the policies of countries that succeeded in becoming richer. When the history of fifty years of development cooperation of the Netherlands (1949–1999) was written, a chapter was included bearing the title *Genegeerde uitdaging: Nederland en de Aziatische Tijgers 1985–1995* (in English: 'Neglected challenge: The Netherlands and the Asian Tigers 1985–1995'). It was written by Dr. J.J.P. de Jong from the Dutch Ministry of Foreign Affairs, who retired some years ago but is still remembered by many as an expert on Dutch—Indonesian relations. His thesis is that the lessons of the success of Indonesia, or for that matter of any rising Asian country, have not been taken into account in development cooperation policies. In fact, according to De Jong, people working in development cooperation, although undoubtedly experts in their particular field of work, did not have many leads when it came to the question of what made many Asian countries escape from poverty over the last several decades.

We can think of several reasons why this might be so. Some reasons might be of a rather academic nature (e.g. Asia is too different from Africa for lessons in the former to be applicable in the latter) and others of a more practical nature (e.g. due to the current work stress there is time only to spend on the activities that policy officers work on, and not for study of other regions). But whatever the combination of reasons, the fact that too little was learned about how countries in reality successfully escaped from poverty remained very unsatisfactory indeed. From time to time this discussion flared up in the Africa Department and elsewhere in the ministry—for example, in the aftermath of the publication of the book *Afrika van de Koude Oorlog naar de 21e eeuw* (2002) by another policy officer of this ministry, Roel van der Veen. The author at the time worked at the Africa Department and had before been posted at the Netherlands Embassy in Jakarta, Indonesia. The book, which was translated into English as *What Went Wrong with Africa: A Contemporary History* (2004), stimulated discussions which almost always ended with the question: why could Asia have success and Africa could not?

These discussions also involved the networks of specialists working in the field of Southeast Asian studies (at the Royal Netherlands Institute of Southeast Asian and Caribbean Studies, KITLV, in Leiden) and African studies (at the African Studies Centre [ASC], also in Leiden). These renowned institutions decided to respond to the challenge headway. They combined resources and worked out a plan to study the question systematically. The project-to-be was called 'Tracking Development' because it wanted to track the diverging developmental trajectories over the last 50 to 60 years of some Southeast Asian countries that had become substantially richer and some Sub-Saharan countries that had remained poor. What had caused the Southeast Asian nations to grow, and why had the African nations not done the same? Phrased in words that sometimes could be heard in connection with this, the question was: why are there Asian tigers but no African lions?

The project was set up in a remarkable way. First: all the research had to be comparative. A certain issue researched in an Asian country should also be looked at in an African country. Why the similarities; why the differences? And second: research work should also be done by academics in the participating countries themselves. Eight countries were selected for the project, so this meant eight participating research institutes: four in Sub-Saharan Africa, four in Southeast Asia. The combination of these two characteristics made up a unique third one: much of the work had to be done by a researcher from Africa in cooperation with a researcher from Asia. The Asian researcher had to work for some time in the partner country in Africa, and the African researcher had to do work in Asia. The project wanted to come as close as possible to the question why certain policy decisions were made in Asia and not in Africa. It wanted to look through African and Asian eyes. The two research institutions in Leiden, the KITLV and the ASC, were going to lead this international research network.

In 2004 and 2005, talks were held between the KITLV and ASC on the one hand, and the Africa and Asia departments and the directorate-general for International Cooperation (DGIS) of the Netherlands Ministry of Foreign Affairs on the other hand, on the prospects of getting the project financed by DGIS. It was decided to get a better picture of the possibilities of such an extensive multidisciplinary international project at a workshop in which all the prospective research institutions from Africa and Asia would participate. This workshop took place in Leiden in November 2005. It led to further engagement by the Ministry of Foreign Affairs and to an official project proposal for a five-year Tracking Development Project submitted to DGIS. The proposal was approved in October 2006. It was the start of one of the most remarkable research projects ever undertaken with the support, financial and otherwise, of DGIS. In short, it wanted to have an answer to that key question of why the Asian nations became richer whereas the African nations did not. But its goals were even wider than that.

To quote from the project proposal, the seven general objectives of Tracking Development were:

1) To seek answers to the question of why Southeast Asia and Sub-Saharan Africa have diverged so sharply in development performance in the last 50 years.
2) To compare in detail the developmental records of a number of specific case study countries, establishing the main trends, processes, and junctures of decision-making.
3) To give decision-makers in the study countries, including influential figures in business and civil society as well as politicians and administrators, the opportunity to explain what strategic decisions they made, and why, during the five decades spanning 1950–2000.
4) To provide the opportunity for eight high-achieving research students from the study countries to 'change places', with Africans researching Asia and vice versa, in the context of four twin-country comparative studies. These students would obtain doctoral degrees from Dutch universities working in cooperation with in-country supervisors and institutions. This would enhance the research capacity of all the countries involved.

5) To create a new network of people and institutions linking Sub-Saharan Africa with Southeast Asia. This network would also be connected with the North, especially the Netherlands.
6) To discuss the research findings and their implications, on a regular basis beginning in the first year of the project, among a large group of people (researchers, students, policy-makers, opinion leaders) in both the North (Netherlands) and the South (Sub-Saharan Africa and Southeast Asia). Briefing sheets will be used to disseminate results. Recommendations will be made for the development cooperation policies of donor countries (like the Netherlands) and for the policies of governments in the South, in particular in Africa.
7) To disseminate research findings within the case study countries in a variety of accessible, popular forms, including newspaper articles, websites and radio programmes.

It took five years of intensive research and discussions to achieve these ambitious objectives, at least as much as possible of them. Some of the goals were met along the way, others had to wait until the end of the project term, and there will even be some follow-up in the form of a new, much smaller project, in combination with the African Politics and Power Programme (APPP) of the Overseas Development Institute (ODI) in London. For further information on the management and history of the Tracking Development project, we refer to the second part of this chapter. We would just like to underline that from the start of the project until its conclusion, policy-makers from the Dutch Ministry of Foreign Affairs, including those in Netherlands' embassies in participating countries, have been intensely involved in most of the activities. They have been learning along the way-learning much, indeed.

The Management and History of the Tracking Development Project

From the start of the project in October 2006 much attention was given to the organisational structure and the way communications were to be maintained. To guide the process, two regional coordinators were selected, one for Africa, based in the ASC, and one for Asia, based in the KITLV. As a matter of fact and as a consequence, the two institutions, both from Leiden, were collaborating for the first time in a joint research project.

Each of the eight institutions in the two regions selected an in-country coordinator (ICC) to participate in the research effort, to co-supervise the PhD student involved, to provide institutional contacts and network building, and to help organize visits of PhD students from the countries to the other region. On the Netherlands side also, country coordinators (CC) were selected, one for each of the eight countries. In some cases the regional coordinators were acting as country coordinator simultaneously.

The project started with the selection of the PhD students in each of the eight countries involved. In most cases the selection was made on the basis of a start-up conference in the first part of 2007, for which prospective PhD students were invited to present and defend their proposals. The selected students were invited to follow a one-year PhD course, starting in the summer of 2007 in the Netherlands at two research schools, the ASSR in Amsterdam for the Asian students and CERES in Utrecht for the African students. The students were regularly brought together to follow special lectures organized by the project staff.

After the first year, one of the African students, from Uganda, dropped out. At a later stage also the PhD students from Malaysia and Nigeria had to leave because of insufficient progress. Later on the student from Vietnam became seriously ill and also had to leave. So, altogether, only four out of eight students were expected to complete their PhD successfully, two from Africa and two from Asia.

There were also quite a number of changes in country coordinators, both on the Netherlands' side and in both regions. On the Netherlands' side, two country coordinators had to leave the project, one for Kenya and one for Vietnam. Their duties were taken over by the regional coordinators. On the African and Asian sides, some in-country coordinators were exchanged for new staff members, sometimes on short-term assignments.

So, at times the project went through turbulent stages, which is not surprising given the multiple objectives and complicated structure with, all-in-all, nine countries and ten research institutions involved, each with its own history and culture. Institutional and organizational arrangements were set up to face these challenges and steer the process to its completion.

The Management

As was mentioned in the Mid-Term Review undertaken by David Booth of ODI in July/August 2009, an ambitious comparative design such as the one Tracking Development had adopted requires a significant measure of collective intellectual discipline, which is antithetical to some of the concepts and practices related to scholarly autonomy that are prevalent in academic social science.

In order to deal with this in an effective way, the management of the project was put clearly in the hands of the two Leiden institutions, the ASC and the KITLV, with one regional coordinator each, one for Sub-Saharan Africa, Jan Kees van Donge (who took over from Deborah Bryceson, who co-initiated the project), and one for Southeast Asia, David Henley, the other co-initiator. They formed a team with a team leader on a voluntary basis, a retired ambassador seconded by the Ministry of Foreign Affairs, Bernard Berendsen, who is also co-author of this chapter, and a part-time administrator and information specialist, Ursula Oberst.

The management team received its directions from a Steering Committee, which consisted of the three senior members of the management team together with the Head of Research of KITLV and the Director of the ASC and two representatives of the Ministry of Foreign Affairs. Major decisions on the direction of the project as well as on budgetary and personnel matters were taken by the Steering Committee.

At the start of the project, the management team considered whether to introduce an academic advisory committee consisting of prominent scholars with relevant knowledge and experience in various disciplines, in order for the project to get on the right track and fill possible gaps in the knowledge available at the management level. According to the Mid-Term Review, one of the concerns in the early stages of the project was to ensure it was sufficiently informed by perspectives from economics. However, this concern had been reduced because the regional coordinators had demonstrated that their grasp of the relevant methods of economic analysis was sufficient. Instead of being advised on a regular basis by an advisory team, committed economic and political scientists were invited to participate in the annual plenary meetings to provide the necessary external academic input into the project. Some of the original members of the advisory board remained involved as supervisors of some of the PhD students and/or participated in the plenary conferences.

Monitoring Progress and Measuring Performance

Monitoring progress and measuring performance was performed on a regular basis by the Steering Committee. In addition, from the second year onward, annual plenary meetings were organized that brought together all the PhD students, the ICCs and CCs, and the ministry staff and external experts, to prevent compartmentalization and maintain coherence, to consolidate the progress made, and to give directions for the future of the project. Two of these were organized in the Netherlands, the first and the last one. The second plenary conference took place in Dar es Salaam, Tanzania. The third was held in Malaysia.

External experts invited to participate in the first conference, in June 2008, included Howard Stein of the University of Michigan, Ari Kuncoro of the Institute of Economic and Social Research of the University of Indonesia, and Peter Lewis, Associate Professor and Director of the African Studies Program, Johns Hopkins University, School of Advanced International Studies. As could be expected at such an early stage, the presentations by most of the ICCs were weak, but some of the Dutch-based CCs also found it difficult to stick to the strict comparative nature of the project.

Altogether, eight papers were presented, revised versions of which were issued in December 2008, on the following subjects: one paper dealt with agrarian roots of industrial growth, focusing on Indonesia and Nigeria, another questioned whether the Asian economic success was built on surplus labour, focusing on Malaysia and Kenya, both by David Henley, the regional coordinator for Asia; country coordinator Akinyinka Akinyoade made a comparison of stability and expertise between Nigerian and Indonesian cabinets 1966–1998; André Leliveld, country coordinator for Uganda, prepared a paper on growth acceleration in developing economies, comparing Uganda and Cambodia; Han ten Brummelhuis, country coordinator for Cambodia, made a comparative analysis of post-conflict Uganda and Cambodia, focusing on human insecurity in the midst of economic growth and political stability; and Jan Kees van Donge, regional coordinator for the African region, presented a paper on differential supply responses to liberalization and poverty alleviation in Vietnam and Tanzania.

At the conference, Peter Lewis introduced what was later referred to as the Lewis Formula, based on his book *Growing apart: oil, politics, and economic change in Indonesia and Nigeria* (Ann Arbor: University of Michigan Press, 2007). His recommendation was that in order to ensure that all Tracking Development research remained strictly comparative in character, every paper, chapter, or book prepared under the auspices of the project should have the following structure:

1. Research question
2. Testable hypothesis or hypotheses
3. Two (country, region) stories side by side
4. Identification of key points of divergence
5. Analysis of reasons for the divergence
6. Policy lessons.

On the basis of the outcome of the conference, David Henley drew up some emerging comparative themes at sub-continental level that could both confirm and serve to intensify the coherence of the project as a whole. These were:

1. Political institutions and ethics seemed to be important in discovering why successful developmental states have emerged more often in Asia than in Africa;
2. Rural/agricultural and urban/industrial biases seemed to be important in discovering the origins and character of the successful agricultural policies in Southeast Asia and their transferability to Africa; and
3. The Tracking Development researchers were interested in the redistributive features of the Southeast Asian developmental states characterized by a political commitment to "shared growth", and their transferability to Africa.

By the end of the year, decisions were taken by the Steering Committee with regard to the discontinuation of the cooperation with a number of country and in-country coordinators. The Ministry itself made an informal review of the project, looking at progress with regard to the seven objectives of the project, and invited the project management to draw up a "plan of action" on how to deal with them. The management came up with a reformulation of the emerging comparative themes in a more formalised version of the "three preconditions for macroeconomic take-off", which should be met simultaneously. In a nutshell, these were:

1. Macroeconomic stability
2. Economic freedom for peasants and small entrepreneurs
3. Massive pro-poor, pro-rural public spending

Also, in a separate paper, David Henley and Jan Kees van Donge introduced the concept of "turning points", linking the three preconditions to turning points. These were identified as the moment of transition from continuous poverty to sustained growth. Such turning points could be identified for Malaysia (1959), Indonesia (1967), and Vietnam (1989). No such turning points could, however, at that time be identified for Cambodia, nor for any of the African countries. The paper further elaborated on what kinds of government succeeded in providing all three preconditions for growth, and some tentative implications for development cooperation.

In the meantime, the PhD students had started their second year, in some cases making field visits, first to their own country and secondly to their partner countries, to undertake research on their respective subjects and organize interviews with policy-makers and politicians.

The Second Conference, Testing the Hypotheses

The second plenary conference took place in June 2009 in Dar es Salaam, Tanzania. This conference had very much the character of a working conference, with teams working in country pairs dealing with comparative papers by both the country coordinators and the PhD students. External experts invited were David Booth of ODI, who would not only participate but also carry out a Mid-Term Review of the project, and Peter Lewis. Roel van der Veen and Martin Koper, as representatives of the Ministry of Foreign Affairs, took an active part. This also applied to Leo de Haan, Director of the ASC, and Henk Schulte Nordholt, Head of Research at KITLV. Local experts and political scientists and politicians participated in the discussions on the opening day, including Prof. Sembodja of the Research Programme on Poverty Alleviation (REPOA), Prof. Samuel Wangwe of the Economic and Social Research Foundation (ESRF), Professor Ibrahim Lipumba of the University of Dar es Salaam, and Dr. Jonas Kipokola, all from Tanzania.

The papers discussed were 'The textile industries in Tanzania and Vietnam', by Damian Gabagambi; 'Economic reforms and labour regimes in Vietnam', by Nghiem Lien Huong; 'The rural and agricultural bias in economic development in Malaysia and Kenya', by Joseph M. Fernando; 'State and agriculture in Cambodia and Uganda', by Han ten Brummelhuis; 'Patterns of intergovernmental fiscal transfers and their implications for local development in Nigeria and Indonesia', by Akinyinke Akinyoade; 'Widjojo Nitisastro, the praxis of development in Indonesia, and its comparison with Aydida of Nigeria', by Riwanto Tirtosudarmo; 'Rational folly or flawed vision? Nigerian development policy in the Indonesian mirror, 1965–1990' and 'Two political economies of state intervention: subsidy and regulation in Malaysian and Kenyan agricultural markets, 1960–2000', both by David Henley; and 'Judicial Reforms and Democratic Consolidation in Nigeria: 1999–2009', by David U. Enweremadu.

The discussions on the papers focused on the issues central to the project: the three preconditions for sustained growth, and the turning points related to those. Even if not all papers were strictly comparative, the participants were in the end convinced that the general principles as well as the Lewis Formula dealing with the comparative character of each of the papers should be strictly adhered to.

To underline the importance of the consensus reached on the central hypothesis of the project with regard to the three preconditions and the turning points, it was decided to organize an international competition for a Tracking Development Falsification Award to be granted to the paper that would convincingly demonstrate this hypothesis that a turning point would occur if the three conditions (macroeconomic stability, freedom for small farmers and entrepreneurs, and massive rural spending) were untrue. Altogether, before the next conference in Malaysia in May 2010, nine papers were received by the Steering Committee. Although the committee was of the opinion that none of the papers had falsified the hypothesis, it decided to reward two of the authors for the quality of their papers, one of them a PhD student of the project: Bethuel Kinyanjui.

The result of the Mid-Term Review, carried out by David Booth on the basis of his participatory research during the second conference in June 2009, had a positive outcome. It considered Tracking Development a highly original and well-conceived research project. Moreover, the Mid-Term Review thought it likely that a major part of the project's objectives would be achieved.

In the period following the conference, the CCs were given instructions for further work on their papers, and the regional coordinators prepared for a special issue of the *Development Policy Review* to be issued in February 2012 and containing four articles: 'Tracking Development in South-East Asia and Sub-Saharan Africa: The Primacy of Policy', by Jan Kees van Donge, David Henley, and Peter Lewis; 'The Agrarian Roots of Industrial Growth: Rural Development in South-East Asia and Sub-Saharan Africa', by David Henley; 'Erratic Development in Kenya: Questions from the East Asian Miracle', by Othieno Nyamjon and David Ongólo; and 'Flawed Vision: Nigerian Development Policy in the Indonesian Mirror', by David Henley, Riwanto Tirtosudarmo, and Ahmad Helmy Fuady.

A residential school in October 2009 allowed the Tracking Development PhD students to present results of their work to their fellow students and supervisors, basing themselves on the methodology in the paper 'Summary of the initial findings of Tracking Development' by Jan Kees van Donge, regional coordinator for Africa. Altogether, eight workshops were organized for the students to present and discuss their papers. Following the residential school, the PhD students were expected to finalize their partner country visits between January and April 2010, well before the third plenary conference to take place in May 2010 in Malaysia.

During the first part of the year, preliminary results from the project were presented to a group of Dutch ambassadors from Africa, who were meeting in The Hague on 22 January 2010. A group of Dutch economists were invited to comment on the project at a meeting organized at the Ministry of Foreign Affairs on 8 April 2010. The panel consisted of Lia van Wesenbeeck of the Vrije Universiteit Amsterdam (VU), Geske Dijkstra of the Erasmus University Rotterdam (EUR), and Remco Oostendorp (VU) and was chaired by Arie Kuyvenhoven of Wageningen University (WUR). Finally, the project was presented to the staff of Ecorys at a lunch meeting by David Henley on 27 April 2010.

The Third Conference: Exploring Three Deeper Principles

The third annual plenary conference was attended by Ton Dietz, the new Director of the ASC, who had taken over the position from Leo de Haan as member of the Steering Committee. Apart from the usual participants (the other members of the Steering Committee, the country and in-country coordinators, PhD students, and representatives of the Ministry of Foreign Affairs), the following external scholars participated: Arie Kuyvenhoven, Emeritus Professor in Development Economics at Wageningen University, who was also a member of the academic advisory committee of the Tracking Development project, Peter van Lieshout, member of the Dutch Scientific Council for Government Policy (WRR) and chairman of the project group on The Future of Development Policy in a Globalizing World, and Tim Kelsall, an Associate of ODI's African Power and Politics Programme. Moses Ikiara of the Kenya Institute for Public Policy Research and Analysis (KIPRA) and David Ongolo, economic advisor at the Netherlands Embassy in Nairobi, Kenya, also participated.

The objectives of the conference were to broaden the attention from the three major factors identified earlier, distinguishing the Southeast Asian development trajectories from the Sub-Saharan one, and to draw clear and precise statements on the applicability of Southeast Asian development experiences for Africa. The intention was to go one step beyond earlier findings by identifying three deeper principles, which seemed to underlie the choice of policies to promote development and their successful implementation in Southeast Asia: the principle of outreach ('quantity, not quality'), of urgency ('priority, not plans'), and of expediency ('results, not rules'). According to David Henley, who introduced these principles at the conference, development strategies in Africa have suffered persistently from an emphasis on qualitative issues rather than on mass impact, on long-term aspirations rather than on immediate needs, and on rules, laws, and principles rather than on results.

Again, working sessions were organized in country pair groups, and the discussions on the papers presented took these new principles into consideration. The case of Malaysia was exemplified in the introductory lecture by Tun Musa Hitam, long-time Vice-Prime Minister of Malaysia. New papers or abstracts were presented on subjects such as 'The financing of development; resource rents and foreign aid', by Jan Kees van Donge; 'Population policies in Indonesia and Nigeria', by Akinyinka Akinyoade; 'Food, poverty and policy in Uganda and Cambodia', by Han ten Brummelhuis and Kristina Chim; 'Kenyan development strategy in the Malaysian mirror', by David Henley; 'Technocrats and economic liberalization under authoritarian regimes in Indonesia and Nigeria: Ali Wardhana and Olu Falae', by Riwanto Tirtosudarma; 'Rural road infrastructure and investment: lessons from Uganda and Cambodia', by Kheang Un; and 'Fighting corruption for economic development: Nigeria and Indonesia in comparative perspective', by David U. Enweremadu.

At the conference it was decided that the final outcome of the project would be documented in two publications. These would be a monograph on the main findings by David Henley and Jan Kees van Donge, and an anthology containing diverse papers by the various participants in the project, including country and in-country coordinators and PhD students. Subjects to be dealt with in these papers, as well as a time schedule for producing them, were extensively discussed at the conference.

PhD students worked during the second part of the year and in the following year to finalize their dissertations. In the fall of 2010 they met regularly in so-called 'meet-and-greet sessions' to allow them to demonstrate the progress they were making. David Henley participated in a conference of economic historians in South Africa to present a paper on the present positions of Kenya and Nigeria, comparing them with the situation of Southeast Asia.

The Final Plenary Conference: Some Policy Conclusions

In the first part of 2011 it was decided that the final conference of Tracking Development would be held in December instead of August of that year, to allow more time for the regional coordinators and the project staff to finalize their contributions to the monograph and the anthology.

The first day of the conference focused on the main policy conclusions of the project, which were presented by David Henley and Jan Kees van Donge and pointed out the importance of the three preconditions for macroeconomic take-off: sound macroeconomic stability, economic freedom for peasants and small entrepreneurs, and pro-poor, pro-rural public spending.

These findings were then commented upon by David Booth of the ODI and the Netherlands Minister for Development Cooperation, Ben Knapen. David Booth contended that Tracking Development findings were based on detailed comparative and historical research, with thorough scrutiny of the robustness of the empirical grounding, including consideration of the conditions under which the propositions would need to be rejected.

Ben Knapen pointed out that the study helps us to be more precise on what sort of aspects of agriculture it would be worthwhile to invest in. He considered the advice to focus on smallholder farming very useful and pointed out that the study also helps us to be more specific on how to make those smallholders act more like entrepreneurs, which is also a matter of culture.

In an interview session by Jan Kees van Donge with, among others, Adesina Akinwumi, the Nigerian Minister for Agriculture, the latter agreed that the study was very clear about what to do with smallholders: "There is a future for them; they have to adopt new technologies to raise their productivity; we have to support their information systems so that they can better negotiate the prices of their commodities; they need support in terms of access to finance to enable them to buy their seed and fertilizer and to invest in irrigation and mechanization. They also need support in terms of policies that would improve their market access and enable them to sell their commodities and have access to markets in Europe. So developed countries will have to lower their barriers to allow farmers in Africa to be able to trade and to grow".

In a response, David Henley reiterated that in general African governments need to spend more on agriculture, on rural development, and above all on the rural poor. This is requisite for overall development in the long run. Also, there has been a tendency, even when focusing on the agricultural sector in Africa, to favour large landowners and the most efficient and modern farmers, and that is according to the Asian evidence—not what is called for. What is needed, on the contrary, is a broad-based, pro-poor, pro-agricultural spending.

One of the PhD students, Blandina Kilama from Tanzania, presented findings of her research on the cashew sector in Tanzania and Vietnam. She pointed out that the way the Vietnamese had organized the cashew sector, including not only the farmers but also the processors, the traders, and the exporters, allowed the sector to reward the farmers more and also to invest in research centres that helped to provide the farmers with the best varieties and technology. That was the reason why Vietnam was able to achieve higher yields in cashew production than Tanzania. A lack of coordination of all the different components of the cashew sector was the reason that the incentives provided to the farmers were not linked up to the processors and that yields in Tanzania remained below those in Vietnam.

On the second day of the conference, three debates were organized with economists, dealing with a few 'outstanding issues'. The first one dealt with the controversy about the importance of external funding (aid and investments). Some scholars are convinced that Southeast Asian countries could never have reached their economic breakthroughs without massive funds from abroad, either from donor agencies (mainly US aid) or from foreign investors (multinational corporations and/or diaspora investors). There was no denial of the differences between Southeast Asia and Africa, but the debate concentrated on the 'crucial moments', the role of external capital as a catalyst, and also the cause-effect relationships. Did economic growth start after a major investment boost, or did foreign investors simply follow in the wake of 'growth optimism'? And when do foreign investments really become growth-enhancing and sustain a steady growth afterwards? Much depends on the connections between local and foreign capital and on the functioning of the domestic financial systems. It is also important to note that the debate should be not only about funding and financial costs-and-benefits, but also about the learning effects of foreign investments—and these are different between sectors, types, and regions!

The second debate was about the key result of the Tracking Development project: the necessary emphasis on agriculture and rural development first—and within that a solid commitment to mass poverty alleviation among the rural masses—before industrialization policies could work to reach macroeconomic sustained growth. The discussion concentrated on timing: how long should an emphasis on rural/agricultural growth last before it could shift to an urban, industrial emphasis, and is there indeed a need (everywhere) for a period of state 'closure' on first the rural and then the urban sector, before state withdrawal and more liberal policies could take over? Is there indeed a need for steady leadership, against vested interests (and sectoral powers) which would resist giving up their temporary privileges?

That brought us to the third debate: the irrelevance (or not) of 'good governance', which has been the mantra in global and Western policy circles for so long. Indeed, there was strong support for getting out of that mantra and looking for evidence under what conditions 'bad governance' could still support major economic breakthroughs, or may even be a condition for these to happen. Stability and trust in leadership continuity were seen as more important for sustained growth than adherence to the full gamut of good governance criteria. Certain pro-poor and stability-enhancing forms of authoritarian rule (that could even be quite corrupt) can go together with a long-term growth trajectory. It is the well-known controversy in political economy: does economic growth create a middle class that then starts to demand more transparency and more liberal conditions for their (urban) lifestyles and economic behaviour, or do you first need 'good governance' (and freedom for entrepreneurs and the middle class in general) as a precondition for sustained economic growth? Tracking Development results clearly lean to the former position, although one cannot avoid a debate then about 'growth-supporting forms of corruption and lack of freedoms' and growth-blocking forms. It is a debate that will be central to the follow-up project of Tracking Development, on the conditions for developmental states in Africa.

The Results

The main findings of the project were presented in public for the first time by David Henley in his inauguration address on 7 October 2012 accepting his professorship in Modern Indonesian Studies at Leiden University. A full description of the project and its findings can also be found in an article by Jan Kees van Donge, David Henley, and Peter Lewis in *Development Policy Review*, February 2012, referred to before, 'Tracking Development in South-East Asia and Sub-Saharan Africa: The Primacy of Policy'. Results will also be presented in the PhD studies of the four students who completed them successfully: two from Africa, Blandina Kilama from

Tanzania, comparing the cashew sector in Tanzania and Vietnam, and Bethuel Kinyanjui from Kenya, focussing on the industrial development in Kenya and Cambodia; and two from Southeast Asia, Achmad Helmy Fuady from Indonesia, looking at the role of elites and economic policies in Indonesia and Nigeria, and Un Leang from Cambodia, who took education policies as his area of attention, comparing Cambodia and Uganda. Parts of their results will also be included in the present volume.

The full conclusions of the project will be brought out in a separate publication by David Henley, *A Question of Intent: Origins of the Asia-Africa Development Divergence*. It was decided to also publish an anthology to provide a full overview of all the research that was carried out by the project staff. Articles to be included were written by the participating academics from Africa, Asia, and the Leiden institutions KITLV and ASC. Some of the contributions are by the PhD students from Africa and Asia, who researched particular issues for their dissertations. All in all, this anthology consists of 19 articles, which together make for an excellent overview of the rich material that was produced by the project.

The Introductory section includes a summary of the results of the project, by David Henley and Jan Kees van Donge, as well as a contribution by Peter Lewis elaborating on methodological aspects of comparative studies like Tracking Development. Ton Dietz takes a longer-term view, comparing Africa's and Southeast Asia's agricultural performance during the last 50 years. He concludes that the current agricultural situation in Africa is not as bad as often portrayed and that—particularly during the last decade—major improvements can be seen.

Indonesia and Nigeria

The second section contains contributions dealing with Indonesia and Nigeria. Riwanto Tirtosudarmo takes as a starting point that development is a process of organizational change. His paper attempts to look at the contribution of economic technocrats to the process of institutionalizing economic development. He finds that the technocrats in Indonesia, in particular Widjojo Nitisastro and Ali Wardhana, were more successful in their role than the technocrats in Nigeria, in particular Alison Ayida and Olu Falae. He focuses on two turning points in the economic history of both countries, firstly in the mid-1960s and secondly in the mid-1980s, to demonstrate the two different trajectories in economic development in Nigeria and Indonesia. Widjojo in the 1960s, followed by Ali Wardhana in the 1980s, tightly controlled three strategic economic development institutions: the National Planning Board, the Ministry of Finance, and the Central Bank. As a consequence, the three key economic institutions successfully introduced and implemented between 1967 and 1990 (1) development planning and macroeconomic policy, (2) pro-poor agricultural policy, and (3) monetary and banking reform policy. No such consistent economic leadership was available in Nigeria.

Ahmad Helmy Fuady in his contribution demonstrates that the difference in exchange rate policy turns out to be decisive for the diverging economic performance of the two countries. The paper explores why Indonesia's economic policy elite devalued several times (in 1978, 1983, and 1986) to boost export performance and to break dependence on oil money, while Nigerian policy makers refused to devalue the naira and preferred to rely on a strong currency. Moreover, he demonstrates that policy measures in economic matters have different effects on different groups: "while devaluation benefits exporters, it is costly to importers, it helps the rural agricultural sector, but punishes the import-dependent urban-sector consumers". The Indonesian authorities, therefore, were well aware of the political implications of these measures and were actively engaged in explaining to the people the reasons for introducing them, and they provided compensation to the "losers". Finally, he relates the policies adopted by the economic policy-making elites in Indonesia and Nigeria to their educational and professional background and concludes that the economic team in Indonesia—with their background in economics—were more inclined to adopt strict monetarist policies, while their Nigerian counterparts tended to see devaluation as a power play and a measure by the IMF to control the Nigerian economy.

David Enweremadu's paper deals with the relationship between corruption and economic development. Corruption is considered as one of the factors hampering or slowing down economic development. Comparing Indonesia and Nigeria, he questions why, with comparable records in the area of widespread corruption, they have such divergent experiences in their economic performance. He demonstrates that corruption has been far more damaging to Nigeria than to Indonesia because these countries experienced corruption in a very different way. While corruption in Indonesia was relatively centralized and organized, in Nigeria corruption was disorganized and decentralized. So he concludes that a combination of disorganized and decentralized corruption and a tendency to export the proceeds of corruption overseas—arising from an unstable economic environment—has rendered corruption incompatible with development in Nigeria.

Malaysia and Kenya

The following section deals with the country pair of Malaysia and Kenya. The first contribution, by Joseph Fernando, deals with agricultural development and "the politics of policy". He compares the politics of policy formulation with regard to agriculture and rural development in Malaysia and Kenya, over the period since independence in a number of areas, and observes substantial differences with regard to institutions and political leadership, distributional effects of credit facility policies, corruption, policy implementation and outreach, the politics of ethnicity and the role of regulatory bodies and marketing boards that limited competition in Kenya and lead to more freely operating markets in Malaysia. Together, he concludes, these elements had a significant impact and contributed significantly to the divergence in economic growth between the two countries.

Othieno Nyanjom's contribution deepens the historical analysis of the very different ways the political elites in Malaysia and Kenya dealt with policy-making. In Malaysia the internal and external threats of the 1950s and the unexpected explosion of popular anger in the 1969 riots resulted in a political deal within the ruling groups to share power and unite for long-term growth and poverty alleviation strategies. In Kenya the ethnic fragmentation and the 'winner takes all' mentality among the leading ethnic group resulted in elite-supporting policies, with short-term gains for the political and economic elites and negative impact on most other groups in society. Despite occasionally 'progressive' policy-making, the actual politics of exclusion resulted in implementation strategies which did very little to uplift the rural poor and the poor people in the urban informal sector in the country. The author shows that there are countries (like Kenya) where the political elites are simply not interested in mass poverty alleviation and prefer short-term windfalls over long-term growth.

Bethuel Kinuthia and Ton Dietz give an overview of industrial policies and outcomes in Kenya and Malaysia to detect what policies were adopted to pursue the industrialization process, what role was played by foreign capital, and what has been the contribution of the agricultural sector. In both countries they look at four phases: from 1955 to 1970, from 1970 to 1980, from 1980 to 2001 (in the case of Malaysia 1997, the beginning of the Asia crisis, was taken as a turning point), and from 2001 to the present. For each of the periods, differences are detected with regard to the introduction and implementation of import substitution as well as export promotion strategies, the contribution of foreign direct investment (FDI), and ways to avoid rent-seeking. They conclude that these differences have resulted in a successful industrialization in Malaysia within a period of about 50 years, while Kenya's growth has been minimal and its manufacturing sector has remained relatively small and capital-intensive, its social overheads underdeveloped, and its composition largely unchanged.

Bethuel Kinuthia and Mansoob Murshed question the role of FDI as a factor contributing to economic growth in Kenya and Malaysia. They conclude that economic growth is driven by FDI in Malaysia while in Kenya FDI is driven by economic growth. Malaysia was able to attract FDI because of good macroeconomic management, trade openness, successful infrastructural development, and dependable governance, while in Kenya trade openness had a negative effect because it maintained a more or less protected environment leading to rent-seeking and low efficiency in the economy.

Tanzania and Vietnam

The section dealing with Tanzania and Vietnam starts with an analysis by Jan Kees van Donge of why liberalization led to little poverty alleviation in Tanzania compared with Vietnam. The main explanatory factors appear to be the priority given to agriculture and the maintenance of a state institutional structure while embarking on liberalization in Vietnam. State intervention, accompanied by a policy of instilling financial discipline in the state sector, remained essential in Vietnam. In Tanzania it took ten years before liberalization was accompanied by a strict policy of macroeconomic stabilization.

Blandina Kilama in her contribution studies the reasons for the differences in performance of the cashew sector in Tanzania and Vietnam. She looked at the way the cashew sector is set up, the way factor inputs are utilized, and the way institutions are used to administer the crop. The main difference is found in the role played by the state in both countries. In Vietnam the state operates as a catalyst and involves other stakeholders strategically, thus enhancing vertical integration and economies of scale. In Tanzania the state seems to provide incentives that encourage only a limited number of stakeholders, thus creating diseconomies of scale for the entire sector.

Jamal Msami compares the textile sector in Tanzania and Vietnam. In Tanzania its history is recent because it takes its root in the ginning industry in the early 1950s, while in Vietnam it has existed for at least a century.

Challenges faced by the textile industry in Tanzania are the use of outdated technology, incentive problems with labourers, high taxes, lacking utilities and transport infrastructure, complicated customs procedures, market problems, instability of the currency, and lack of support from the government. The difference in performance between the two countries is explained foremost by the approach adopted in the economic liberalization process. In Vietnam it was a slow process, with the state retaining direct involvement in the production and marketing of textile products. Tanzania adopted an eyes-on, hands-off approach, with the state pulling out quickly and haphazardly, which resulted in the closure of several textile mills. Still, even if this is not brought out by Jamal, liberalization in Tanzania was not introduced wholeheartedly, and bureaucratic procedures and political involvement continued to play an important role and prevented the realization of the benefits of the liberalization as originally intended. A more thorough analysis of the liberalization processes in both countries would shed more light on this question.

Uganda and Cambodia

André Leliveld and Han ten Brummelhuis present a study on agricultural policies and the performance of the agricultural sector in Uganda and Cambodia in the period 1990 to 2010. They observed convergence in agricultural production between the two countries from 1990 to 2005 and divergence after 2005 to 2010 when Cambodia accelerated its economic growth. The divergence was caused by:

1. More political commitment to promoting agriculture in Cambodia compared with Uganda
2. The government of Cambodia having an interest in income from rice production
3. Greater donor involvement in the agricultural sector in Cambodia than in Uganda
4. More involvement of NGOs in Cambodia
5. A more competent minister of agriculture in Cambodia
6. The Cambodian government being more eager to demonstrate concern for the welfare of the people.

Comparing Cambodia and Uganda with the first tier NICs, they conclude to a higher level of intensive agrarian production: in poor agrarian economies, apparently, markets cannot solve all coordination problems.

Un Leang in his contribution examines two related issues in Cambodia and Uganda: the relation between education and development, and the role of the state in reforming the educational system. While both countries show characteristics of a patrimonial state where "politics" dominate "policy", Cambodia has performed better than Uganda. Factors that have contributed to this difference are, among others, that donors in Cambodia applied more conditionality to their aid programmes than in Uganda. In addition, Cambodia applied a more centralized implementation of their policies in education than Uganda, resulting in less corruption and a better distribution of skills in their trained workforce.

Also dealing with the country pair of Uganda and Cambodia, Kheang Un focuses on road-building as a factor contributing to rural development in the two countries. While both countries seemed to prioritize rural development, he discovers differences in the pattern of financial allocation to the road-building sector. He relates the differences to the way both countries applied a system of neo-patrimonialism. Since 2000, Uganda moved in the direction of a more ethnically based decentralized form of neo-patrimonialism, while Cambodia shifted to a centralized system employing patronage-based development and successfully mobilizing resources from government bureaucracies and bureaucrats and business in addition to the state's budget.

In the final section, David Booth of the ODI, who had also carried out a mid-term review of the Tracking Development project in 2009, presents some afterthoughts on the project and its outcome. He considers Tracking Development to belong to a new generation of research on governance, which is already producing findings which go beyond general invocations about context. He presents two other examples of such research that is oriented to the generation of what has been called "middle-range theory". He claims that this kind of research involves additional thinking about the validity and usefulness of external interventions in country governance issues and that its findings will be rich in decision-logic accounts that are fertile terrain for conjectures about how things might have turned out differently if the context had been somewhat different. He concludes that such research could contribute to have a well-grounded sense of where the entry points might be for externally funded actions to break key log-jams in development.

As a consequence, he points at an initiative of ODI and the partners involved in the Tracking Development project, ASC and KITLV, to jointly undertake a follow-up research project in order to pursue the policy implications of Tracking Development and the Africa Power and Politics research ODI has been involved in in the past years.

To Conclude

In many ways Tracking Development has fulfilled its promise, and we are proud that the Dutch Ministry of Foreign Affairs had the courage to make it possible. The project has already influenced Netherlands development cooperation policies in several ways. We are sure it will also have inspired other participants and stakeholders. It is our wish that it will also inspire others who read about these issues connected to poverty and sustainable and fair economic growth, one of the most important issues of our time.

2

Diverging Paths: Explanations and Implications

David Henley & Jan Kees van Donge

Fifty years ago when the colonial empires ended, most of the globe, including the Asian as well as the African tropics, was inhabited by rural peasantries facing very low living standards and poor health. Since then the tropical world, the South, has unexpectedly bifurcated into two sets of countries: one set with export-oriented manufacturing industries and productive, commercialized agricultural sectors, and another set in which the old agrarian economic structure has still hardly changed. While the former have experienced vast improvements in living standards, many of the latter are still as poor as they were fifty years ago. The reasons for this great divergence are not fully understood, and they are of obvious importance to everyone concerned with development and development cooperation today. The two regions of the world which most clearly exemplify the diverging paths to prosperity and poverty are Southeast Asia and Sub-Saharan Africa.

In Southeast Asia the 1960s, 1970s, and 1980s saw sustained and accelerating economic growth. By the 1990s, only Burma among the major countries of the region was still missing out on what was acclaimed as an Asian development miracle (World Bank, 1993). Although the financial crisis of 1997–1998 revealed vulnerabilities in Southeast Asia's economies, it only very briefly halted their expansion. In Africa, by contrast, such dynamism remained absent. By the early 1990s even those few African countries where security and policy conditions had long been considered promising, such as Kenya and Côte d'Ivoire, were falling into the continental pattern of instability and stagnation. Scholars identified a negative 'African Dummy' as a statistical predictor of comparative economic performance

(Barro, 1991) and counterposed an African ‘growth tragedy’ to the Asian miracle (Easterly & Levine, 1995).

Since the mid-1990s there has been sustained growth in national incomes in Africa due to improved macroeconomic policies and increased world demand for minerals, coffee, cotton, and other primary products. But by most accounts, there is little sign yet of this aggregate growth translating into rapid poverty reduction. If poverty is still present among marginal and dispossessed groups in Southeast Asia, in Africa it is still the norm. And whereas the bulk of Southeast Asian exports now consists of manufactured goods, Africa still manufactures almost nothing which the rest of the world wants to buy. Southeast Asia, to complete the irony, has outstripped Africa even in the export of traditional African agricultural products like palm oil, coffee, and cocoa.

In terms of macroeconomic indicators, this divergence is a surprisingly recent one. As late as 1980, average income levels in Africa and Southeast Asia were still similar. Historically, both regions formed part of the world’s economic periphery, exporting forest products (spices, ivory) and, later, commercial tree crops, and importing manufactures. At the local level, their economies were subsistence-oriented and their societies organized on a peasant or tribal basis, often without educational or business institutions of indigenous origin. Commerce, in both regions, was associated with trade-specialized ethnic minorities. Over large parts of Southeast Asia as well as most of Africa, indigenous state formation was limited prior to colonial intervention. In the middle of the twentieth century, both regions were still substantially under European rule. Climate and soil conditions in both regions are generally problematic for arable farming, and people and livestock are subject to similar health problems.

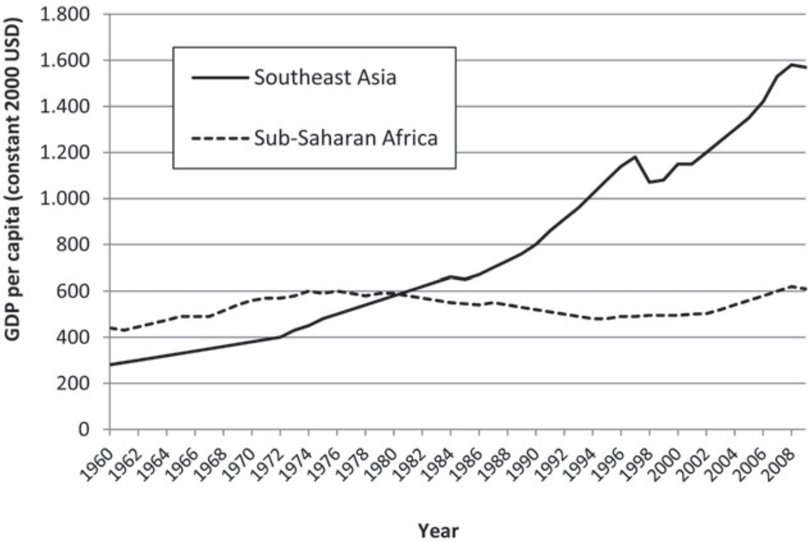
These historical and geographical similarities, together with the fact that since the 1960s both regions have been characterized by corruption and a notorious lack of ‘good governance’, make the comparison of Southeast Asia with Sub-Saharan Africa a sharp tool for the analysis of development issues. Insofar as the research on which this book is based has precedents, they have most often involved the comparison of Africa with economically successful Asian countries in general, including Taiwan, South Korea, and even Japan (Lindauer & Roemer, 1994; Stein, 1995; Lawrence & Thirtle, 2001; Nissanke & Aryeetey, 2003). But Northeast Asia, by almost any measure, was already much more different from Africa fifty years ago than was Southeast Asia: better governed, more educated, more industrialized (Booth, 1999; 2007). In analytical terms, then, selecting

Southeast Asia as the unit of comparison helps to reduce the number of potential explanations for the observed developmental divergence. By the same token, Southeast Asia's policy experience—as the World Bank's *East Asian Miracle* study already noted—is clearly more relevant than that of Northeast Asia to other developing countries, including those of Africa.

Scope of the Divergence

In 1960, Southeast Asians were on average much poorer than Africans; by 2010, they were two and a half times richer. In Southeast Asia the whole of the intervening fifty-year period was one of almost continuous growth, apart from a brief hiatus at the turn of the century, caused by the Asian financial crisis. In Africa, per capita income stagnated in the 1970s, declined in the 1980s, grew weakly in the 1990s, and in 2010 was still barely higher than it had been in 1975 (Figure 2.1).

The recent aggregate growth in Africa has caused the 'Afro-pessimism' of the 1990s to be replaced in some circles by a conviction that the Asian tiger economies are now being joined by a fast-developing group of 'African lions' (McKinsey Global Institute, 2010; Radelet, 2010). But there

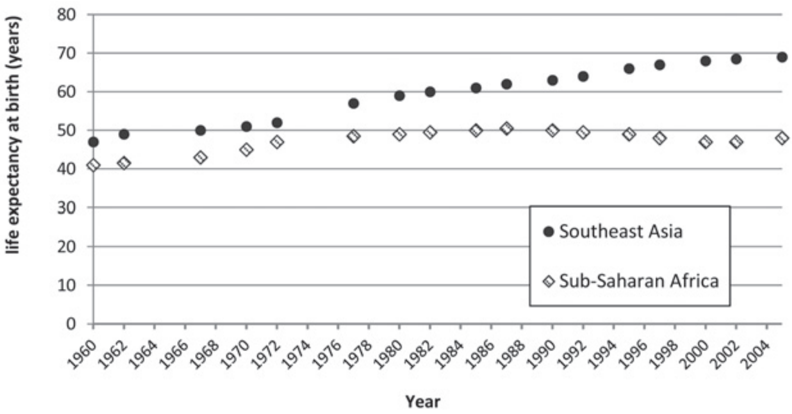


Source: Calculated from online World Development Indices / World DataBank (World Bank).

Figure 2.1 Southeast Asia and Sub-Saharan Africa: GDP per capita (constant 2000 USD), 1960–2009 is a vital difference. Although some researchers believe that recent progress in African poverty reduction has been underestimated (Sala-i-Martin & Pinkovskiy, 2010), the consensus is that the aggregate growth in Africa since the 1990s, like that of the 1960s and 1970s, has not translated into commensurate reductions in poverty (OECD, 2011: 12, 62–65; UN Economic Commission for Africa, 2011: 3).

In Southeast Asia, by contrast, spectacular economic growth from the 1960s onward was accompanied by even more spectacular reductions in poverty. In Thailand the proportion of the population living below the national poverty line fell from 57% in 1963 to 24% in 1981 (Rigg, 2003: 99); in Malaysia, from 49% in 1970 to 18% in 1984 (Crouch, 1996: 189); in Indonesia, from 60% in 1970 to 22% in 1984 (BPS, Bappenas & UNDP, 2004: 13); and in Vietnam, even more dramatically, from 58% in 1993 to 19% just 11 years later in 2004 (Nguyen *et al.*, 2006: 9). In 2005, according to World Bank and United Nations figures, the proportion of Southeast Asia's population living on less than the equivalent of 1.25 USD per day was 19%, against 39% in 1990. In Sub-Saharan Africa, it was 51%, against 58% in 1990 (United Nations, 2011: 6).

The same divergence is evident in other indicators of material well-being. In the 1960s, life expectancy at birth for inhabitants of both regions was between 40 and 50 years; today it is still little changed in Africa, but has risen to almost 70 years in Southeast Asia (Figure 2.2).



Source: Calculated from online World Development Indices / World DataBank (World Bank).

Figure 2.2 Southeast Asia and Sub-Saharan Africa: life expectancy at birth, 1960–2005

The absolute decline in African life expectancy since 1987 is partly due to Africa's AIDS epidemic, but also reflects generally poor health care and nutrition, with levels of infant and child mortality much higher than in Southeast Asia. In education also, Africa, although making more progress than in other fields, still lags well behind Southeast Asia, where universal primary education is the norm (United Nations, 2011: 16).

Southeast Asia, like Africa, emerged from colonial rule with predominantly rural economies, based on peasant farming and the export of primary agricultural products. Subsequently, oil exports also became important in Malaysia, Indonesia, and Vietnam. Unlike exporters of oil and primary commodities in Africa, however, Southeast Asian countries have succeeded in diversifying their economies and their exports, notably into manufacturing. In 1970 the proportion of Thai exports (by value) consisting of manufactures was only 5%; by 1995 it was almost three quarters, including integrated circuits and office machines, as well as clothing, footwear, and plastics. In 1980 less than 3% of Indonesian exports consisted of manufactured goods; by 1995, more than 50%. By the end of the twentieth century, Malaysia alone, a country of under 25 million people, was exporting more manufactures each year than the whole of Sub-Saharan Africa, with its population of more than 600 million.

Origins of the Divergence

The idea of a detailed comparative study of the development trajectories of Southeast Asian and Sub-Saharan African countries originated in the observation that certain features of African politics which are often said to explain economic stagnation in Africa (Chabal & Daloz, 1999; Van de Walle, 2001; Van der Veen, 2004) are in fact also present in economically successful Southeast Asia. In both regions, rent-seeking is common in government positions in connection with what has been called 'neopatrimonialism': a fusion of public and private spheres in which patron—client relations structure political behaviour. Some of the same cultural phenomena currently blamed for development failure in Africa, including a preference for personalistic power relationships, have been equally pervasive aspects of the Southeast Asian political scene (Scott, 1972; Robison & Hadiz, 2004). In Southeast Asia, it has even been argued, patron—client ties between politicians and businessmen may serve precisely to facilitate economic development (Braadbaart, 1996).

Corruption and clientelism, then, cannot in themselves explain African economic retardation. Correlations between indices of 'good governance' and economic growth rates, as Khan (2007: 8–16) has shown, all but disappear once already rich countries are excluded from the database; among developing countries, those with rapidly growing economies hardly differ from slow growers in terms of institutional quality. Some authors have tried to qualify this observation by distinguishing between 'organized' (Asian) and 'disorganized' (African) forms of corruption, the former being centralized and predictable and the latter competitive, unpredictable, and incompatible with growth (Macintyre, 2001; Lewis, 2007). On close inspection, however, this distinction is not entirely convincing either, since many African countries have seen long periods of political stability during which illicit rents have been centrally managed by dictators or tight-knit ruling oligarchies (Henley, Tirtosudarmo & Fuady, 2012: 50–51).

The Tracking Development project set out not to compare aggregated statistics for the two regions, but rather to study four sets of paired nations. The comparison of Nigeria and Indonesia is an obvious one that has already attracted considerable scholarly attention (Thorbecke, 1998; Bevan, Collier & Gunning, 1999; Lewis, 2007). Both countries have experienced long periods of military rule and are similarly ranked in the Corruption Perception Index. Both are also large, densely populated, and well endowed with natural resources—notably oil. The second pair, Kenya and Malaysia, consists of two countries that have opted rather consistently for a 'capitalist road' to development, relying to a great extent on private ownership of the means of production and on foreign investment. Tanzania and Vietnam, by contrast, are both countries which for a long time relied on state ownership and direct government intervention, and which have subsequently liberalized their economies. The fourth pair consists of Uganda and Cambodia, two cases of post-conflict reconstruction.

This pairwise method differs from the dominant approaches to cross-country comparison, which attempt to explain growth differentials either through multiple regression analyses of time series data for many countries (Ndulu *et al.*, 2007), or through explicit model-building and the identification of 'anti-growth syndromes' (Ndulu *et al.*, 2008). While these approaches have produced valuable results, we believe that ours offers sharper insight into the political and social processes that lead both to particular policy choices, and to particular economic outcomes.

Our concentration on policy reflects the fact that Tracking Development was commissioned by the Netherlands Ministry of Foreign Affairs, and was expected to be policy-relevant. But there is also something uniquely inspirational, and constructive, about looking at successful policy choices. There is no shortage of critical works on development and development aid, but it makes a difference to compare disappointments with triumphs. This does not, of course, imply the possibility of infallible prescriptions. It has been said with some justification that there has been too much planning in development policy, and that attention can more profitably be directed to 'searching' (Easterly, 2006). Tracking Development has been an exercise in searching. It has also followed Dani Rodrik's (2007) admonition to compare the various policies that have succeeded in particular settings, and to look beyond them in order to extract general principles that can also be applied in other settings.

In our search for these underlying principles, we began by putting together comparative narratives of the selected countries and looking for turning points: dates at which two crucial development indicators, GDP and poverty incidence, showed a lasting turn for the better, leading to sustained growth in combination with sustained poverty reduction. Then we attempted in each case to identify the specific policies responsible for the turning point. Such positive turning points are found only in Southeast Asia, not in Africa, and they function as templates against which to compare and contrast the Sub-Saharan cases. Where there were clear negative turning points, we tried to analyse these in a similar way.

Our findings highlight in particular one major area of policy that is associated with positive turning points. State-led rural and agricultural development, leading to higher incomes for peasant farmers, has been crucial to Southeast Asia's success, and we infer that its absence has been crucial to Sub-Saharan Africa's failure (Henley, 2012). This conclusion is at odds with a very influential opposite view that appears logical at first sight: the view that because Southeast Asian economic success is also associated with export-oriented industrialization, it is the emulation of this strategy which should have the highest priority in Africa (Soludo, 2003; Collier, 2007; Johnson *et al.*, 2007). In the African Economic Research Consortium's major treatise, *The political economy of economic growth in Africa 1960–2000*, 'diversified export growth' is identified *tout court* as 'the Asian model' which the whole of coastal Africa should emulate, while 'rural development' is mentioned only as the *last* of nine second-best growth strategies that may be worth trying in landlocked countries, which for geographical reasons 'do not have the option of rapid industrialization' (Ndulu *et al.*, 2008, I: 428, 434).

Besides state-led agricultural development, sustained growth and poverty reduction in Southeast Asia are also associated with two other essential policy preconditions. Sound macroeconomic policy, firstly, is a precondition for economic growth. However, it must be stressed that macroeconomic stabilization alone does not produce a developmental turning point unless it is accompanied by pro-poor policies with respect to agriculture and food. Economic freedom, at least for peasant farmers and small entrepreneurs, is the other variable associated with positive turning points. Where farmers are not free to choose what to grow or to sell it to the highest bidder, the prospects for reducing rural poverty are poor. But here too there is an important caveat: it would be wrong to assume that Southeast Asian experience proves the wisdom of simply ending state 'interference' in the agrarian economy and exposing farmers to 'market forces'. Certain forms of state intervention are important, but they need to be supplementary to, or mediated through, markets.

Further discussion of the content of each policy precondition follows in subsequent sections. Meanwhile, the following table (Table 2.1), in a very schematic and simplified way, summarizes the model and its application to the countries included in the study. Sustained growth with rapid poverty reduction took place when, and only when, all three policy preconditions were simultaneously met: in Malaysia since 1958, in Indonesia since

Table 2.1 Three preconditions for sustained growth: Dates at which present in eight countries

	(1) **macroeconomic stability** low inflation, little currency overvaluation	(2) **economic freedom** for peasant farmers and small entrepreneurs	(3) **pro-poor public spending** on peasant agriculture and rural infrastructure	**transition to sustained growth** (date from which all three conditions simultaneously met)
Southeast Asia				
Malaysia	always present	no history of over-regulation	1958	1958
Indonesia	1967	1967	1967	1967
Vietnam	1986	1989	1976	1989
Cambodia	1986	1989	1998	1998
Africa				
Kenya	only briefly absent (1992)	1995	–	–
Nigeria	1997	1986	–	–
Tanzania	1995	1985	1967–1982	–
Uganda	1989	1989	–	–

1967, in Vietnam since 1986, and in Cambodia since (probably) 1998. The Cambodian case is somewhat opaque in that the extent, and above all sustainability, of recent poverty reduction are unclear, as is the level of rural public spending. Since 1998, however, there has certainly been an increasing policy emphasis on rural and agricultural development (Leliveld & Ten Brummelhuis, this volume).

In all cases the dates given in the table are those at which the relevant policy decisions were taken. The effects of those decisions, particularly in the case of pro-poor, pro-rural public spending, were often somewhat delayed. In Malaysia, for instance, sustained aggregate growth began in 1958, mass poverty reduction not until perhaps a decade later (Snodgrass, 1980: 80–81). Most of the Malaysians disimpoversished in the 1970s, however, were rice or rubber farmers reaping the benefits of earlier public investments in agriculture (Othman, 1984: 211, 276).

In none of the African countries studied have the three conditions yet been fulfilled simultaneously. Tanzania devoted large public investments to rural and agricultural development in the 1970s during the Nyerere era, but since these coincided with an attempt to collectivize the agricultural sector, economic freedom was emphatically absent. Kenya too made respectable budgetary allocations to agriculture during the decade following independence, but since most of this spending targeted large-scale, 'progressive' farmers, it was not pro-poor (Henley, 2012: 37–8). Despite Kenya's reputation for economic liberalism, there was also considerable over-regulation; as late as 1984, government agencies were involved in marketing three quarters of all the country's agricultural produce (Leonard, 1991: 210).

Since the 1990s, most African countries have removed the most serious restrictions on the economic freedom of small farmers; the date given in Table 2.1 for the fulfilment of this condition in Kenya, 1995, refers to the abolition of the last substantial constraints on private trade in maize. By the beginning of the twenty-first century, macroeconomic stability too had become the norm rather than the exception in Africa. However, the third precondition for sustained growth with mass poverty reduction—pro-poor, pro-rural public spending—remains elusive. In 2003 in Maputo the governments of the African Union did declare a collective intention to raise public spending on 'agricultural and rural development' to 10% of national budgetary resources, but so far only a handful of countries have actually done so (NEPAD, 2010: 4; ReSAKSS, 2011: 29). As a result, there has been no breakthrough in the productivity of smallholder agriculture, and the impact of current African economic growth on poverty is weak.

The future continuity of that growth, moreover, remains uncertain amid rising inequality, limited domestic market growth, and continued food insecurity.

Southeast Asia's Road to Development (1): Sound Macroeconomic Management

There is no positive turning point in our case studies without a background of macroeconomic stability. In the first place, this means the presence of policies embodying a clear commitment to combating inflation. The rigour of the target to be achieved here should not be exaggerated: in Indonesia during the 1970s and early 1980s, inflation rates of between 10 and 20% proved fully compatible with growth and poverty alleviation (Figure 2.3). Yet the importance of avoiding *excessive* inflation—meaning, roughly speaking, preventing inflation from exceeding 20% for any length of time—is nowhere clearer than in Indonesia, where the hyperinflation of the late Sukarno years provided a strong negative benchmark for the Suharto regime which seized power in 1965. To ensure that hyperinflation would never happen again, in 1967 the new government instigated a law whereby parliament could not approve any budget that was not balanced, in the sense of state revenues (including foreign aid and loans) equalling or exceeding expenditures (including debt servicing) (Hill, 1996: 59).

Macroeconomic stabilization also played a central, and seldom fully appreciated, role in Vietnam's Doi Moi or 'Renovation' process of the 1980s and 1990s. In retrospect, Doi Moi is mainly associated with liberalization, but at its inception the primary goal was actually the control of inflation, which by 1986 had reached over 400% (Nguyen, 2006: 84, 173). In Cambodia, which was under Vietnamese control from 1979 to 1990, macroeconomic stability was likewise restored under Doi Moi in the late 1980s. In Malaysia, thanks to consistently prudent financial policies, it has never been seriously threatened since independence in 1957.

In our African case studies, macroeconomic stabilization is clearly associated with the return of aggregate growth in the 1990s. The clearest example is Uganda, where an agreement with the international financial institutions brought down inflation from over 100% in the late 1980s to under 10% by the mid-1990s. In Tanzania, a similar agreement was concluded in 1985 but did not have the desired effect until 1995, when donor conditionality brought discipline to the banking system and to government finances. In Kenya, as in Malaysia, macroeconomic stability has only rarely been a major problem. By contrast, the lack of stability in Nigeria during the late 1980s and early 1990s, despite attempts to discipline the economy in the face of falling oil revenues, was strongly associated with negative economic performance (Figure 2.3).

Here again it bears repeating that macroeconomic stabilization is a necessary, not a sufficient, precondition for developmental take-off. Except during the initial stage of liberalization when markets re-establish themselves, it is not associated with poverty alleviation. In many cases it is also more fragile than it at first sight appears, being dependent on large inflows of foreign aid or oil revenue. In New Order Indonesia, the development budget was at first financed almost entirely by aid, and in Vietnam the turning point was accompanied by the coming on-stream of oil production. Neither aid nor oil, as the African story shows, is in itself a guarantee of macroeconomic stability, still less of sustained growth. Nevertheless, such inflows of foreign money are very useful when it comes to balancing state finances and overcoming foreign exchange constraints in a context of vigorous public investment.

A second vital aspect of sound macroeconomic management is the maintenance of a competitive exchange rate between the national currency and those of potential export markets. Cross-country statistical studies show that the size of the black market premium on currency deals—that is, the difference between an administratively overvalued official exchange rate and a real (black market) rate for a national currency

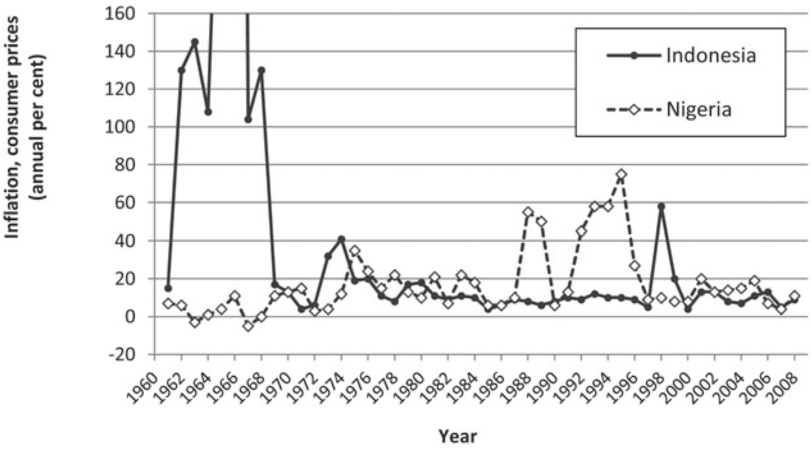


Figure 2.3 Inflation, consumer prices (annual per cent): Indonesia and Nigeria, 1960–2008 (Indonesia peaks off scale at 1136 per cent in 1966)

against the US dollar—is a reliable predictor of poor economic performance (Easterly, 2002: 221–223, 238). The successful Southeast Asian countries have never overvalued their currencies enough to allow any such black market premium to emerge. Indonesia, in fact, repeatedly *devalued* its currency by tens of percentage points at a time in the 1970s and 1980s in order to reverse oil-fuelled appreciation of the rupiah and keep its non-oil exports competitive. In Nigeria, by contrast, the value of the naira appreciated throughout the oil boom of the 1970s and early 1980s, and was then maintained for some years at several times the black market level after oil prices fell (Lewis, 2007: 193).

Southeast Asia's Road to Development (2): Economic Freedom

Wherever there has been a development strategy based on accumulation by the state, and a more or less successful attempt by the state at comprehensive control of the economy, there has sooner or later been a deep economic crisis. Freedom for economic actors, especially the smaller actors, was essential for a return of growth. This is nowhere clearer than in Vietnam, where the dissolution of the communal farm was a vital part of the transformation of the late 1980s. Economic liberalization in Tanzania from 1985 onward did not immediately bring a return of growth; this did not follow until macroeconomic stability was established in 1995. When growth came it still had little effect on poverty, since the third precondition for development success, a pro-poor agricultural policy, was still lacking. In Uganda, as in Vietnam, economic liberalization and macroeconomic stabilization (in this case through agreement with the IMF) took place simultaneously, leading to a return of growth in 1989. But like Tanzania and unlike Vietnam, Uganda failed to adopt pro-poor rural policies, with the result that growth did not translate into sustained poverty reduction.

It would be wrong to equate the need for economic freedom with a demand to reduce state intervention to a minimum. In all of the Southeast Asian cases there has been considerable state involvement in the economy with respect to agriculture: fertilizer and credit subsidies, provisions for subsidized purchase of crops when market prices fall below guaranteed minimum levels, and restrictions on the import and export of food. However, the Southeast Asian governments have as a rule avoided granting monopoly or monopsony positions to state institutions. Indonesia's 'logistics bureau' (Bulog) successfully stabilized rice prices by buying grain at a fixed floor price when the market price was low and selling it at a ceiling price when the market price was high; but the margins provided between the floor and ceiling prices allowed private traders to handle most of the rice marketed. In normal years, Bulog bought and distributed less than 10% of the rice produced and consumed in Indonesia (Timmer, 1997: 137).

In Southeast Asia, state agencies operated alongside independent agents, frequently providing subsidies to private-sector distributors rather than taking over the provision of subsidized goods themselves. Although export and import controls, where present, did affect the economic freedom of small farmers indirectly, in their own environs farmers were as a rule free to sell their produce to any chosen party and to buy inputs such as fertilizer on the open market. They were usually also free to choose which crops to plant, and at what price to sell them (or not). Price controls were seldom resorted to, except by the indirect means of public subsidy. Although there were exceptions in particular contexts, such as the early days of the Green Revolution in Java and the FELDA land settlement scheme in Malaysia, on the whole the state placed very few coercive restrictions on the economic activity of small farmers and petty entrepreneurs.

The continuation of some types of state intervention under liberalized conditions is nevertheless a common feature of the Southeast Asian systems, and a crucial difference between them and their African counterparts. In Africa there has in recent decades been a sustained withdrawal of the state from its former heavy-handed regulatory role in the economy, but this has not been balanced by the creation of institutional structures through which positive interventions can continue in a relatively hands-off fashion in order to support a growth coalition between state officials and the mass of the farming population. The diffusion of the Green Revolution in Southeast Asia has accurately been characterized as state-led, market-mediated, and smallholder-based (Djurfeldt *et al.*, 2005). This last characteristic is essential to understanding the role of economic freedom in developmental turning points. Whether in Sub-Saharan Africa or in Southeast Asia, smallholder production stagnates or declines if there is no freedom to choose which crop to plant and who to sell it to.

Southest Asia's Road to Development (3): Pro-Poor, Pro-Rural Public Spending

In the last two decades, macroeconomic stabilization and market liberalization have been important policy goals in Africa as well as Southeast Asia. In Uganda and Tanzania they were associated with a return of economic growth, often at over 6% per year, in the 1990s. In crucial contrast with Southeast Asia, however, they have not been linked with pro-poor policies directed at agriculture and rural development. Southeast Asian planners saw that the obvious way to address the problem of mass poverty, given that most of the population lived in the countryside and depended on agriculture, was by raising farm incomes.

One way to do this was to increase the productivity of export crops, such as rubber and palm oil in Malaysia or coffee and cashew nuts in Vietnam. The most concentrated effort, however, went into food production, and was inspired by a desire for national self-sufficiency in food. Southeast Asian countries gave the highest priority to promoting the Green Revolution in rice agriculture by means of irrigation, extension services, credit, and the subsidization of inputs such as fertilizer and seeds of improved rice varieties. In Africa after independence, food-crop agriculture was largely neglected, while export agriculture was openly used as a source of surplus for industrial and urban development, extracted by means of state marketing monopsonies. Although the marketing boards were mostly abolished or reformed during the period of structural adjustment in the 1980s and 1990s, liberalization was not accompanied by public investment in agriculture on a scale remotely comparable to what happened in Southeast Asia.

Agricultural output in the African countries is in general erratic. This is partly explained by agronomic factors, but it is also a consequence of policy. The organization of agricultural marketing in the African countries has typically been either dominated by the state, or left to the private sector without any consideration for minimum price guarantees. While the use of fertilizer has grown exponentially in the Southeast Asian countries, in Africa it has remained stagnant. Food-crop production, accordingly, has also remained stagnant on a per capita basis. The African countries, with the exception of Uganda, have frequently been dependent on food imports.

For these reasons economic growth in Africa has not usually led to poverty alleviation in rural areas. In Africa, poverty tends to decrease in urban areas. This is partly explained by disproportionate benefits from the aid flows into the country. It also reflects a pattern of enclave development. Economic liberalization usually leads to an inflow of foreign direct investment, but in Africa this tends to be concentrated in mining and other extractive industries, or in tourism. These sectors have few linkages with the domestic economy, so that the multiplier effects of the investment are limited.

The single most important distinction between Southeast Asian and African development strategies is that in Southeast Asia, macroeconomic stabilization has been paired with a concern for 'shared growth' through agricultural and rural development. Southeast Asian government spending tends to show a pronounced 'rural bias'. In the 1970s, when Malaysia was already on the way to becoming an industrial power, the Malaysian government was still spending one quarter of its national development budget—almost ten times its expenditure on industrial development—on agriculture (Government of Malaysia, 1971: 68; 1976: 240). In Indonesia too, foreign aid and oil revenues were invested on a huge scale in enhancing the productivity of peasant agriculture by means of irrigation works, the development and dissemination of new high-yielding rice varieties, fertilizer and pesticide subsidies, and subsidized farm credit. In the New Order's first five-year development plan (1969–1974), fully 30% of the development budget was allocated to agriculture—not including the large sums also spent on rural roads, electrification, health services, and education (Republic of Indonesia, 1969: 41). Vietnam, after its reunification in 1975, consistently devoted some 20% to agriculture (Tran, 1998: 8), investing heavily in technical irrigation projects (Young *et al.*, 2002: 11–12), which later made possible a rapid expansion of rice production.

In Nigeria at the same period, by dramatic contrast, the proportion of development funds spent on agriculture fell to just 6% as Nigerian planners chose to invest the oil windfall of the 1970s in ill-conceived schemes for heavy industrial development (Federal Republic of Nigeria, 1975: 349). This choice was not a matter of corruption or clientelism: the industrialization effort was 'driven by a (technocratic) economic vision, rather than by the self-interest of the regime' (Collier & Gunning, 2008: 211). Even in Kenya, often thought of as one African country that did invest in agriculture rather than 'squeezing' it for the benefit of urban and industrial interests, an initially strong spending focus on agricultural development was largely lost amid the false security of the prosperous 1970s.

Sectoral budgetary allocations are at best a rough first indication of the level of rural/agricultural or urban/industrial bias in a country's development strategy. The allocation of money to rural development may be a different matter from its actual disbursement. Even when it is disbursed, its effectiveness may vary dramatically. Fertilizer subsidies, for example, do not constitute pro-poor public spending if they disproportionately benefit large-scale farmers—a persistent problem in Kenya (Oluoch-Kosura & Karugia, 2005: 189). Rural development spending may also be counterbalanced by rural taxation: in Tanzania in the 1970s, impressive budgetary allocations to agricultural development went hand in hand with very heavy indirect taxation of peasant farmers (Ellis, 1983).

On the daring assumption of other things being equal, it may be said that an allocation of at least 10% of total public spending, and/or 20% of the total development budget (public capital investment), to the agricultural sector (including research, extension, input, credit and replanting subsidies, irrigation, drainage, and land settlement) is indicative of pro-poor, pro-rural public spending. A comparably high proportional allocation to the transport sector may also be a good sign: road-building benefits the rural population and is, alongside agriculture, the area in which public spending in Africa has in the past fallen most strikingly below Asian levels (Fan *et al.*, 2008: 25). Ultimately, however, any assessment of whether and how this crucial precondition for development is met must be based on a specific historical narrative which takes account of conditions in the country under study.

Tracking Development Conclusions and Methodology in Comparative Perspective

Our conclusions are close to those of the World Bank's *East Asian Miracle* study (1993) in stressing the importance of policies designed to promote 'shared growth', and similar also to those of Campos and Root's *The key to the Asian miracle* (1996) in pointing to the 'growth coalition' that underpins such policies and makes them politically feasible. But whereas these studies stress the general need for growth with equity, we argue more strongly that in the case of Southeast Asia, development success is specifically associated with a policy focus on agriculture and on food production. It is striking that in *The East Asian Miracle* only 5 pages are devoted to the importance of a dynamic agricultural sector, compared with 25 on the need to create an 'export push' (World Bank, 1993: 32–37, 123–48).

In Southeast Asia the industrial export boom, when it came, was largely a private-sector response to macroeconomic stability, economic freedom, adequate infrastructure, and—perhaps above all—an already healthy rural economy. These conditions ensured political stability, private saving and investment, enlarged domestic markets, and a cheap, reliable food supply for workers. It is important to note that when Southeast Asian governments have attempted to nurture specific manufacturing sectors to the point of competitiveness along Japanese or Korean lines, as in the case of the Indonesian and Malaysian car industries, they have generally failed (Jayasankaran, 1993; Aswicahyono *et al.*, 2000). The fact that this failure usually had to do with corruption and clientelism (Roemer, 1994) should make policy-makers in Africa—which, as noted, is much more comparable to Southeast than to Northeast Asia in terms of institutional quality—doubly wary of interventionist industrial strategies.

In general, however, there are clearly strong reasons to be sceptical of explanations for African developmental retardation which emphasize the nature of institutions, or indeed any other 'structural' constraints rooted in culture, history, or geography, as opposed to policy choices (Easterly & Levine, 1997; Gallup *et al.*, 1998; Chabal & Daloz, 1999; Rodrik *et al.*, 2004; Van der Veen, 2004; Lewis, 2007; Chabal, 2009). Although Tracking Development analyzed narratives of historical development, it did *not* take a *long-term* historical view. The countries which we studied in Southeast Asia were never predestined for developmental success, and even on the eve of that success, strikingly few experts predicted it. In the 1970s, Vietnam was embroiled in war and Cambodia in one of the most destructive revolutions in history. In Indonesia, the economy had been stagnant for decades: in 1968 the foremost international expert on the subject famously described Indonesia as 'the number one economic failure among the major underdeveloped countries' (Higgins, 1968: 679). The new Suharto dictatorship, established in a bloodbath and riddled with corruption, was not expected to last long. Malaysia too was seen as a fragile polity that could easily be torn apart by racial troubles.

Above all, Southeast Asia was considerably poorer than Africa. Any long-term historical theory of the later developmental divergence would need to explain the earlier stagnation and decline of both regions, as well as Southeast Asia's present flourishing state. It follows that the historical determinism implicit in the term 'path-dependency' is not productive in this context. Within Southeast Asia, there are countries that have taken a different path: Burma is a stagnating state-dominated economy, and the Philippines have not developed as strong an agricultural and industrial base as the countries included in our study. Their failure reveals the limitations of the 'neighbourhood' (Easterly & Levine, 1998) and 'flying geese' (Akamatsu, 1962) effects: policy-making elites may choose to pick up ideas from the development success of neighbouring countries—or they may not. But if development success is a matter of policy choice rather than geography, history, culture, or institutions, it still remains to explain why some policy-makers make the right choices, and others do not.

Factors Influencing Policy Choices

With regard to the adoption of sound macroeconomic policies and the establishment of economic freedom for farmers and small entrepreneurs, the evidence from Southeast Asia is that the best learning experience for policy-makers is the experience of a deep national economic crisis (Henley, Tirtosudarmo & Fuady, 2012: 64–66). In Indonesia there is a succinct expression for this: 'Sadli's Law' (named after the economist and technocrat Mohamad Sadli), which states that bad times produce good policies, and good times bad policies. Both in Indonesia in the 1960s and in Vietnam and Cambodia in the 1980s, it was severe crises involving hyperinflation and food shortages—transparently the results of macroeconomic mismanagement and over-regulation respectively—which triggered the crucial policy reversals in these areas (although Malaysia, where there was continuity of liberal economic policies from colonial into post-colonial times, is a more complex story). Our African countries, by contrast, never experienced crises of quite such severity, or of quite such transparent aetiology. In Nigeria, for instance, the growth collapse of the 1980s did not involve hyperinflation or hunger, and among the Nigerian public it was widely attributed to 'Dutch disease' (see Chapter 6), the volatility of oil prices, and corruption.

With respect to the adoption in Southeast Asia of strongly pro-rural, pro-poor development policies, however, a longer historical process seems to be involved. In all cases, those policies reflected a strong concern to include the peasantry in the development process, and to do so urgently and on a massive scale. The fate of the poor genuinely mattered to the governments in question. One common explanation for this is that political realities forced Asian elites to take the interests of peasant farmers seriously (Slater, 2010; Van der Veen, 2010). The successful developmental states of Southeast Asia were either counter-revolutionary states facing, or recently having faced, a serious communist threat (Thailand, Malaysia, Indonesia), or liberalizing post-revolutionary states concerned to avoid alienating their mass support base (Vietnam).

On close inspection, however, communism and anti-communism are not the whole story here. Communism in Malaysia was almost entirely an affair of the country's ethnic Chinese minority, whereas the beneficiaries of the rural development effort were Malays who showed few signs of being attracted to communism anyway. By the time Indonesia adopted its pro-poor, pro-rural development policies under President Suharto, the Communist Party of Indonesia had already been bloodily and comprehensively destroyed during Suharto's rise to power in 1965. In interviews conducted by Tracking Development researchers, senior Indonesian technocrats of that time have strenuously denied that political considerations affected their policy choices, which they insist were based purely on economic logic, and indeed on common sense.

What does emerge from these interviews and from other personal testimonies, on the other hand, is a rather consistent difference between Asian and African policy-makers in terms of their personal evaluation of rural ways of life. In Southeast Asia, elite attitudes to village life, although condescending, are often also marked by nostalgia and a degree of admiration. Although Africa has had no lack of rulers with rural origins, their attitudes to rural life have mostly been much less positive. Consequently they have tended to see development not as a matter of improving the living conditions of the peasant masses *in situ*, but rather as a question of accelerating the transition from rural backwardness to urban modernity, of which their own lives have been a microcosm. This has led them to favour elitist development strategies aimed at acquiring symbols of developed country status (universities, steelworks, information technology, human rights) rather than meeting the urgent practical challenge of making poor people richer by whatever means lie immediately to hand. The relevant differences in world-view between African and Southeast Asian policy elites are elaborated in *A Question of Intent: Origins of the Asia-Africa Development Divergence* (Henley, forthcoming), where it is suggested that those differences may be rooted partly in divergent historical experiences. Colonialism caused a more radical rupture with the past in Africa than it did in Southeast Asia, and one legacy of Africa's deeper colonial transformation has been a persistent and counterproductive assumption of dualism, a conviction that economic progress can only be achieved by means of a quantum leap from backwardness into modernity.

Implications for Development Cooperation

How, then, can African policy-makers most effectively be encouraged to give higher priority to agricultural and rural development, and furthermore to ensure that the main and immediate beneficiaries are poor peasant farmers rather than large landowners? Clearly, international actors cannot create the revolutionary threat which inspired such policies in some Asian cases; neither is there much evidence that electoral democracy can generate the same kind of salutary political pressure on African (or indeed Asian) governments. Nor is it possible to alter colonial history or the other social factors which have shaped the current attitudes of African leaders and intellectuals to rural and agricultural development. However, the recent success of international actors and institutions in promoting market reforms and sound macroeconomic policy in Africa gives grounds for hope that those same actors and institutions can achieve something similar with respect to pro-poor, pro-rural public spending too.

This guided redirection of policy and spending priorities need not be a matter of attaching restrictive conditions to foreign aid and loans. That kind of leverage is in any case less powerful than in the past, now that more and more African governments are no longer in budgetary crisis and the appearance of new sources of finance and investment, notably in Asia itself, have made Africa less dependent on Western aid and international financial institutions. What can perhaps be done instead is to change the mindset of African elites by insistently drawing to their attention the fact that successful development elsewhere in the developing world has been achieved by means of inclusive, pro-poor, pro-rural strategies. This ideological effort—if it can be called ideological, given that it is based on historical observations rather than arguments from principle—should take clear preference over historically much less well-founded admonitions regarding the importance of good governance, democracy, or even free trade.

We have seen how quickly the mindsets of Southeast Asian policymakers were in some respects changed when they grasped certain practical truths regarding what works, and what does not work, in development strategy. The most important lesson that has not yet been widely understood in Africa is that the pro-poor strategies really are the historically proven way not only to relieve rural poverty, but also to initiate processes that can bring prosperity to whole countries, setting them on the surest known path to the kind of industrial and urban modernity which African elites have always aspired to. It is hard to believe that there are many Africans who, having taken cognizance of this vital lesson from developing Asia, will not draw from it some practical conclusions regarding what their own governments should do in order to restore the dignity of their countries and their continent.

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3

Cross-regional Comparisons in Development: Questions, Approaches, and Challenges

Peter Lewis

The variations in development among Southeast Asia and Sub-Saharan Africa[1] provide some of the most notable contrasts in the contemporary developing world. In 1965, as colonial rule receded in both regions, average incomes in Africa were as much as 40 per cent greater than those in Southeast Asia. With abundant natural resources and lower population pressure on the land, Africa's prospects appeared comparatively promising. By the end of the 1970s, however, incomes converged as Southeast Asia's steady growth surpassed the increasingly distressed African economies. Less than two decades after independence, much of Sub-Saharan Africa experienced a sharp economic downturn that gave way to prolonged stagnation and deepening poverty. During the same period, several countries in Southeast Asia (Indonesia, Malaysia, and Thailand, followed by Vietnam) saw the advent of sustained high growth and diminishing poverty. By the middle of the 1990s, average incomes in Southeast Asia were nearly double those in Sub-Saharan Africa, a gap that has persisted during the past decade. The contrast in GDP per capita is a proxy for a wider range of inter-regional differences in livelihoods and well-being, along with disparities in economic structure.

These separate paths of economic change are especially notable when we consider the likenesses in structure and history among many countries in these regions. Both areas were colonized by European powers,

[1] Generally referred to as "Africa" for brevity, we are referring to 49 states in Africa south of the Sahara.

and emerged from independence in the decades after World War II with economies that were mainly agrarian, impoverished, and heavily reliant on external trade in primary products under substantial foreign control (see for instance Cooper, 2002: 92–94). Ethnic and religious diversity produced tensions in many countries, and both regions were marked by domestic conflict and instability in the decades after independence. The political landscape was dominated by authoritarian regimes, typically associated with corruption, patronage, and elite rent-seeking. In short, there are few apparent regional distinctions in economic endowments, social structure, group identities, political regimes, or patterns of conflict that would account for the divergent paths of growth in the past half-century. Further, Africa's abundant natural resources might seem to offer greater developmental potential, making the region's crisis and stagnation all the more paradoxical.

These paths of development were linked to different policy approaches, supported by institutional and political arrangements within the regions. Their experiences can provide useful lessons about the necessary and sufficient conditions for economic development. Governments in the faster-growing Southeast Asian economies have sustained macroeconomic stability, promoted diversified exports, and fostered rural livelihoods. African regimes have been far less effective in macroeconomic oversight, they have often sought to insulate their economies from external markets, and they have commonly emphasized industry and urban priorities to the detriment of their large rural sectors. While policy distinctions help to account for variations in performance, more essential factors reside in political alliances and key institutions that foster economic growth. Many states in Southeast Asia have encouraged capable institutions for economic management, while building durable relationships or coalitions with strategic groups of producers and investors. African systems have often had shortages of expertise, weak economic bureaucracies, and dispersed, ad hoc rent distribution to private elites.

Different lenses have been applied in the field of comparative economic development, with varied implications for policy. In an earlier generation, theories of underdevelopment stressed external constraints on growth arising from the structure of the global economy, while modernization approaches emphasized domestic processes of social and economic change. State-centric analyses have focused on the capacities and goals of public authorities in promoting development, while institutional perspectives consider the design and quality of key institutions in shaping economic behaviour. Theories of social capital and trust emphasize the social context of economic activity and the assumptions of individual actors. Entrepreneurial studies consider the nature of the business climate and the strategic choices of firms. In the domain of policy analysis, debates centre on the appropriate policies for development, along with the relative weight of policy factors in determining economic change. Observers have approached these questions from various levels of analysis, ranging from broad systemic theories of global scope, middle-range theories operating at national or sectoral levels, and micro-level approaches emphasizing decisions and strategies among individuals and firms.

Southeast Asia and Sub-Saharan Africa encompass diverse countries with a good deal of intra-regional variation in economic performance, presenting the challenge of drawing sound conclusions across two complex, heterogeneous regions. How can we account for the divergent economic record of these regions and their varying prospects? In the following sections, I raise general analytical issues, followed by an overview of key perspectives in the study of development. These approaches offer several lines of explanation for divergent performance.

Comparing Cross-regional Performance: Problems and Issues

Cross regional comparisons allow us to evaluate alternative explanations, specify conditions and causes, and derive general findings that can be applied across countries. A value of the comparison is to refine traditional theories of development. For instance, the sweeping assumptions of modernization and dependency perspectives have little validation in the experiences of these countries. These regions did not substantially differ in their relative degrees of modernization at independence, or in the modernizing aspirations of their elites. Further, they reflected similar patterns of external integration and economic vulnerability with respect to the global economy. There was little inherent advantage in starting points or early trajectories that would explain subsequent performance.

A number of domestic factors that are often considered critical for development also vary little across the regions. There is not a *prima facie* case for claiming that social cohesion or general regime type provides an explanation for developmental paths over time. Countries in both areas have struggled with ethnic polarization, internal conflict, non-democratic rule, political turbulence, and endemic corruption. Troublesome distributional politics among ethnic blocks have been as salient for Malaysia or Indonesia as for Kenya or Nigeria. Weak formal institutions have been problematic in Indonesia, Vietnam and Thailand, as in Nigeria, Tanzania or Ethiopia. Southeast Asia was beset by war and domestic conflict through the 1960s and 1970s, while Africa experienced growing instability after the middle 1970s. Non-democratic regimes governed most Southeast Asian countries from the 1950s through the 1990s, although Thailand experienced cycles of civilian and military rule. Africa also reflected sporadic episodes of elected government while authoritarian regimes held sway throughout much of the region. Corruption and rent-seeking have been regarded as endemic to most of these economies. Consequently, this cross-regional inquiry can help us to refine important discussions in comparative political economy. By holding constant certain broad structural and historical dimensions, it is possible to specify more clearly the factors and causal relations that prompt economic transformation.

One factor that is clearly associated with differential economic performance is the policy setting in the two regions. Southeast Asian countries have largely pursued strategies of integration with the global economy, and have sought to grow and diversify through the expansion of exports (both primary products and manufactures) as well as the development of value-added services. These states (notably Singapore, Indonesia, Malaysia, and Thailand) have generally pursued macroeconomic stability, including regular, prompt adjustment in the face of external shocks. Perhaps most important, several Southeast Asian governments, across ideological lines, have subscribed to a vision of shared growth that increases employment and improves livelihoods across many sectors, notably the rural majority (Campos & Root, 1996).

By contrast, African governments have commonly sought to shelter their economies from global pressures, including strategies of state-guided import substitution and protectionist policy regimes (Bates, 1981). African economies such as Nigeria, Senegal, Zambia, Kenya, or Zimbabwe have reflected considerable macroeconomic turbulence, embodying price instability, recurring fiscal crises, and heavy debt pressures. Further, the distributional consequences of African economic strategies have been much narrower than their Southeast Asian comparators. Nearly across the board, African governments have neglected or undermined rural economies, while typically concentrating economic gains among elites close to the palace or the ruling party, along with those in the cities.

These policy distinctions are well established, but we should still regard this line of explanation with caution. First, policy differences ought not be painted in too stark a manner. Most Southeast Asian countries have also pursued import substitution policies, along with selective efforts at protection of manufacturing and capital markets. They have also been susceptible to macroeconomic shocks and debt problems. In Africa, moreover, several governments such as Tanzania or Ethiopia have experimented with policies to promote agriculture and rural livelihoods, while a number have implemented donor-led programmes of trade and currency liberalization over the past two decades. A more realistic assessment of the policy terrain would prompt us to ask why certain policies have worked well in Southeast Asian settings, though failing to produce a supply response or to improve livelihoods in African contexts. Evidently, factors are at work beyond the nominal policy signals.

Even if we accept an orthodox policy account, it does not address how policies are selected, implemented, or sustained. The propensity for economic adjustment, clearly different across the two regions, must be explained and not simply assumed as an exogenous factor. Why do some policy-makers respond quickly to unwanted shocks, while others prevaricate? Institutional and political factors are essential for understanding economic outcomes. For instance, moderately protectionist policies have fostered manufacturing in Southeast Asia, while comparable policies are associated with the stagnation of manufacturing in Africa, suggesting that the broader political context is at least as important as policies themselves. Further, the preservation of policies over time (whether adverse or beneficial) reflects particular interests and political alliances. We require a better understanding of how different coalitions converge and change.

To what extent are countries encumbered by their history and their institutional inheritance? What are the degrees of freedom in shifting development paths? A substantial part of the current literature on development proceeds from an image of path dependence. In this view, prior circumstances and choices have shaped critical institutions in each country (North, 1990). The institutional framework, in turn, influences core interests and incentives affecting the economy. The past is essentially prologue to the present, as resilient structures are likely to reproduce patterns of policy choice and economic behaviour. In most instances, this equilibrium will be shifted only through jarring changes such as large exogenous shocks, a domestic economic crisis, or a strong reformist regime. By contrast, historical approaches seek a more dynamic understanding of institutional change, regarding this as a contingent process of interaction and contention among actors with different interests and capabilities (Thelen, 2004). Historical accounts often focus on 'critical junctures' or key moments in which interests may realign, relative capabilities shift, and countries (or groups) may diverge from a given equilibrium to a new path (Collier & Collier, 1991). The questions of process, as well as the key motive forces in development, are addressed in various ways by the analytical frameworks discussed below.

The comparison of Southeast Asia and Sub-Saharan Africa evokes key controversies and perspectives in the study of development. Broadly speaking, five general lines of inquiry have been pursued to explain variations in economic performance over time. These can be characterized as historical, structural, policy, institutional, and political perspectives.

Historical Approaches

Historical explanations account for contemporary outcomes in development by looking to the evolution of politics, society, and the economy over the last two or three centuries. An understanding of the evolution of institutions and structures, along with central mechanisms of change, furnishes a basis for understanding contemporary outcomes. Although sometimes driven by a central model or conceptual framework, historical explanations are often idiographic, as they focus on the contingent and particular nature of experience in specific areas. A narrative of key events, decisive factors, and influential circumstances can illuminate the course of economic transformation and the context of contemporary development challenges.

For the goals of the Tracking Development project, the most useful historical approaches will be those that are more conceptually informed and nomothetic in their aims (Przeworski & Teune, 1970). Perhaps the touchstone work is Max Weber's *The Protestant Ethic and the Spirit of Capitalism*, not so much for its specific association between religion and entrepreneurship, but for the way it traces the evolution of capitalism in a specific historical context, while seeking to derive broad propositions about culture and economic change. Similarly, the works of Karl Polanyi, Alexander Gerschenkron, Albert O. Hirschman, and Douglass North approach economic history as a source of durable generalizations about the nature of capitalism and historical transformation (Polanyi, 1962; Geschenkron, 1962; Hirschman, 1977; North, 1981). More conventional regional economic histories such as those of Ian Brown, Anne Booth, D.K. Fieldhouse or Antony Hopkins are invaluable in tracing the evolution of production, markets, and livelihoods in specific areas, especially the crucial transitions to colonial economies and the heterogeneous economic landscape since independence (Brown, 1997; Booth, 1998; Fieldhouse, 1986; Hopkins, 1976). However, works that use economic history as a basis for developing or refining theory are most likely to advance a comparative project of this scope.

In the field of international development, historical approaches have converged on a few central themes, including the nature of the state. To what extent did countries reflect a coherent, stable state structure capable of penetrating society, extracting resources, and providing the collective goods needed for economic growth? Atul Kohli's comparative study of state-directed development directly addresses this issue, while the works of Jeffrey Herbst on Africa and Bruce Cumings on East Asia have also considered the relation between state formation and economic change (Kohli, 2004; Herbst, 2000; Cumings, 1999). The historical lineage of state institutions in many parts of Southeast Asia, notably Java, Thailand, and Vietnam, would be a salient feature. These states constituted relatively unified structures of authority and administration, with a lineage of several centuries. Central authorities had considerable administrative writ, with important roles in managing trade, overseeing infrastructure, and levying taxes. Moreover, European and Japanese colonial states (Thailand excepted) endeavoured to regulate production, extract revenues, and secure administrative authority throughout substantial portions of each country.

Africa had diverse patterns of state formation. Historically, a few loose-knit empires controlled parts of western and eastern Africa (Songhai, Kanem-Bornu, Sokoto, Axum), though most had dissipated by the nineteenth century. Centralized kingships were also present in various parts of the continent, notably the Ashanti, Yoruba, Buganda, and Kongo (see for instance Shillington, 2005). Yet there were not many ruling structures that extended effective administrative reach across defined territories, or exercised key functions such as the organization of infrastructure and systematic taxation. African villages were largely self-provisioning and often self-governing into the twentieth century, as the hinterland had considerable autonomy from the political centre. These patterns were evident under colonialism as well, despite efforts by European rulers to pacify territories and exact revenues through cash crops and mining (Herbst, 2000). Colonial rule was administratively thin, unevenly applied, and often confined to a few hubs and corridors.

The nature of colonialism not only shaped state formation, but also influenced important aspects of social structure, economic change, and culture. Some observers have identified differences among colonial regimes in explaining variations in development. Kohli, for instance, notes the importance of Japanese colonial rule in developing state capacities and market integration in East Asia (Kohli, 1999). In Southeast Asia, the establishment by European rulers of trading entrepôts, plantation economies, and peasant production regimes were also central features of economic transition. Regarding Africa, Crawford Young has analyzed the dominance of authoritarian states with limited capabilities for economic and social transformation (Young, 1994). Samir Amin has differentiated production and labour systems in colonial Africa, outlining the distinctive features of "colonial trade" colonies, typified in West Africa, and settler rule in southern Africa (Amin, 1972). The presence of large settler populations in several colonies fostered land alienation and segmented labour systems, although, as noted by Acemoglu and Robinson, these systems could also implant distinctive institutions of property that shaped economic change (Acemoglu *et al.*, 2002). While the slave trade largely preceded colonial rule, the far-reaching effects of this activity had particular implications for Africa. Three centuries of the trans-Atlantic trade created serious disruptions in local demography, power relations, and social structures (Lovejoy, 2011; Manning, 1990).

While there were substantial differences in the colonial experiences of the two regions, we cannot conclude that the colonial epoch was the sole foundation of contemporary development. Colonial rulers in both regions were guided by an ethos of extraction, fostering modest investments in services and infrastructure, and imposing widespread constraints on local production and commerce. The educational endowments of Indonesia at independence were not greater than those of Nigeria, while infrastructure in the latter, a contiguous territory, was arguably better developed than in the Southeast Asian archipelago state. Smallholder peasant production was a dominant feature of the economic landscape throughout both regions in the 1950s. Malaysia, Indonesia, Thailand, and Vietnam reflected open economy models of trade and revenue, not evidently distinguished from their African counterparts. Moreover, Africa's economic legacy at independence was comparatively beneficial in many instances, as revenues, incomes, and public investments rose sharply during the final decades of colonial rule.

The process of state formation is integrally linked to national identity and cohesion. It is commonly accepted that Africa's territorial boundaries have created a basis for social division and political instability (Young, 1976; Rothchild & lorunsola, 1982). The arbitrary definition of borders by European powers in the late nineteenth century gave rise to multi-ethnic territories with few sources of cohesion or common identification. This legacy has fomented political fragmentation, distributional rivalries, and deficits in social trust, all consequential for economic growth. Many Southeast Asian states have reflected a longer historical continuity, embodying less ethnic diversity (Vietnam) or the steadying influence of a dominant group (Indonesia). In some instances (e.g. Malaysia and Singapore), concerted government efforts at national integration have helped to unify the country. Seen in this light, the movement toward national cohesion in Southeast Asia has helped to support the developmental aims of several governments in the region, whose outlook incorporates a concern for broad popular sectors and public goods. However, this is another area where historical parallels are as important as notional contrasts. Indonesia and Malaysia, in particular, are ethnically diverse, and have each faced strong challenges to national unity and cohesion. Communal tensions are evident in Thailand and Vietnam as well. Elsewhere in the region, Burma and the Philippines have experienced recurring communal violence and deep social tensions. The evolution of national identity in Southeast Asia and Sub-Saharan Africa is an important factor in explaining disparities in contemporary development, though only part of a broader analysis.

In summary, historical approaches are essential in elaborating the processes of political and economic transition in these diverse regions and providing the essential contextual knowledge for assessing different explanations of performance. In addition to illustrating lines of causality, historical studies raise questions of process. Some historical accounts reinforce assumptions of path dependence, as they trace the influence of converging factors, or key turning points, in setting a long-term course of development. The writings of Douglass North, Hilton Root, and Avner Greif, all working with institutional approaches, clearly define this trend (North & Thomas, 1973; Root, 1994; Greif, 2006). Other works of history, such as those of Anne Booth or Ralph Austen, are more discursive and contingent in their outlook, as they delineate an array of factors and choices that operated in different contexts and periods (Booth, 2007; Austen, 1987). What these analysts have in common is to seek explanations from history, rather than more proximate conditioning factors in the contemporary era.

From my perspective, a concern with the historical foundations of development in Southeast Asia and Sub-Saharan Africa is an essential part of valid comparison, yet an insufficient basis for explanation. The analysis of development outcomes must include considerations of both structure and agency. Historical analysis is often process-oriented, though underlying structural conditions frame the options and choices of key actors.

Structural Approaches

A second approach focuses on the influence of *structure*, those features of countries and societies that are relatively unchanging in the near to medium term, and which shape behaviour over long periods of time. Structural factors constrain choice and set the boundaries of action for policy-makers, economic agents, and social groups. An understanding of structural conditions is important in explaining recurring or continuous political and economic outcomes. Structures can be identified in several areas, including geography, demography, social groups, and the composition of the economy. Structural explanations are not exclusive of historical or other approaches—indeed, none of the perspectives discussed here can stand alone—but this line of analysis emphasizes the constraints and opportunities that influence policies and economic performance.

Geography is an important structural feature that has been a focus of recent work on Africa's slow growth (Bloom *et al.*, 1998; Collier & Gunning, 1999; Diamond, 2005). Geographic perspectives consider environmental conditions and 'natural' geography as well as political geography. Analysts have often focused on general problems of development in the tropics. Africa's farmers contend with fragile soils that are easily depleted and irregular rainfall that can leach nutrients or parch crops. These conditions can make it especially difficult to increase productivity and raise outputs. The disease burden in Africa, extending from river blindness and sleeping sickness to malaria and HIV/AIDS, undermines the availability of labour, increases demands on incomes and social assistance, and often limits the range of livestock and farming.

Political geography is a related factor, as the boundaries set by European powers not only created plural states that were difficult to govern, but also established a number of small, landlocked, poor countries. Africa has more countries without access to the sea than any region in the world, and a dozen states with fewer than two million people. These territories, particularly the resource-poor countries of the Sahel and Central Africa, have limited economic prospects, with small internal markets, few export outlets, and limited channels for trade. Demography also comes into play, as low population densities have traditionally posed challenges to government authority, commerce, and resource mobilization. In many countries areas of population pressure have destabilizing effects in the competition over land and water.

Southeast Asia is of course a tropical region as well, though reflecting important differences with Sub-Saharan Africa. These countries sit astride historical trade and shipping routes, and only Laos (among the poorest countries in the region) is land-locked. Higher population densities have spurred state formation and commercial activity, while creating imperatives for increased productivity. Fortuitously, Southeast Asia's irrigated rice production has been amenable to intensified production, distinct from the challenges of the rain-fed agriculture of Africa, based in root crops, pulses, and maize (Geertz, 1969).

While these attributes should be weighed in explaining the region's comparative experience, there are offsetting considerations that suggest qualifications to the economic effects of geography. Not all Southeast Asian countries have performed well (notably Burma, Philippines, and Cambodia), despite their geographic endowments. Further, many of the presumed effects of geography can be mitigated through the government provision of public goods: transportation infrastructure, health programmes, agricultural research, extension services, and irrigation. Although the boundaries of African states are problematic, three-fourths of the region's population lives in sizable countries with coastal access, several of which (Nigeria, Ethiopia,[2] Sudan, and Democratic Republic of the Congo) have been among the worst-performing economies of the post-independence era.

Social-structural factors also shape economic and political conditions. Much attention has been devoted to Africa's ethnic diversity and the negative consequences for economic performance. Many African states encompass numerous ethnic minorities, leading to considerable social fragmentation and problems of political control by a single group or narrow coalition. Ethnic competition creates strong distributional pressures, thus undermining economic policy, eroding the provision of public goods, and encouraging rent-seeking and corruption. Government tutelage of the economy is often driven by the need to balance various ethnic interests, rather than a focus on macroeconomic stability or collective goods. Diffuse claims for preferential treatment and resources also undermine the development of a capable bureaucracy. Many distributional pressures are

[2] Ethiopia has formally been land-locked since the 1993 independence of Eritrea.

satisfied through corruption and access to politically mediated rents. In acute circumstances, ethnic rivalries give way to conflict, which disrupts economic activity.[3]

Most Southeast Asian countries reflect an ethnic majority which has consolidated political control and managed distributional politics. The presence of significant ethnic Chinese minorities throughout the region, who are entrepreneurial and integrated in transnational networks, is also quite important (McVey, 1992). Although socially and politically insecure, these groups have not been forcibly expropriated by most governments, and have played dynamic roles in promoting investment and trade. In Africa, immigrant minorities have also occupied a significant economic niche, but South Asian immigrants in East and Central Africa and Levantine communities in West Africa have often been expropriated or attacked in ways that constrain their activities. It is important not to lose sight of corrosive distributional politics in Southeast Asian states, or the destabilizing effects of communal tensions. Indonesia, for instance, has weathered secessionist challenges, inter-religious violence, and recurring ethnic conflict in Java and several of the outer islands, while Malaysia was shaken by major communal violence at the end of the 1960s, with lasting effects on the nation's political economy (Bowie, 1993).

Economic and class strata form other cleavages and avenues of collective action. The relative size and influence of business elites, middle classes, and popular sectors are crucial for development outcomes. Throughout much of Southeast Asia, commercial elites have been integral to economic change. The presence of dynamic business groups, often rooted in ethnic Chinese communities, is an important distinguishing factor in several countries. When sufficient assurances and incentives are in place, these groups have driven episodes of growth in Indonesia, Malaysia, Thailand, Vietnam, and Singapore, the more successful economies of the region (Chirot & Reid, 1997). Decades of economic expansion have also fostered substantial middle classes in these countries. With better education and economic security than other sectors, middle-class interests have been important catalysts of reform and accountability in many countries. Large-scale political organization among rural producers also appears frequently. In Indonesia, both Muslim and communist organizations were

[3] Easterly & Levine's (1997) well-known study, based on large-n multiple regression analysis, found that the relative degree of ethnic fractionalization had significant effects on economic growth in African countries.

influential in the countryside during the 1960s, while Marxist movements gained considerable ground at various times in Malaysia, Thailand, and the Philippines, in addition to Vietnam and its neighbours. Rural mobilization in Southeast Asia has increased the political and economic salience of these strata, influencing governments to develop policies that address the needs of the agrarian sector.

The class profile throughout Africa shows some notable differences. Business classes in much of the region have limited depth or autonomy. Colonial rule gave rise to sparse African entrepreneurship, limited in activities and scale (Iliffe, 1983; Kennedy, 1988). Many of the larger enterprises were under foreign control, while immigrant groups often held sway in the intermediate manufacturing and commercial areas. In the decades that followed, political tutelage over the economy shaped the character of indigenous business. The private sector was often dominated by particular ethnic groups and reliant on state-mediated rents for their viability. It has been suggested that government officials in Africa constitute a surrogate 'bourgeoisie', in view of their social influence and extensive control over resources (Sklar, 1979; Shivji, 1976). Immigrant minorities were heavily regulated or expropriated outright, and did not furnish an important source of growth. Slow growth and limited diversification has also constrained the emergence of African middle classes, who are often circumscribed and lacking in influence. Among popular sectors, the weakness of manufacturing activity in most countries translates into small urban working classes with modest organizational resources, while in most African settings the countryside has been dispersed, marginal, and politically weak. Ethnicity is a powerful cross-cutting identity in African countries, frequently diluting the salience of class associations.

Economic structure is another crucial factor. Colonial rule in both regions created 'open' economies organized around exports of primary commodities, imports of manufactures, and government reliance on the taxation of trade (Hopkins, 1976). Colonialism also produced limited endowments of human capital and infrastructure. The narrow foundations of production, revenues, and capital posed fundamental challenges of growth and transformation for these economies. This has been a primary line of explanation in the 'underdevelopment school' of theory on Africa (Killick, 1980). Exporters of primary products face uncertain revenues given the volatility of international commodity markets, and trends in prices often create adverse terms of trade. Foreign investment, while crucial, may also have unwelcome effects. In many circumstances, transnational companies create few linkages within host economies, while siphoning profits and crowding out local entrepreneurship. The transfer of technology and skills is often minimal, and senior employees in foreign firms often exit the economy for outside opportunities. Consequently, a reliance on foreign capital may do little to foster diversification and long-term growth.

Economic structure has substantial effects on growth and poverty reduction, yet the foundations of an economy do not pose intractable barriers to development. Certainly the problems are evident: countries with a foundation in primary commodity exports often grow slowly and are vulnerable to macroeconomic volatility. In economies dominated by smallholder peasant agriculture, there are substantial challenges to increasing incomes through traditional commodity production. Those with extensive mining and petroleum activities confront the limitations of enclave activities that generate limited employment or complementarities with other sectors.

A particular branch of structural analysis emphasizes the 'resource curse' in countries that rely heavily on revenues from natural resource exports, including petroleum, diamonds, or metals. The rapid inflow of large resource rents often distorts prices and undermines other productive activities, while increasing the risks of macroeconomic instability and mismanagement. In many commodity-exporting countries, adverse price shocks give rise to fiscal crises and debt problems, which further compress imports and investment. In order to generate resilient growth, it is desirable to diversify into a variety of crops, processing of primary commodities, manufacturing, and value-added services. If export revenues are stagnant and domestic infrastructure does not expand, then it will be difficult to generate the needed investments and supply response to broaden the scope of the economy.

When explaining the divergent paths of Southeast Asian and African economies, structural analyses have both utility and shortcomings. Southeast Asia's economic dynamism and Africa's contrasting stagnation are clearly shaped by disparate structures of production. However, this divergence is a fairly recent occurrence, leaving open the question of how countries with unfavourable economic structure can change their growth trajectory. In 1965, many countries in Southeast Asia were as reliant on a narrow range of primary commodities as were their African counterparts, while a number of Sub-Saharan African states enjoyed relatively higher export revenues. Each region had infrastructure constraints, and Southeast Asian states faced major challenges of conflict that compounded the difficulties of building transportation, power, and communication links.

Throughout the 1970s and 1980s, however, governments in several Southeast Asian countries made critical investments in infrastructure while implementing policies to expand production. By the middle of the 1980s, Malaysia, Indonesia, and Thailand had substantially diversified their economies and were growing rapidly. Singapore preceded them and Vietnam followed. From a position of considerable structural obstacles to growth, Southeast Asian states achieved a structural transformation that altered the foundation of their economies. By contrast, Sub-Saharan African states, despite efforts at import-substituting industrialization and state-led investment programmes in the 1960s and 1970s, maintained basic features of the open economy and experienced economic stagnation from the mid-1970s through the new millennium.

Policy Choice

If structures are susceptible to change, then economic policies have a crucial role in the process. *Policy choice* is a third approach for explaining differences in development, providing the focus of the multilateral financial institutions (the IMF, the World Bank, and the regional development banks), along with the major bilateral donors. These organizations have dominated the policy dialogue for much of the past three decades. Rooted in theories of neoclassical economics, the donors' perspective emphasizes the importance of market mechanisms for efficiently channelling resources, and the role of market-supporting policies in fostering economic development (Lewis, 1996). Excessive state intervention in the economy presumably hampers growth by creating administrative bottlenecks, crowding out private entrepreneurs, distorting incentives, misdirecting resources, and creating large economic rents that undermine productive investment. The resulting policy prescriptions focus on macroeconomic stabilization, removing obtrusive or ineffective government economic interventions, and creating a stable climate for business and investment.[4] The IMF has typically concentrated on stabilization, while the World Bank and other donors have emphasized broader reforms through structural adjustment programmes. In response to the orthodox agenda, an array of alternative policy prescriptions has been articulated through neo-Keynesian, neo-structuralist or heterodox perspectives (Kahler, 1990).

4 On the "Washington Consensus", see Williamson (1990).

Southeast Asia and Sub-Saharan Africa differ conspicuously across three areas that are often identified as important for development. First is the relative approach toward macroeconomic stability. The better-performing states of Southeast Asia have maintained reasonable fiscal balance, realistic exchange rates, moderate to low inflation, sustainable debt profiles, and outward-looking trade and investment regimes. They have had few sustained crises in the balance of payments and have regularly adjusted to negative external shocks. African states have differed nearly across the board in their policies, contributing to volatile and crisis-prone economies. In the first three decades after independence, most African governments fixed their exchange rates and encouraged heavily protectionist trade and investment regimes. Weak fiscal discipline fostered high deficits, typically funded by foreign borrowing, while lax monetary policy often fuelled inflation. In consequence, African economies were severely buffeted by external shocks, especially during the oil spikes and international recession of the 1970s, which led to severe fiscal pressures and a widespread debt crisis in the following decades. Regimes across the region were slow to adjust to these developments, in some instances avoiding significant policy change for several years after the crisis appeared. This significantly slowed growth and fostered an unpredictable investment climate (van de Walle, 2001).

A second contrast in policy can be seen in the distributional aims of governments in the two regions. Several countries in Southeast Asia have pursued strategies of "shared growth" that broadly disperse benefits to large segments of society, yielding substantial reductions in poverty (Campos & Root, 1996). This is seen particularly in policies that improve the livelihoods of agrarian producers and rural populations, as well as policies to encourage labour-intensive export industries, which expand urban employment. Indonesia's drive for self-sufficiency in rice during the 1970s and 1980s was supported by policies to stabilize prices, deliver subsidized inputs, and develop infrastructure in the rural areas (Hill, 1996). Food production and export agriculture have received similar attention in Thailand, Malaysia, and Vietnam. These policies, as noted, were substantially driven by concerns to stabilize the countryside and win support from the rural areas. Export-oriented manufacturing, a leading sector in the growth model, also generated substantial employment in the cities. Because of these sectoral strategies, rapid economic expansion in the key Southeast Asian states was accompanied by steady and significant poverty reduction.

Sub-Saharan African governments have differed in both dimensions of policy. The "urban bias" in economic policy has been observed for many years (Bates, 2005; Widner, 1994). African regimes in the decades following independence were concerned to industrialize and to preserve stability among their urban constituencies. Consequently, they heavily taxed agriculture through marketing boards, which used monopsony power to pay low producer prices and then appropriate the premium obtained from higher border prices. Revenues from the state marketing agencies were channelled to general funds, rather than invested in rural infrastructure or services. In consequence, the poor returns for export agriculture depressed production, and a widening gap among rural and urban amenities fuelled migration to the cities. Import-substitution policies, which did not foster a dynamic manufacturing sector, created very limited outlets for employment. Many urban residents consequently settled in poorly-compensated, insecure activities in the informal sector. Growth in incomes was also constrained by rapid population increases, for which most countries lacked relevant policies. There were also stark contrasts between the stagnation in both rural and urban livelihoods and the often fabulous gains among narrow political and economic elites, who had access to state patronage and officially mediated rents.

A more problematic question pertains to the role of the state in the economies of the two regions. At middle distance it is difficult to distinguish regional policies along the conventional spectrum of 'statist' or 'market' orientations. Governments across Southeast Asia and Africa have had broad jurisdiction over economic affairs, making extensive efforts to regulate trade, investment, and factor markets. They have shown little penchant for the restrained or minimalist state commonly emphasized by the international donors. While the better-performing Southeast Asian countries have often adopted orthodox macroeconomic policies, their sectoral policies have been far more interventionist, including import substitution measures and extensive roles for state-owned enterprises (Hill, 1997). For decades, African governments sustained high levels of trade protection, restrictive investment regulations, administrative controls on foreign exchange, credit, and licenses, and large portfolios of state corporations. Across both regions, 'market' orientations have been sporadic at best.

A closer consideration reflects significant distinctions among the regions. The better-performing states in Southeast Asia, using a combination of incentives and government support, have successfully encouraged producers and investors in agriculture and manufacturing, along with some value-added services. Governments have created incentives through the use of market pricing and subsidies to enhance returns to producers. Further, agricultural producers commonly have access to competitive purchasers' markets, while manufacturers receive official support for involvement in export markets. State initiative has been prominent in establishing infrastructure, supplying inputs, and frequently providing critical subsidies to support production. The pattern of intervention in such countries as Indonesia, Malaysia, Thailand, and Vietnam is best appreciated through Khan's distinction between "growth-enhancing" and "market-enhancing" policies (Khan, 2008). These governments have used pragmatic combinations of market signals and direct assistance in order to advance output in the real economy. Their policies are not market-supporting in the sense of opening space for market mechanisms or providing a restrained background for business activity, but production-supporting, with a design toward improving supply response.

African countries have essentially reflected two policy regimes in the era since independence. Into the 1980s, most countries pursued statist strategies, reflected in expanding government sectors and extensive intervention in product and factor markets. State-directed development failed in Africa, not only because these myriad interventions hampered investment and misallocated resources, but more fundamentally because African states lacked the capacities to effectively pursue a *dirigiste* programme (Callaghy, 1988). In the period since the economic crisis of the 1980s, multilateral donors have advanced a policy regime based upon state retrenchment and market-enhancing policies. Under acute fiscal pressures and donor conditionality, African countries have increasingly adopted orthodox macroeconomic measures, while reducing the scope and size of government. However, until the commodity price boom of the last decade, African economies grew slowly, with few positive trends apart from macroeconomic stabilization. Orthodox reforms, whether intentionally or not, have contributed to the erosion of government capabilities by reducing needed investments in infrastructure, services, regulatory agencies and administration. Market incentives, transmitted through price signals, had little effect in the absence of complementary state supports for production (Lewis, 1996).[5]

A focus on policy effects offers little insight about the comparative setting for policy choice, implementation, or sustainability. Why do

[5] See also the extensive contemporary arguments in Norman *et al.* (2012).

governments in different regions appear to converge around similar strategies and policy regimes? Why is it that some governments react to economic crises by pursuing reform, while others persist with sub-optimal policies? Why do some governments abandon particular policies while others persist? When different governments adopt similar policies, why do outcomes diverge? The answers to these questions cannot be found within the policy mix, but rather in broader areas of institutional development and political arrangements. These areas offer additional lines of explanation for variations in regional economic performance.

Institutional Approaches

The effects of policy depend crucially on the institutional context, which provides another category of analysis. In all economies, institutions provide the framework for production and exchange. Variations in the design and quality of institutions decisively influence the course of economies over time. The rise of institutional economics over the past two decades has fostered a prodigious literature which can only be selectively considered here. For the present discussion, institutions can be defined as relatively settled sets of norms, rules, and enforcement mechanisms that fundamentally shape economic behaviour (North, 1990; Eggertsson, 1990). Norms constitute general standards and values, rules furnish specific guidelines, and enforcement mechanisms create an environment for regulating economic activity. Institutional analysts often distinguish between organizations (such as the civil service) and institutions (such as meritocracy), although organizations are an important part of the regulatory and normative framework. The key insight, however, is that institutions structure expectations and set boundaries for behaviour (North, 1990). The institutional environment influences time horizons for economic actors and fundamentally affects the scale and scope of economic exchange. Effective economic institutions resolve information problems and lower transaction costs, which encourages the spread of impersonal exchange and increases the density of economic activity. It is now a commonplace that "Institutions matter" for economic outcomes; this is certainly reflected in the settings of weak or dysfunctional institutions found in many developing countries.

Property rights, contracts, and access to information are integral to economic performance. Particular definitions of property rights may vary considerably, but a workable property rights system is essential for sustained investment and productivity (Haber *et al.*, 2003; Weimer, 1997).

Drawing on the case comparisons in this project, a regime of private *use rights* appears to set the minimum threshold for a viable supply response in agriculture and manufacturing. When economic actors can rely upon access to specific factors and the appropriation of gains, they are likely to commit to investment in fixed (productive) assets. A 'liberal' system of private ownership and free title is not a requisite for growth, and mixed systems of rights may prove workable for considerable periods. Vietnam, for instance, has not entirely abandoned a socialist system in favour of a private property regime, while most African countries reflect mixed and overlapping systems of freehold and use rights. The key issue is assurance against expropriation or the arbitrary loss of assets (Lewis, 2007). If market participants are reasonably certain of sustained control, they will generally work toward increases in production and capital.

The setting for contracting is another important dimension. Contracts extend well beyond formal legal arrangements to include an array of agreements that structure exchange. Contracting encompasses all aspects of transacting, including definitions of assets, goods and services, quality, price, timing, delivery, and methods. Effective contracts are clearly specified, transparent, and readily enforced, whether through formal legal channels, professional associations and guilds, or reputational mechanisms within informal networks (Greif, 2006). An effective complement to contracting is open access to information about pricing, merchandise, commercial procedures, market operations, and various non-market factors that influence transactions. Again, information problems may be resolved through formal mechanisms (e.g. accounting and reporting requirements) or through informal channels in commercial and social networks.

With a modicum of effective institutions, governments can convey credible commitments to investors and producers, thus inducing long-term commitments to capital formation. Credible commitment refers to the validity of policy signals as well as the underlying assurances of property rights (see North & Weingast, 1989; Thorbecke, 1998). Credibility is essential to the implementation of policy reform, while also conditioning the general investment climate. Governments establish credible commitments through a variety of institutional arrangements including delegation, formal rules, signalling, and informal bargains. By delegating key policy roles to technocratic decision-makers, political leaders can foster continuity. Laws and regulations regarding the budget or financial oversight may instil confidence in key areas of fiscal management and the private sector. This has been evident, for instance, in the use of the balanced budget rule in Indonesia. Apart from disseminating and advocating policies, governments might also signal commitments more concretely through 'lock-in' measures. Lock-in mechanisms are useful because they incur penalties for policy deviation, which reinforces the public sense of government commitments (Dixit, 1996). One controversial example is an open capital account, obviously a risky measure as evidenced by the financial crisis of the late 1990s. Nonetheless, significant capital mobility conveys two types of signals. Markets can react quickly to economic information, with the resulting capital movements reflected in the exchange rate. Also, an exit option for holders of capital often provides assurances about the safety of assets, with the paradoxical effect of reducing incentives for capital flight. Indonesia opened its capital account quite early at the beginning of the 1970s. Malaysia has gained much attention for its capital controls after the 1998 crisis, but such measures were fairly limited in scope and timing, and did not amount to a closed regime. By contrast, most African governments have created obstacles to capital mobility, with closed regimes predominating throughout the region.

Commitments may also be conveyed through informal agreements or bargains. Political elites often enter into business alliances or clientelist relationships with notables, entrepreneurs, and networks. In many circumstances, these official safeguards furnish sufficient confidence for entrepreneurial activity. The prevalence of "crony capitalism" in Southeast Asia is a direct manifestation of such relationships (Kang, 2002).[6] Obviously, ad hoc private agreements are less stable or equitable than broad policies to support markets and the general provision of public goods. However, in situations of uncertainty, informal mechanisms may encourage a critical mass of investors and producers to expand economic activity and spur growth.

The development of organizations in the public and private sectors is an important feature of institutional change. A capable civil service, effective regulatory agencies, a viable legal apparatus, and essential public services comprise features of the institutional landscape with crucial implications for the economy. In circumstances where institutions are generally weak, the emergence of centres of competence within the state can provide substantial support for economic activity (Evans, 1995; see also Evans & Rauch, 1999). The formation of a fully articulated and professionalized state along 'Weberian' lines, however desirable, is improbable for most low-income states, even in the medium term. However,

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6 For an African application, see Handley (2008).

experience shows the possibilities of rapidly enhancing the effectiveness of peak organizations for economic management, including regulatory agencies, central banks, stock exchanges, advisory groups, and particular line ministries. A cluster of effective agencies can create large dividends in the returns to economic activity and the climate for investment (Levy & Fukuyama, 2010).

In both Southeast Asia and Sub-Saharan Africa, the institutional legacy at independence created myriad problems for economic development, including weak public agencies, uncertain property rights, political instability, and strong distributional pulls that undermined policy effectiveness. The better performing Southeast Asian states, however, have been able to strengthen institutions that support investment and production, while most Sub-Saharan African states have not addressed important institutional deficits. At the government level, countries such as Singapore, Malaysia, Thailand, Indonesia, and Vietnam have resolved critical challenges of credibility in economic strategy, though in quite different domestic circumstances. These countries have delegated economic policy to technocratic groups and have fostered capable peak institutions, including central banks, finance ministries, and planning agencies. Competent economic bureaucracies, in turn, have fostered essential elements of policy credibility through macroeconomic stability, relatively consistent signalling, and selective lock-in measures to ensure continuity. These governments have also arguably set in place effective property rights regimes for the majority of entrepreneurs and producers, whether through the articulation of a capable bureaucratic and legal order (Singapore), bargains with particular groups (Malaysia, Indonesia), or the extension of valid private use rights (Vietnam). Further, with the possible exception of Singapore, political connections and partnerships were instrumental in the growth of the corporate sector, which substantially drove economic transformation. Crony relationships spurred some productive activities, while broader market access for smaller producers encouraged diversification of the economy.

African states have been structured along different lines. Well into the 1990s, African economic bureaucracies remained internally weak and politically isolated, with few instances of effective technocratic delegation for policy-making. Economic policy in most countries was essentially governed by the executive, as rulers often sought to maintain political support by exercising discretion over resources and access to markets. The need for such latitude ran directly counter to a project of institutional strengthening, and African executives commonly placed compliant officials in the central bank, the finance ministry, and related departments. This pattern was evident in Senegal, Nigeria, Cameroon, Congo-Kinshasa, Kenya, Zimbabwe, and Zambia, to name a few prominent cases. Moreover, executive discretion has usually been exercised to favour particular ethnic groups or factions, affording limited access to markets or protection for those outside a favoured circle of beneficiaries, as seen in Kenya, Cote d'Ivoire, Congo, and Zimbabwe. African clientelism fosters redistribution and consumption, in contrast to the crony capitalist relationships of Southeast Asia, which focus on investment and production. In circumstances of high executive discretion, public policy has little credibility for most economic actors, and signalling (to the extent that African governments attempt it) fails to win confidence. Further, arbitrary political control of the economy has created insecure settings for property rights, along with substantial risks of expropriation. Such uncertainty has been reinforced by the state's sparse capacities to furnish public goods such as infrastructure, administration, and legal order. Ambiguous and poorly defined systems of property rights hamper economic activity, even in countries with prudent macroeconomic policies such as Ghana or Tanzania.

In all the economies under comparison, the prevalence of high levels of corruption and rent-seeking is a central institutional challenge. In Transparency International's annual Corruption Perceptions Index, for example, several countries in Southeast Asia, including Malaysia, Thailand, Vietnam, and Indonesia, are ranked close to African states such as (respectively) Ghana, Madagascar, Nigeria, and Mozambique.[7] Analysts commonly cite problems of corruption as hindrances to investment and growth in all these countries. Moreover, corruption is integrally related to rent-seeking among business elites and rent distribution by ruling parties or executives. In Southeast Asia the syndrome of crony capitalism, or politically mediated business sectors, was widely linked to the economic crisis of 1997–1998. Accounts of neo-patrimonial regimes in Sub-Saharan Africa emphasize the impediments to development arising from personal rulers and clientelist political. Corruption and rent-seeking form an antithesis to the type of neutral, transparent institutional framework that is generally regarded as a requisite for growth. A large literature has emerged to demonstrate the developmental costs of these syndromes (Callaghy, 1990).

[7] Note also that Singapore, at number 4 on the list, is regarded among the least corrupt countries in the world.

These behaviours operate differently in various settings, however, with a range of consequences for growth. In the Southeast Asian cases, corruption and cronyism have been managed and comparatively centralized through dominant parties or executives, which affects the degree of takings and imposes expectations for performance among business cronies. Moreover, macroeconomic stability has induced many beneficiaries of rents and corruption to reinvest in their home economies, rather than exporting their capital. In Africa, corruption is typically dispersed and unregulated, with exactions among all levels of the public and private sectors. Further, rulers have not been inclined to impose expectations of performance, and the unsettled economic climate typically fosters capital flight. In consequence, African economies have suffered from a greater proportional drain of resources, with few offsetting investments in their economies.[8] In much of Southeast Asia, corruption and rent-seeking have been compatible with significant growth and poverty reduction, although welfare consequences and opportunity costs are evident. This should not be taken as a rationale for corruption in any region, but a reflection on the varying context and effects of self-dealing activities.

Institutional analysis has much to say about the sufficient conditions for economic development. There is a clear association between strong property rights, the rule of law, and robust economic growth (Levy & Fukuyama, 2010; see also Brautigam, 1992). We have a sophisticated understanding of the ways in which institutions structure incentives and the settings in which institutions function more favourably for development (Acemoglu & Robinson, 2006). The limitations to institutional analysis are evident, though, when we look to the sources of favourable institutions. One approach has been a functionalist argument: different interests will bargain for better institutions when there is an evidently more efficient prospect (North, 1990). However, in many circumstances, weak institutional arrangements are quite resilient, and functionalist arguments cannot account for this stasis.

Another framework is that of path dependence: choices over institutions tend to chart a particular course of development, as behaviours and expectations are essentially locked in over time. From this perspective, distinctive institutional choices by Southeast Asian leaders in the 1960s and 1970s shaped economic structure and social formations, leading to

8 On the magnitude of illicit financial flows in African economies, see Kar & Cartwright-Smith (2010).

developmental outcomes that were quite different from those in Africa. Path-dependent arguments, however, rarely account for the initial choices that defined the framework of development. The possibilities for shifting institutions and performance are not easily captured by a framework emphasizing continuity. Alternatively, historical institutionalism is more attuned to processes of change. This branch of analysis focuses on ways that institutions evolve through contention, bargaining, experimentation, and happenstance. As discussed earlier, historical approaches can provide insights into the previous conditions for institutional change, but we need a better appreciation of contemporary, dynamic factors affecting development.

Political Context

Policy choice and institutional development are essentially political preferences. Leaders select economic measures sometimes on their technical merits, but more often because they satisfy immediate exigencies or speak to strategic interests that may not be in line with economic goals. For the same reasons, executives may decide whether to sustain or neglect, strengthen or erode key agencies and legal structures. A focus on the distinctly political context of development considers the ways in which actors, interests, and ideas shape policy and institutions over time. This accounts for conflict, accommodation, and contingency in the process of policy-making and market response. The structures and contentious features of political life drive basic elements of economic change.

The political analysis of development has a lineage extending to the earliest study of 'emerging nations' in Asia and Africa. Theorists of political development studied key institutions, the nature of regimes, and the overall capabilities of governments in the process of modernization.[9] Subsequent economic successes in East and Southeast Asia and Latin America inspired a broad literature on the "developmental" state.[10] Observers note that governments have played strategic roles in guiding rapid economic transitions in such countries as Japan, South Korea, Taiwan, Singapore, Malaysia, Chile, Brazil, and Mexico, all countries that accelerated growth and structural change. Effective developmental regimes have shared some common features.[11] They have been led by elites with a focus on economic

9 Examples include Apter (1965), Pye (1966) and Huntington (1968).
10 The pioneering study is Johnson (1982).
11 See for instance Amsden (1989), Evans (1992, 1995), Haggard (1990) and Leftwich (1995).

development, a long-term strategic vision, and sufficient control of the political process to advance a policy agenda over a number of years. In addition, leaders have delegated authority to technocratic groups, distinguished by specialist training, economic expertise, and their distance from politics. In successful developmental regimes, technocrats benefit from executive support and political cover in pursuing an economic programme. The policy team is substantially insulated from political pressures and can concentrate on 'optimal' policies. Developmental states also include a sufficiently capable bureaucracy to implement key policies and regulations. These regimes have also asserted a degree of independence from particular political interests and have been able to build coalitions to support their economic agenda. A developmental agenda was charted by several authoritarian regimes in the 1970s and 1980s, though a number of elected governments have also been successful in bolstering economic management and advancing growth.

The model of the developmental state provides a useful framework for gauging the political context of economic change. Some features, such as long-term vision and resilient policy commitments, are evident only with time. Other elements, however, can be assessed in the near term, including technocratic delegation, administrative capacity, and the coherence of an economic programme. From the perspective of the Tracking Development project, it is clear that developmental regimes are more common among the Southeast Asian cases—Malaysia, Indonesia, and Vietnam—than among the African cases considered here (Kenya, Nigeria, Tanzania, and Uganda). A number of Southeast Asian governments (including also Singapore and Thailand) have sustained effective macroeconomic policies, fostered capable bureaucracies, and built productive coalitions with investors and sectoral groups. African regimes, by contrast, have reflected detrimental policies, political uncertainty, weak administration, and patronage-based political systems that prioritize distribution and consumption over production or investment. Across Africa, only Mauritius and Botswana embody attributes of the developmental state model, and the successes of these small countries have limited resonance in the region.

These distinctions, though salient, leave a number of problems in understanding real processes of economic change. First, the model of the developmental state is an "ideal type" that covers a range of actual cases (Weber, 1997). Developmental regimes are often apparent only in comparative perspective, and over the longer term. There is no single template for regimes that effectively promote development, since countries vary significantly in their capabilities, continuity, institutional design, and policy mix. Brazil, Thailand, China, or Botswana would seem to have few common attributes or transferable experiences. Further, this perspective emphasizes the culmination of political and economic change—an end state—rather than considering growth processes and the emergence of developmental regimes. The political sources of development remain an open question.

How do we understand the emergence of developmental states? This is the frontier of research on the process of economic transition. Many of the countries regarded today as successful catalysts of development were considered in earlier periods to be weak, fragmented, saddled by corruption, beset by social divisions, hampered by cultural limitations, or constrained by ideology. However, the spread of rapidly-growing economies and emerging markets worldwide indicates that governments may shift economic paths. Countries that have been mired in stagnation, largely for political reasons, can advance toward dynamism and growth. A process of "equilibrium-tipping" occurs when public and private incentives are realigned from ad hoc distributional goals and rent-seeking toward an agenda of productive capital formation (Evans, 1995; Carey, 2000). This broad transition raises a set of strategic challenges, the first of which can be viewed as problems of collective action. How to concentrate the efforts of public officials in pursuing a common agenda of growth? How to effectively represent the general interests of market participants? A related issue is coordination between the state and the private sector. This calls for dialogue on policy and the exchange of information to properly calibrate regulation (Schneider, 2004). However, coordination may easily shade into collusion, calling for a third element of enforcement. Authorities within government and sectoral groups must discourage cheating and set standards of performance.

In approaching these strategic problems, leadership, consensus, and coalition-building appear at the core of successful developmental regimes. The commitment and continuity of leaders has been instrumental to economic success among the cases included in Tracking Development. In Malaysia and Indonesia, individual rulers presided over authoritarian systems and guided a process of economic change over a course of decades. The story of growth in Indonesia cannot be written without a focus on Suharto, as the Malaysian story substantially centres on Mahathir Mohamad. In Vietnam the process was less personalized, though a close-knit party elite supported the process of economic opening and accelerated growth from the late 1980s. In the African cases, effective developmental leadership has been lacking. Nigeria's turbulent political history has seen a rotation of civilian and military rulers with limited tenure, facing strong distributional pressures. In Kenya, corruption, ethnic rivalry and sporadic violence were prevalent as authoritarian rule eroded the foundations of a once-prosperous economy. Uganda was riddled with instability and conflict until 1986, when Yoweri Museveni's regime evinced some developmental features. Over time, however, personalized power and corruption have stunted the gains of the regime's early years.

Developmental leadership is not merely fortuitous, but emerges from particular challenges and institutional conditions (Lewis, 2007). One important theme in the Southeast Asian cases is the influence of overriding security threats in moving leaders toward strategies of agrarian-led growth, as a means of building political support and reducing challenges from the countryside. Malaysia, Indonesia, Vietnam, and Cambodia all reflect this pattern in some degree. Malaysian and Indonesian regimes faced internal security challenges from rural insurgencies, while the history of guerrilla conflict in Indochina concentrated the attention of leaders in Vietnam and Cambodia on the agricultural sector. In Africa, the rural sector has been divided by regional and communal identities and often marginal to elite politics. Rulers have managed rural interests through clientelism, ad hoc patronage, and selective repression, while serving urban interests at the core of their support coalitions.

Leaders also emerge through key institutions. In Malaysia and Vietnam, ruling parties have been instrumental, while Indonesia's New Order regime was founded by the military. These cases illustrate the emergence of a developmental project among core organizations and their importance as the basis for a broader elite consensus. Suharto's regime sought to extend and consolidate support through a corporatist party, Golkar, while UMNO in Malaysia and the Communist Party of Vietnam organized and channelled key groups or classes. Ruling parties have often coordinated with associations representing business, labour, farmers, civil servants, and other key interests. These regimes have been authoritarian and corporatist in structure, yet they developed a framework for building a developmental agenda and marshalling support (or acquiescence) from essential social strata. The African countries included in this project varied considerably in structure, from the populist-corporatist system in Tanzania, to long-standing single-party rule in Kenya, and civil-military cycles in Nigeria and Uganda. Though Tanzania appears closer to some of the Southeast Asian states with a stable leadership and party control, administrative weakness and strategic errors precluded growth. In the African cases, shifting patronage-based systems were accompanied by policy distortions and rent-seeking coalitions.

While leadership is often crucial to framing a developmental agenda, a broader social and political consensus is the foundation for longer-term economic transition. When core elites converge around key policy goals and broader institutional development, it becomes possible to convey credible commitments to market participants. Elite consensus can be augmented by acceptance from labour, communal groups, or the middle classes. In the Southeast Asian cases, leaders were able to consolidate support within ruling groups and to construct bargains with other key constituencies over time. In Malaysia, the New Economic Policy addressed pressing distributional issues and stabilized the setting for growth. In Indonesia, Suharto built a set of organizations for incorporating the military, civil servants, Muslim communities, and ethnic Chinese groups in an authoritarian corporatist framework. Vietnam's Leninist framework has provided institutions for elite consensus and a structure of managing popular sectors. The African cases have varied among contentious distributional politics with uncertain institutions (Nigeria, Uganda), patronage-based dominant party systems and ethnic balancing (Kenya, Uganda, Nigeria), or populist corporatism (Tanzania). In Africa, there has rarely been a clear elite consensus around a growth project, or a durable reform bargain with popular sectors. Moreover, authoritarian regimes in Africa have not had the coercive or managerial capacities to enforce labour conditions or to elicit productive response.

The ability of governments to forge a workable coalition among investors and producers is another prominent feature of successful developmental systems. A combination of policy coherence, macroeconomic stability, and relationships between officials, firms, business groups, and sectoral actors furnishes the foundation for long-term investment and output. The producer coalitions we have in mind are not merely collusive relations between rulers and a few favoured business interests, but a much broader set of relations that assure market participants about property rights and economic prospects. Political assurances can bolster certainty for sectoral actors, giving entrepreneurs, investors, and farmers the confidence to invest in fixed assets and productivity-enhancing activities. A producer coalition is essentially an alliance for accumulation: a wide array of commitments and coordination that permits capital formation. Comparative experience suggests that producer coalitions can be politically crafted even in circumstances of weak institutions or political turbulence; this was the experience in Indonesia and Malaysia, as well as Mexico in an earlier era.

Vietnam has reflected such a coalition, and Cambodia has been successful in eliciting a response from rural producers. In Africa, the pattern is typically a clientelist system in which rulers provide discretionary goods and favours to particular firms or social groups. In the presence of executive control and arbitrary distributional politics, producers are likely to withhold their capital or to divert resources away from fixed assets (physical plant, irrigation, etc.), concentrating instead on speculative activities and trade. The politics of clientelism in Nigeria, Kenya, Uganda, and Tanzania has substantially hampered a producer coalition and limited growth in the critical sectors of the 'real' economy.

Conclusion

This chapter reflects on the intellectual project of Tracking Development. I have reviewed the diverse conceptual approaches to economic transition, distinguishing five broad perspectives. Historical, structural, policy, institutional, and political frameworks have all been applied to the problems of shifting from poor, low-growth economies to more resilient and affluent systems. Historical approaches allow us to trace processes and to understand the importance of initial conditions. However, historical analysis is often descriptive and necessarily retrospective, leaving open questions of both structure and agency in determining change. Structural approaches resolve part of this gap. The analysis of structure helps to frame the influence of resources, institutions, and social formations in shaping patterns or limiting choice. Structural arguments have the liability of being deterministic, while providing limited understanding of choices and alternative outcomes. On the side of agency, policy approaches clearly focus on the framework for promoting economic change. The policy alternatives highlighted in the Tracking Development project provide a sharp distinction in both elite choices and economic paths among the two regions under comparison. The limitations in analyzing policy choice arise from the broader context in which policies are pursued. Policy analysis does not explain why certain policies are selected and sustained, or how they are implemented in different settings. An institutional perspective offers insight into the latter question. The focus on institutions provides an understanding of how incentives are structured for rulers and market participants. Institutional analysis also explains the strengths and limitations of different regimes in pursuing policy agendas. Institutional perspectives help to illuminate the conditions of success or failure for economic policies, but existing approaches do not adequately explain how institutions evolve or transform over time.

The politics of development is a distinct aspect of the transition process that requires further attention. Political analysis has identified the features of the 'developmental' state and the organizational challenges of building developmental systems. Leadership, consensus, coordination problems, and coalition-building are integral to the politics of development. Moving systems from rent-seeking and distributional politics to a focus on capital formation requires shifts in the incentives of elites, constituencies, and key market participants. The agenda of shared growth, highlighted in the more successful Southeast Asian cases, poses a political challenge across Africa. An understanding of political motives and processes forms an important frontier for building upon the crucial findings embodied in Tracking Development.

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4

Comparing the Agricultural Performance of Africa and Southeast Asia over the Last Fifty Years

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Introduction

The idea behind the Tracking Development research project of comparing 'Southeast Asia's economic miracle' with 'Africa's economic stagnation' summarizes the widely perceived notion of the difference in performance by the agricultural sectors in these two world regions over the last fifty years. One of the main conclusions drawn by David Henley and Jan Kees van Donge is that the economic breakthrough in Southeast Asia can be explained well only if one looks at the massive state-led rural development campaigns there from the 1960s onwards, which resulted in a major agricultural revolution and in generally successful rural poverty alleviation. This was much less the case in Africa where many state elites simply made the wrong choices, neglecting the rural peasants and trying to implement an elite-based industrialization strategy that went wrong. This essay looks at the statistical evidence of the perceived differences between Southeast Asia and Africa based on FAO data, and for Africa as a whole and the four pairs of countries that featured in the Tracking Development project: Indonesia and Nigeria; Malaysia and Kenya; Vietnam and Tanzania; and Cambodia and Uganda. I restrict myself to FAOSTAT figures and my interpretations of these figures, and will make an overall comparison of the eight countries at the end of the contribution.

Africa as a Whole

In my 2011 inaugural address entitled 'Silverlining Africa',[1] I showed that the current agricultural situation in Africa is not as bad as it is often portrayed and that, particularly in the last decade, major improvements can be seen. If we look at the last fifty years, African farmers have succeeded in more than doubling the area under cultivation: from 101 million hectares in 1961 to 209 million hectares in 2009,[2] which is equivalent to 7% of Africa's total land area. Most of Africa's land mass is uncultivated and is mainly tropical forest, savannah, desert, and semi-desert regions (10% of it having some form of protection order placed on it, for what it is worth), and most of it is sparsely populated.

Africa's cropping data dynamics mirror the eras of Afro-optimism and Afro-pessimism. In the 1960s, when most African countries had gained political independence, their new governments were embarking on a trajectory of rapid economic expansion, dreaming of industrialization and 'development', and often neglecting their agricultural heritage and the well-being of their farmers. However, relatively benign weather conditions and the path dependency of colonial modernization and agricultural commercialization schemes of the 1950s still allowed for an expansion of the continent's cropping lands. The 1970s saw a decline in almost all crop lands due to adverse weather conditions and the harsh anti-agricultural and anti-rural policies that created an atmosphere of rural despair that is still feeding Afro-pessimism today. In the same decades, Southeast Asia and China were preparing the ground for their own economic breakthrough based on state-led policies that favoured agriculture and their rural populations.[3] The late 1980s saw a recovery in Africa, which continued into the 1990s, including a rapid rise in the amount of crops sold on the world market as a result of the increased global prospects for Africa's economy. The last decade has shown steady crop expansion but one very

1 T. Dietz (2011) 'Silverlining Africa', Inaugural Address, Leiden University. See https://openaccess.leidenuniv.nl/bitstream/handle/1887/16340/ASC-075287668-2795-01.pdf?sequence=2 [accessed 26 September 2012].

2 FAOSTAT data, Harvested area, Africa total. Accessed 23 November 2010. See: http://faostat3.fao.org/home/index.html#DOWNLOAD.

3 One can question the social and environmental costs of these state-led pro-rural policies. In Indonesia, the massacres and authoritarian rule after 1965 hit the rural working poor very hard, and China's Cultural Revolution and the preceding so-called Great Leap Forward were disastrous for many in the countryside who simply did not survive. The boost in agricultural production for the world and urban markets has also created major environmental problems: deforestation, decreased biodiversity, soil and water pollution, and erosion.

much focused on producing food to feed Africa's own expanding urban populations, which have increased from 62 million or 20% of its total population in about 1960 to 450 million people or 45% of the total population today. This represents an enormous growth in the number of urban consumers requiring agricultural produce. If we look at the last fifty years as a whole, the acreage of almost all African crops has increased considerably.[4] The continent has nearly doubled its cereal production area and tripled its production of pulses and root and tuber crops. If we consider cereal crops in more detail, rice acreage has more than tripled, sorghum more than doubled, and maize has also almost doubled. A rapid expansion can be seen in 'luxury' tree crops, fruits, and vegetables that are being grown both for the world market and also for Africa's growing urban middle classes. That Africa has also more than doubled its livestock numbers and markedly increased the number of chickens kept, which are so important to its female farmers, is truly remarkable. Table 4.1 presents the details.

Table 4.1 Africa's cropping area (× million ha) and livestock numbers (× millions), 1961–2009

Crop	1961	1970	1980	1990	2000	2009	Increase 1961–2009 (%)
Cereals	57	67	64	79	88	109	+ 91
Pulses	7	11	9	13	16	22	+ 214
Roots/ tubers	8	11	11	14	21	24	+ 200
Fibres	4	5	4	4	4	4	–
Oil crops	17	20	19	20	27	31	+ 82
Fruit*	7	10	10	13	16	19	+ 171
Total crops	101	124	117	143	172	209	+ 107
Livestock							
Chickens	274	395	556	908	1,201	1,471	+ 437
Goats	94	115	141	177	234	295	+ 214
Sheep	135	159	185	207	246	292	+ 116
Cattle	122	149	172	189	228	271	+ 122
Pigs	6	7	10	16	21	28	+ 367
Camels	9	12	14	15	18	22	+ 144

Source: FAO FAOSTAT: Area harvested, Africa total.
For livestock: FAOSTAT.fao.org.site/573.
* This includes melons, sugarcane, vegetables, and tree nuts (including cocoa and coffee beans).

[4] Fibre crops are the exception.

Agriculture's success should of course not only be judged by an expansion of the area under cultivation. Yields are important as well, and for yields too the overall picture is generally positive. Over the last fifty years, African farmers have succeeded in achieving a higher yield per hectare for all crops, with the exception of vegetables. The yield increases were most pronounced for fruits and cereals, with an almost doubling of average yields. Roots and tubers showed a 61% improvement in yield (see Table 4.2 for more details).

Table 4.2 Africa's crop yields (kg/ha), 1961–2009

Crop	1961	1970	1980	1990	2000	2009	Increase 1961–2009 (%)
Cereals	810	907	1,131	1,176	1,270	1,479	+ 82
Pulses	499	*452*	565	*553*	*550*	593	+ 19
Roots/tubers	5,779	6,235	6,873	7,858	8,161	9,280	+ 61
Fibres	264	327	347	368	374	*369*	+ 40
Oil crops	237	*214*	239	270	*264*	317	+ 34
Fruits	5,526	7,205	8,264	8,817	9,585	10,514	+ 90
Vegetables	6,835	*6,071*	*6,005*	6,245	6,624	6,885	+ 1
Tree nuts	552	*543*	564	*517*	742	769	+ 39

Source: FAO FAOSTAT: Yield, Africa total.
Italics indicate a lower yield than ten years earlier.

If yield and acreage data are combined, the aggregated results for all major food crops show that Africa is better able to feed its population today than it was in 1961, despite a 350% increase in its population over these fifty years (see Table 4.3). Both then and now, Africa produced on average a little more than the minimum food requirements for a healthy life, as outlined by the World Health Organization,[5] although many Africans still do not get enough food every day. However, the data in Table 4.3 also show that the food-security situation between 1970 and 1980 deteriorated badly and recovered only slowly between 1980 and 2000, when food production per capita was still below 1961 and 1970 levels. It is only in the last decade (2000–2009) that Africa's agricultural situation improved considerably and the continent enjoyed food-security levels higher than ever before in its recorded history.

[5] If I use 825,000 Cal/capita/year or 2260 Cal/capita/day.

The annual findings for the total food value of African cereals, pulses, roots, and tubers would mean 2,304 Cal/day in 1961; 2,477 Cal/day in 1970; 2,184 Cal/day in 1980; 2,219 Cal/day in 1990; 2,276 Cal/day in 2000; and 2,573 Cal/day in 2009. The figures for 1961, 1970, and certainly 2009 are above the minimum average requirements according to WHO data. The figures for 2000 are close to minimum average requirements, and those for 1980 and 1990 are below the minimum average requirement of 2,260 Cal/day or 825,000 Cal/year.

Afro-pessimists generally present data that demonstrate a deteriorating situation between 1970 and 2000, and they are right to show an alarmingly low average food-security situation on the continent in those decades. However, they would begin to change their tune if they looked closely at figures for the last decade.

Behind this silver lining of a recovery in African agricultural production and food security, some dark clouds are there for those who want to see them. The expansion of Africa's population and agriculture and the concomitant growth of demand for farmland and wood energy have resulted in a major decrease in Africa's forest lands. Between 1990 and 2010, the world lost 135 million hectares of forest land, with Africa accounting for

Table 4.3 Africa as a whole: Population (× millions), crops (× millions of tons), livestock (in millions), and food energy value (1000 Cal) dynamics, 1961–2009

	1961	1970	1980	1990	2000	2009	Change 1961–2009
Population	289	368	483	635	811	1000	× 3.46
Cereals production	46	61	72	93	112	161	× 3.49
Pulses production	3	5	5	7	9	13	× 3.89
Roots and tubers production	46	69	76	110	171	223	× 4.82
Food energy value per capita per year*	841	904	797	810	831	939	× 1.12
Cattle, sheep, goats, pigs, and camels	366	442	522	604	747	908	× 2.48
Chickens	274	395	556	908	1,201	1,471	× 5.37

Source: Population: esa.un.org/unpp; crop and livestock data: see Tables 4.1 & 4.2.
* For cereals and pulses, an average energy value of 3,600 Cal/kg was used, and for roots and tubers 1400 Cal/kg. Other sources of food (and the balance of food exports and imports) have not been taken into account.

more than half of this loss.[6] African forests decreased in size from 691 million hectares to 616 million hectares in these two decades, and its forest carbon storage capacity decreased from 60.9 gigatons to 55.9 gigatons in the same period.[7] And despite Nobel Peace Prize winner Wangari Maathai's pioneering work to promote reforestation in Africa,[8] it is still not yet a high priority.

Indonesia and Nigeria

Indonesia

Indonesia's agricultural performance has been impressive since 1960. In the last fifty years, its population has increased by a factor of 2.5, its food production by a factor of 3.7, and its food value per capita by a factor of 1.8. For cereals (rice and maize), 63% of the growth in production can be attributed to yield gains and 37% to an expansion in cropping area. For roots and tubers, yields increased by a factor of 2.4, while the area cropped contracted by 26% (see Table 4.4).

The trend among the different food crops in Indonesia varies: cereals show a steady improvement in production volumes based on impressive yield increases, and steady but less impressive increases in the area harvested. Within cereals, every decade shows improvements for rice/paddy both in area and yield, while this is also true for maize, with the exception of the area harvested in the 1970s. However, and perhaps surprisingly, overall production volumes for maize have risen faster (from 2.3 million tons to 17.6 million tons) than for rice (from 12.1 million tons to 64.4 million tons). As a result, the total composition of cereals shifted from 84% rice and 16% maize in 1961 to 79% rice and 22% maize in 2009. Pulses are a minor crop in Indonesia, with a stagnating production level if we look at the period as a whole, based on slightly increased harvesting areas but lower yields. Roots and tubers (and particularly cassava, some of which is exported and used for animal consumption) showed a steady increase in production volumes (except in the 1960s) based on increases in yield

[6] See www.forestry.gov.uk (for 2010 forestry statistics). An analysis of 'African forests between nature and livelihood resources' can be found in Ros-Tonen & Dietz (2005, Lewiston: The Edwin Mellen Press). The fourth edition of the UNEP's *Global Environmental Outlook* also has a great deal of data (and warnings). GEO4 was published in Nairobi in 2007.

[7] www.forestry.gov.uk (2010 forestry statistics). Forested areas shrank from 23.2% of Africa's total land area to 20.7% between 1990 and 2010.

[8] See http://nobelprize.org/nobel_prizes/peace/laureates/2004/maathai-bio.html.

Table 4.4 Population and food production dynamics in Indonesia, 1961–2009

	1961	1970	1980	1990	2000	2009	Index (1961=100)
Population (millions)							
	96	118	148	178	206	240	250
Cropping area (× m. ha of harvested crops)							
Cereals	9,319	11,074	11,740	13,660	15,293	17,044	182
Pulses	272	249	439	509	342	322	118
Roots/tubers	2,022	2,009	1,793	1,624	1,615	1,498	74
Yield (1000 kg/ha)							
Cereals	1.54	2.00	2.87	3.8	4.03	4.81	312
Pulses	1.11	1.18	0.85	1.38	0.85	1.03	93
Roots/tubers	7.20	6.95	9.14	11.53	11.93	17.12	237
Total basic food production (million tons)							
Cereals	14.4	22.2	33.6	51.9	61.6	82.0	569
Pulses	0.3	0.3	0.4	0.7	0.3	0.3	100
Roots/tubers	14.6	14.0	16.4	18.7	19.3	25.6	175
Food energy value (× 1000 Cal/capita/year)							
Cereals	539	678	817	1,049	1,075	1,229	228
Pulses	11	9	9	14	5	5	45
Roots/tubers	212	166	155	147	131	149	70
Total	762	853	981	1210	1,211	1,383	181

Roots and tubers for Indonesia include mainly cassava but also sweet potatoes and other minor roots and tubers.

levels (again except for the 1960s) but steadily decreasing harvested areas. In Indonesia's total food production basket as measured in (potential) food energy value, cereals increased from 71% in 1961 to 89% in 2009, while roots and tubers became relatively much less important (down from 28% to 11%), making the food-security situation more dependent on cereals and particularly rice production. However, if we look at the changes in the total food energy value per capita, we see that Indonesia's food-security situation improved significantly: from a dismal 762,000 Cal/day in 1961 (below WHO norms) to 1,383,000 Cal/day in 2009 (well above WHO norms).

Cereal production gains were most impressive in the 1960s, with average gains of 6% per year (and 60% based on yield increases). The 1970s saw the highest average yield increase in the last fifty years (4.4% per year) but only minor changes in the area harvested. During the 1980s both yields and areas harvested increased further (around 67% of the gains were a result of yield improvements, and in this period very much so for maize), while the 1990s were years of slow growth. Cereal yields and harvested areas picked up again in the 2000s: the area of rice expanded by another 1% per year and maize by 2.2% per year; rice yields increased by a further 1.5% per year to an average level of 4,992 kg/ha, but maize yields increased by 5.7% per year during this most recent decade from 2,771 kg/ha in 2000 to 4,190 kg/ha in 2009, which comes close to the average yield levels of rice production.

Indonesia's rapidly expanding food production does not stand in isolation. For many other crops, Indonesia saw massive increases in production. Its total food crop area increased by a factor of 1.6, while its total crop area grew by a factor of 2.2. As a result, Indonesia's food crop share in total agricultural land decreased from 76% in 1961 to 56% in 2009. Of its total land area of 192 million hectares, the area under crops increased from 8% in 1961 to 17% in 2009. The most impressive crop-area increases can be seen in coffee (× 5.4), sugarcane (× 5.3), and oil crops (× 4.4). Oil crops, particularly oil palm and coconut, became important. 2009 shows the highest harvested areas ever for many crops. However, it was not only the areas under cultivation that expanded; yields improved too for most crops. Oil-crop yields increased from 3.5 tons/ha to 14.1 tons/ha. Yield improvements in fruit and vegetable production were also impressive. The only major non-food crop for which average yields deteriorated was sugarcane. Table 4.5 presents some details of the changes in area between 1961 and 2009.

Table 4.5 Indonesia's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index: 1961=100	Highest in
Cereals	9319	17044	182	2009
Pulses	272	322	118	1990
Roots/tubers	2022	1498	74	1961
Fibres	21	26	124	2009
Oil crops	2207	9606	435	2009
Fruits	392	730	186	2007
Tree nuts	0	531	–	2009
Vegetables	450	966	215	2006
Cocoa	0	1000	–	2009
Coffee	182	980	538	2000
Sugarcane	80	420	525	2009
Tea	107	107	100	2000
Tobacco	224	232	104	1990
Total	15276	33462	219	2009
Food/Total	76%	56%		

Indonesia's livestock numbers increased almost as fast as its population, although its numbers of sheep and pigs grew faster than its cattle and goats. Its chicken population grew enormously between 1961 and 2009. And overall, the number of tropical livestock units increased considerably faster than the country's population. However, there are major differences between the decades: during the troubled 1960s, the livestock population contracted, and in the 1970s it grew again but more slowly than the population did. In the 1980s the livestock population more than doubled, and after 1990 livestock growth was faster than the growth in population. After 1980, Indonesia's growing economic (oil) wealth is clearly reflected in its livestock wealth as well (see Table 4.6).

Nigeria

Nigeria's population has expanded considerably more than Indonesia's and, in relative terms, Nigeria had to feed many more extra mouths between 1961 and 2009 than Indonesia had to. Its initial situation was much better than Indonesia's. While Indonesia's basic food production did not produce enough food in 1961 to give Indonesians enough food energy value per capita, according to WHO norms, Nigeria's food production was more than sufficient (Table 4.7). In the ten years following independence, its food situation continued to improve: all basic food products expanded, although mainly in area and not in yield. The growth of root and tuber production (mainly cassava and yams) was so impressive that it overtook cereals as the most important type of basic food consumed in this period. In the 1970s, the picture changed completely. There was a dramatic decrease in the areas harvested for all types of food crops, and although yields improved for cereals (and recovered for pulses),

Table 4.6 Indonesia's livestock (× million), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	6.4	6.1	6.4	10.4	11.0	12.9	202
Sheep	3.6	3.4	4.1	6.0	7.4	10.2	283
Goats	7.9	6.3	7.7	11.3	12.6	15.8	199
Pigs	2.7	3.2	3.2	7.2	5.4	6.9	258
Total	20.6	19.0	21.4	34.9	36.4	45.8	223
Chickens	60.0	63.0	149.0	571.0	859.0	1342.0	2237
*Total TLU**	6.5	6.2	7.5	15.4	18.8	25.7	397

* TLU: cattle × 0.7; goats, sheep, and pigs × 0.1; chicken × 0.01.

production levels were much lower than in the 1960s, which resulted in an average food energy value per capita below WHO requirements. A major recovery took place during the 1980s, with all types of food crops expanding by area harvested (with many more than doubling in area), and yields also improved somewhat. Food sufficiency improved so significantly that, at the start of the 1990s, Nigeria had almost reached the high food security figures it enjoyed in 1970. During the 1990s the areas under harvest further increased, with the area of roots and tubers more than doubling, although yield levels began to stagnate (for cereals) or even decreased (for pulses and roots and tubers). However, the area expansion was so important that overall production levels improved even more during this period, and Nigeria reached a level of food sufficiency that was more than 70% higher than WHO minimum requirements, and higher than Indonesia had ever enjoyed. Over the last ten years, food production reached an interesting turning point. For cereals and pulses, the harvested areas contracted considerably, but yields improved and, as a result, total cereal production stabilized. For roots and tubers, the harvested area increased somewhat and yields improved (but not yet to the relatively high levels of the 1980s), so roots and tubers reached an all-time high production level. Owing to the ever-growing Nigerian population, the average available energy values went down, but to a level that is still more than sufficient for an average healthy life.

Looking at the 1961–2009 period as a whole, Nigeria's population increased by a factor of 3.5; but its total food production increased by a factor of 6.1 for roots and tubers and a factor of 4.8 for pulses. Cereals increased by a factor of 2.7, which is lower than the population growth rate. In terms of food composition, Nigeria showed the opposite dynamic compared with Indonesia. While cereals in Indonesia were the 'breakthrough' crops, in Nigeria it was roots and tubers. As a result, food composition in Nigeria changed from 60% cereals and 36% roots and tubers in 1961 to 40% cereals and 55% roots and tubers in 2009. Total cereal production increases in Nigeria can be attributed to increases in yield of 62% and to an expansion of the area under cultivation of 38%. For pulses, the figures are 53% and 47% respectively, but for roots and tubers almost all production growth (83%) can be attributed to area expansion, and only 17% to yield improvements.

Table 4.7 Population and food production dynamics in Nigeria, 1961–2009

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	43	54	71	94	125	149	347
Cropping area (× m. ha of harvested crops)							
Cereals	10.6	12.4	7.2	15.4	18.2	13.7	129
Pulses	1.3	3.9	1.6	1.9	3.7	2.6	200
Roots/tubers	1.4	2.4	1.8	3.1	7.6	7.7	550
Yield (1000 kg/ha)							
Cereals	0.7	0.7	1.1	1.2	1.2	1.5	214
Pulses	0.4	0.2	0.4	0.7	0.6	0.9	225
Roots/tubers	8.6	9.8	9.6	10.9	8.6	9.6	112
Total basic food production (million tons)							
Cereals	7.9	9.0	7.8	17.7	21.4	21.0	266
Pulses	0.5	0.9	0.6	1.4	2.2	2.4	480
Roots/tubers	12.2	23.8	17.1	33.6	65.2	74.0	607
Food energy value (× 1000 Cal/capita/year)							
Cereals	655	601	395	674	617	506	77
Pulses	39	62	29	54	65	58	149
Roots/tubers	394	619	337	498	731	694	176
Total	1,088	1,282	761	1,226	1,413	1,258	116

Roots and tubers in Nigeria are mainly cassava and yams but also cocoyam, sweet potatoes, and minor roots and tubers. Plantains in Nigeria also add calories (in 1961 and in 2009 24KCal/cap/yr) to the basic diet.

The area/yield dynamics show interesting contrasts and similarities between the two countries. As in Indonesia, the improvements in Nigeria's cereal production were mainly driven by yield improvements and not so much by area expansion. However, in Nigeria both were at much lower levels: Indonesia's areas of cereal cultivation increased by a factor of 1.8 and Nigeria's by a factor of 1.3. Indonesia's cereal yields improved by a factor of 3.1 and Nigeria's by a factor 2.1. The latter came from much lower average levels in 1961: Nigeria had only 700 kg/ha, while Indonesia at the time had already reached a level of 1,540 kg/ha. Nigeria had reached this level in 2009, but Indonesia had moved on to the impressive level of 4,810 kg/ha. For roots and tubers, Indonesia's performance is less impressive. The relevance of these crops in the basic food profile dropped, as did the total area harvested. On the other hand, the crop productivity for roots and tubers improved considerably. In Nigeria it was the opposite:

the harvested area increased dramatically but crop productivity much less so. In 1961, average yields for roots and tubers were higher in Nigeria than they were in Indonesia (8,600 kg/ha and 7,200 kg/ha). In 2009, Indonesia's average productivity for these crops had reached almost twice the level in Nigeria: 17,100 kg/ha and 9,600 kg/ha. However, as a result of a massive area expansion of cassava and other roots and tubers, Nigeria's basic food profile shifted in the direction of roots and tubers and is now dominated by these food types. This major shift can also be seen by comparing the various crop statistics in more detail (Table 4.8). If we look at the most impressive figures for expanding crop areas, sweet potatoes lead, followed by rice, yam, and cassava, while the areas of 'northern cereal crops' (millet and sorghum) declined or stagnated. And if we look at food crop production figures, the growth of rice volume tops the list, followed by sweet potatoes, cocoyam, and yam.

Basic food crops in Indonesia became less important in relative terms in total crop acreage, dropping from 76% to 56%. The relative importance of basic food crops in Nigeria started at a lower level (63%) but remained at a similar level. Overall crop acreage expanded in both countries but with higher growth in Indonesia than in Nigeria. However, in 1961 the crop area in Nigeria started as a much higher percentage of total land area than in Indonesia: 23% versus 8%. In 2009, 42% of Nigeria's total land area (910,771 km^2) was under agricultural production, while the figure for Indonesia was only 17%. The room for expansion in Nigeria is much lower than in Indonesia but, over the last ten years, crop area expansion for

Table 4.8 Nigeria: More detailed crop statistics, 1961 and 2009

Crop	Harvested area (× 1000 ha)			Production (× m kg)		
	1961	2009	2009/1961	1961	2009	Index 1961=100
Maize	1,375	3,336	243	1,107	7,339	663
Millet	4,360	3,750	86	2,644	4,885	185
Rice	149	1,788	1,200	133	3,403	2,559
Sorghum	4,658	4,737	102	3,958	5,271	133
Other cereals	79	121	153	49	85	173
Cow peas	1,216	2,525	208	431	2,370	550
Cassava	780	3,127	401	7,384	36,804	498
Cocoyam	181	630	348	447	4,460	998
Yam	450	2,776	617	3,500	29,092	831
(Sweet) Potatoes	15	1,185	7,900	167	3,662	2,193

non-basic food crops was impressive, while crop area figures for cereals and pulses went down compared with ten years ago, and roots and tubers stagnated. For most Nigerian non-basic food crops, 2009 or one of the immediately preceding years was the year with the highest acreage. In the fifty years following independence, crop expansion was most visible in tree nuts, sugarcane, and roots and tubers (see Table 4.9). Looking at the crop area figures as a whole, oil crops were and still remain the dominant non-basic food crops, with oil palm mainly coming from the south and groundnuts from the north of the country. But within oil crops, the area and production expansion for soya and karite nuts (shea nuts) is much higher.

Nigeria has also seen an increase in livestock figures and, despite its high population growth compared with Indonesia, its livestock numbers are growing much faster, with the exception of cattle (although growth here is also impressive). Livestock growth figures in Nigeria (as measured in tropical livestock units) were particularly high in the 1960s and 1970s (Table 4.10), since when they have closely followed population growth trends. Nigeria's economic boom resulted in a major increase in the country's livestock wealth, even more so than in Indonesia. Livestock investments are particularly visible in the expansion of so-called small stock (goats and sheep).

Table 4.9 Nigeria's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	10,600	13,700	129	2007
Pulses	1,300	2,600	329	2007
Roots/tubers	1,400	7,700	550	2007
Fibres	300	470	157	2006
Oil crops	5,200	8,300	160	2009
Fruits	750	1,770	236	2000
Tree nuts	2	33	1,650	2007–09
Vegetables	580	1,290	222	2000
Cocoa	700	1,370	196	2009
Coffee	60	10	20	1980
Sugarcane	70	720	1,029	2008–09
Tea	–	–	–	–
Tobacco	19	20	105	2000
Total	20,981	37,983	181	2007–09
Basic food/Total	63%	63%		

Table 4.10 Nigeria's livestock (× million), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	6.0	8.9	12.1	13.9	15.1	16.4	272
Sheep	1.0	3.2	8.1	12.5	26.0	34.7	3,404
Goats	0.6	3.2	11.3	23.3	42.5	55.1	8,852
Pigs	0.6	0.8	1.0	3.4	5.0	7.2	1,123
Total	8.3	16.1	32.5	53.1	88.6	113.4	1,363
Chickens	37.0	52.0	80.0	126.0	113.0	185.0	500
*Total TLU**	4.8	7.5	11.3	14.9	19.1	23.1	477

* TLU: cattle × 0.7; goats, sheep, and pigs × 0.1; chickens × 0.01; Nigeria also has a few thousand camels: camels × 1.0.

Malaysia and Kenya

Malaysia

By Southeast Asian standards, Malaysia has experienced a very high population growth rate over the last fifty years (Table 4.11) when compared with the figures for a country like Indonesia and the average figures for Sub-Saharan Africa. But Malaysia is a different story if we consider basic food dynamics. It has never been food sufficient—far from it, in fact. In 1961 the country could provide only 64% of its food requirements according to WHO standards, and in 2009 this had dropped to only 47%. The highest food-sufficiency level was reached in 1970 (75%), but since then its food-sufficiency level has deteriorated except for a slight improvement in the last decade. Malaysia's basic food production area has only slightly increased if we compare 2009 with 1961, but in fact cereals (mostly rice) first increased (with the largest harvested area in 1980) and then decreased again. For roots and tubers (mainly cassava), the peak was even earlier. Yield increases were also not as impressive as in countries like Indonesia. Total production increases for cereals can be attributed to an area expansion of 42% and to yield increases of 58%. For roots and tubers, these figures are 46% and 52% respectively.

Table 4.11 Population and food production dynamics in Malaysia, 1961–2009

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	8.4	10.9	13.8	17.8	23.0	25.7	306
Cropping area (× 1000 ha of harvested crops)							
Cereals	520	710	720	700	730	670	129
Roots/tubers	41	50	50	50	50	52	127
Yield (1000 kg/ha)							
Cereals	2.1	2.4	2.8	2.7	3.0	3.8	181
Roots/tubers	8.1	8.4	9.0	9.8	9.7	9.8	138
Total basic food production (million tons)							
Cereals	1.1	1.7	2.1	1.9	2.2	2.5	227
Roots/tubers	0.3	0.4	0.5	0.5	0.5	0.5	155
Food energy value (× 1000 Cal/capita/year)							
Cereals	470	563	537	387	345	356	76
Roots/tubers	55	57	46	39	28	28	51
Total	525	620	583	426	373	384	73

In Malaysia, roots and tubers are mainly cassava, and cereals are mainly rice/paddy and some maize. FAOSTAT does not provide data for pulses in Malaysia, probably because it is a very minor crop there.

Malaysia's food-security strategy has never been based on national food production sufficiency but on food imports. If we look at the total crop area (Table 4.12), the importance of basic food crops has dropped from 61% in 1961 to 14% today. This is mainly due to the enormous expansion in Malaysia's oil crop area (mainly oil palm but also coconuts), and it is still increasing. At much lower levels of acreage, other non-basic food crops have been expanding as well: cocoa went from virtually nothing in 1961 to almost 300,000 ha in 1990 but has fallen back to 'only' 21,000 ha today; sugarcane, coffee, and tree nuts but also vegetables and fruits have also expanded a lot. Looking at Malaysia's total land area (329,847 km^2), we can see that in theory there is still a great deal of room for expansion. In 1961 only 3% of the country's total land area was being used for crop cultivation, and this increased to 16% in 2009, close to the percentage seen in Indonesia today.

Table 4.12 Malaysia's crops; harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	520	670	129	1980
Roots/tubers	41	52	127	1970
Fibres	2	–	–	1961
Oil crops	298	4,311	1,447	2009
Fruits	41	98	239	1990
Tree nuts	2	8	400	2006
Vegetables	12	35	292	2009
Cocoa	1	21	2,100	1990
Coffee	8	53	663	2000
Sugarcane	1	15	1,500	1990
Tea	4	5	125	2009
Tobacco	3	14	467	2009
Total	933	5,342	573	
Basic food/Total	61%	14%		

Malaysia's chicken population has increased dramatically over the last fifty years (Table 4.13) and, owing to its relative importance in the composition of the calculated tropical livestock units' total TLU, grew considerably faster than Malaysia's (rapidly increasing) population. However, all other animals, with the exception of sheep, increased at levels below (cattle and pigs) or much below (goats) population growth. The number of chickens (and hence the overall number of tropical livestock units) grew particularly fast during the 1970s and again from 1990 onwards.

Table 4.13 Malaysia's livestock (× million), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	0.3	0.3	0.6	0.7	0.7	0.8	242
Sheep	0.0	0.0	0.1	0.2	0.2	0.1	305
Goats	0.3	0.4	0.3	0.3	0.2	0.3	110
Pigs	0.8	1.1	1.8	2.7	1.8	2.1	256
Total	1.5	1.8	2.8	3.9	2.9	3.3	224
Chickens	21.0	37.0	51.0	57.0	124.0	205.0	976
*Total TLU**	0.6	0.7	1.1	1.4	2.0	2.9	514

* TLU: cattle × 0.7; goats, sheep, and pigs × 0.1; and chickens × 0.01.

Kenya

Among the eight countries studied in the Tracking Development project, Kenya has had almost the highest population growth over the last fifty years, seeing an almost five-fold increase in its population. In 1961 it could feed its 8.4 million people at slightly above WHO requirements. In the 1960s, basic food crop production improved both in terms of area harvested and in terms of (slight) yield, and, as a result, its population reached a food-sufficiency level based on local production almost 10% higher than WHO requirements. After 1970, the situation began to deteriorate. Areas expanded somewhat in the 1970s but yields dropped, partly owing to severe droughts. During the 1980s, the harvested area of cereals, roots, and tubers stabilized and that of pulses more than doubled, and yields recovered, for roots and tubers to their highest levels ever. In the 1990s, yield levels deteriorated for all basic food crops, and the harvested area of pulses declined again. The last decade (until 2006) has, however, shown impressive improvements: harvested areas for the most important basic food crops (mainly maize) reached an all-time high (2.4 m ha), while average cereal yield levels improved from 1,370 kg/ha in 2000 to 1,650 kg/ha in 2006. Kenya produced 3.9 million tons of cereals in 2006. Its total basic food production could have potentially fed 69% of its population that year, up from 53% in 2000. At the end of 2007, the political situation went disastrously wrong and many farmers had to seek refuge in camps or with relatives elsewhere and to abandon their fields. Statistics show that the harvested cereal area went down 15% (although average yields improved in those areas where cereals could be harvested: up to 1,770 kg/ha). In 2008 there was a further reduction in the area under cultivation, but yields fell back to only 1,420 kg/ha, and in 2009 they even hit average levels below those of 1961. For pulses and roots and tubers, the situation was not much better. Although the harvested area improved, but not yet to 2006 levels, Kenya's basic food production in 2009 reached alarmingly low levels and the country could feed only 47% of its population of 39 million at WHO food requirement levels. The 2007/2008 troubles can thus be seen to have resulted in at least a 30% loss in basic food production levels by 2009 (see Table 4.14).

Table 4.14 Population and food production dynamics in Kenya: harvested area (× 1000 ha), 1961–2000

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	8.4	11.3	16.3	23.4	30.7	39.0	464
Cropping area (× m. ha of harvested crops)							
Cereals	1.1	1.6	1.8	1.8	1.9	2.3	209
Pulses	0.6	0.7	0.7	1.5	1.2	1.3	217
Roots/tubers	0.1	0.1	0.2	0.2	0.2	0.3	273
Yield (1000 kg/ha)							
Cereals	1.2	1.3	1.2	1.6	1.4	1.2	97
Pulses	0.4	0.5	0.5	0.5	0.4	0.5	107
Roots/tubers	7.0	7.7	7.4	9.7	7.1	7.2	102
Total basic food production (million tons)							
Cereals	1.4	2.1	2.2	2.8	2.6	2.8	200
Pulses	0.3	0.3	0.4	0.8	0.5	0.6	207
Roots/tubers	0.8	1.0	1.2	1.6	1.6	2.2	275
Food energy value (× 1000 Cal/capita/year)							
Cereals	592	667	493	428	304	259	44
Pulses	118	110	78	119	56	54	46
Roots/tubers	127	120	102	97	75	78	61
Total	837	897	673	644	435	391	47

Roots and tubers in Kenya are mainly potatoes, sweet potatoes, and cassava. Plantains/bananas add additional calories (in 1961 and in 2009, 21 and 28 KCal/cap/yr respectively) to the basic diet.

Unlike Malaysia, Kenya cannot afford its low levels of food sufficiency. While Malaysia's agricultural production is concentrated on non-basic food (and particularly oil-palm production), Kenya's attempts to do the same were not as successful, although its non-basic food area went up from 17% of its total crop area in 1961 to 24% in 2009 (see Table 4.15). Of course, Kenya's tea production has been a textbook success story, as has the expansion of its various oil crops (seed cotton, oil palm, coconut). And the increases in production in sugarcane, fruits, and vegetables (partly for the export market) can also be seen as major successes. But these cannot compensate for the lack of basic food security, and the last few years have been quite alarming for Kenya's food-security situation. However, it is interesting to note that Malaysia's level of basic food sufficiency is even lower than that in Kenya today. Kenya went from 837,000 Cal/cap/yr in

Table 4.15 Kenya's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	1106	2329	210	2006
Pulses	645	1275	198	1990
Roots/tubers	108	305	282	2009
Fibres	114	139	122	1980
Oil crops	72	328	456	2009
Fruits	54	208	385	2009
Tree nuts	11	33	300	1970
Vegetables	44	150	341	2009
Coffee	42	160	381	2000+2006
Sugarcane	18	66	367	2009
Tea	18	158	878	2009
Tobacco	0	21	++	2009
Total	2232	5172	231	2006
Basic food/Total	83%	76%		

1961 to 391,000 Cal/cap/yr, while Malaysia went from 525,000 Cal/cap/yr to only 384,000 Cal/cap/yr. Kenya is largely considered to be coping with its extremely problematic situation, while Malaysia is seen as a success story. In the meantime, Kenya's total agricultural land increased from 4% of its 569,140 km² to 9%, but most of the remaining land is arid or semi-arid and regarded as less suitable for agriculture.

Kenya's livestock population mirrors its dismal economic performance over the last fifty years. Its total livestock and TLU population decreased per capita to less than half its 1961 levels. Only the (relatively small) pig population grew faster than the (very high) population growth figures. Over the last fifty years, only the 1980s showed promising livestock development, with growth figures close to population growth. However, the 1990s saw a dramatic decline in numbers (except for pigs and chickens), with some recovery after 2000, but leading to total tropical livestock numbers still below their 1990 levels. As a livestock country—and one with the highest livestock numbers per capita in Africa in the 1960s—Kenya's livestock dynamics show a country in distress (see Table 4.16).

Table 4.16 Kenya's livestock (× million), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	7.2	8.6	10.0	13.7	11.7	12.5	173
Sheep	4.3	3.9	5.0	9.1	7.9	9.9	230
Goats	4.7	4.2	8.0	10.2	9.9	13.9	295
Camels	0.4	0.5	0.6	0.9	0.8	0.9	270
Pigs	0.1	0.1	0.1	0.1	0.4	0.3	578
Total	16.6	17.4	23.7	34.0	30.7	37.5	226
Chickens	8.0	12.0	16.0	25.0	26.0	29.0	363
*Total TLU**	6.4	7.5	9.1	12.7	11.1	12.4	194

* TLU: cattle × 0.7; goats, sheep, and pigs × 0.1; camels × 1.0 and chickens × 0.01.

Vietnam and Tanzania

Vietnam

Vietnam's agriculture is truly booming. Although its population has more than doubled in the last fifty years, its basic food production per capita has almost doubled as well because cropping levels have increased, yield levels have grown even more so, and total production more than quadrupled. Vietnam's food security level in 1961 was already more than satisfactory. An average Vietnamese potentially had 26% more food energy than required by WHO standards. In the 1960s this dropped slightly, but the figure was still more than sufficient. After 1970 there was a continuous increase, to a level at which Vietnam could potentially feed more than double its current population and hence be regarded as one of the world's food stores (see Table 4.17). For cereals (almost 90% is rice), 61% of its production increase was due to increased yields, and 39% was a result of area gains; and for roots and tubers, the figures are 57% and 43% (pulses are not important in Vietnam). The yield and area gains were achieved mainly after 1980. For cereals, yield levels went up from 1,900 kg/ha in 1961 to a stunning 5,100 kg/ha in 2009, but the improvements in yield are also impressive for roots and tubers and have reached levels that are not yet as high as those in Indonesia but are much higher than those in Malaysia, Nigeria, and Kenya.

Table 4.17 Population and food production dynamics in Vietnam, 1961–2009

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	35.4	42.7	53.7	66.2	77.6	87.0	246
Cropping area (× m. ha of harvested crops)							
Cereals	5.0	5.0	6.0	6.5	8.4	8.5	170
Pulses	0.2	0.2	0.2	0.3	0.3	0.4	239
Roots/tubers	0.4	0.4	1.0	0.6	0.5	0.7	187
Yield (1000kg/ha)							
Cereals	1.9	2.1	2.0	3.1	4.1	5.1	268
Pulses	0.5	0.5	0.7	0.6	0.7	0.9	180
Roots/tubers	6.0	6.0	6.7	7.4	7.5	14.7	245
Total basic food production (million tons)							
Cereals	9.3	10.4	12.1	19.9	34.5	43.3	465
Pulses	0.1	0.1	0.1	0.2	0.2	0.3	461
Roots/tubers	2.2	2.2	6.6	4.6	3.9	10.2	463
Food energy value (× 1000 Cal/capita/year)							
Cereals	944	879	810	1,082	1,602	1,792	190
Pulses	7	7	8	10	11	14	200
Roots/tubers	88	71	172	97	71	164	186
Total	1,039	957	990	1,189	1,684	1,970	190

Roots and tubers in Vietnam are mainly cassava and sweet potatoes. Cereals are mainly rice and some maize.

Vietnam's basic food crop, rice, is still the country's dominant agricultural land use, although its relative importance has dropped from 89% to 76% over the last fifty years. Other crops have become important as well. The most dramatic increases can be seen in tree nuts (mainly cashew), coffee, sugarcane, tea, oil crops (mainly groundnuts, soya beans, and coconut), and vegetables. Vietnam now produces crops on 39% of its land area of 325,361 km^2, while the figure was only 19% in 1961 (see Table 4.18). These figures show that almost all types of crops have reached their highest harvested area in the last few years, with the exception of roots and tubers and tobacco. Yield levels for all non-basic food crops also went up, with coffee, oil crops, and tea more than doubling their output. As a result of both developments, production levels more than doubled (and in many cases much more) for all non-food crops. Vietnam is a true agricultural success story.

Table 4.18 Vietnam's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	5,004	8,529	170	2008
Pulses	162	387	239	2008
Roots/tubers	370	693	187	1980
Fibres	31	20	68	2006
Oil crops	166	578	348	2008
Fruits	155	429	277	2009
Tree nuts	2	349	17,450	2009
Vegetables	202	684	339	2007
Coffee	21	504	2,400	2009
Sugarcane	44	260	591	2007
Tea	19	112	589	2009
Tobacco	11	20	182	1980
Total	6,187	12,565	203	2008
Basic food/Total	89%	76%		

Vietnam's remarkable economic growth is also visible in the explosive growth in its livestock figures. All types of livestock have increased in number faster than the country's population, and goats and chicken even more so than livestock. The growth of Vietnam's livestock population started in the 1980s, and since then 25%–30% more animals than people have been added every decade (see Table 4.19).

Table 4.19 Vietnam's livestock (× millions), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	1.9	1.6	1.7	3.1	4.1	6.1	326
Goats	0.2	0.2	0.2	0.4	0.5	1.4	917
Pigs	7.2	9.5	10.0	12.3	20.2	27.6	386
Total	9.2	11.3	11.9	15.8	24.8	35.1	382
Chickens	35.0	45.0	45.0	75.0	137.0	196.0	560
*Total TLU**	2.4	2.5	2.7	4.2	6.3	9.1	382

* TLU: cattle × 0.7; goats and pigs × 0.1; and chickens × 0.01.

Tanzania

Tanzania, the country that was selected by the Tracking Development team as the African case for comparison with Vietnam, has seen more varied success, but food production performance has been fairly good overall. Tanzania's population has almost quadrupled over the last fifty years, which is not as dramatic a rise as seen in Kenya but quite close. At independence, Tanganyika and Zanzibar (which were still separate political territories) could not feed their populations at the level of WHO food requirements, although they were close at 97% of minimum requirements for a healthy life. During the 1960s, the situation deteriorated (to 85%), but the country saw a big improvement in the 1970s. Average yields in the 1960s for both cereals and roots and tubers decreased (for cereals to a very low 600 kg/ha), although the area under crop cultivation expanded. In the heady years of the *Ujamaa* Revolution in the 1970s, the cropping area for cereals and pulses increased significantly, as did yield levels (see Table 4.20). In 1980, Tanzania could easily feed its rapidly expanding

Table 4.20 Population and food production dynamics in Tanzania, 1961–2009

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	10.4	13.6	18.7	25.5	33.8	41.0	394
Cropping area (× m. ha of harvested crops)							
Cereals	1.3	1.7	2.9	2.6	2.5	5.1	392
Pulses	0.3	0.4	0.7	0.8	1.2	1.7	567
Roots/tubers	0.6	0.8	0.7	0.9	1.3	1.9	317
Yield (1000 kg/ha)							
Cereals	0.8	0.6	1.0	1.5	1.4	1.1	137
Pulses	0.4	0.4	0.5	0.5	0.6	0.7	180
Roots/tubers	5.0	4.9	8.3	9.0	4.5	4.2	84
Total basic food production (million tons)							
Cereals	1.0	1.0	3.0	4.0	3.6	5.7	570
Pulses	0.1	0.2	0.3	0.4	0.7	1.2	1,060
Roots/tubers	3.0	3.7	5.6	8.4	5.9	8.0	267
Food energy value (× 1000 Cal/capita/year)							
Cereals	352	266	571	559	385	498	141
Pulses	41	48	61	54	78	109	266
Roots/tubers	410	385	419	462	244	274	67
Total	803	699	1,051	1,075	707	881	110

Roots and tubers are mainly cassava and sweet potatoes in Tanzania.

population at a level that was almost 30% above WHO requirements, with cereals taking over from roots and tubers in the composition of the basic food basket. In 1961, 51% of all basic food energy came from cassava and some minor roots and tubers and 44% from cereals (mostly maize but also sorghum, millet, and some rice). In 1980, calories mainly came from cereals (54%), and the relative importance of cassava (and some other roots and tubers) had dropped to 40%. Maize, as a cereal, had become slightly less important (58% of all cereal calories), and rice production had increased so much that it already accounted for 10% of all cereal calories. In the 1980s, the area and yield levels for roots and tubers (mainly cassava and sweet potatoes) further increased, and yield levels for cereals reached an all-time high (1,500 kg/ha), although the area under cultivation decreased somewhat. As a result, the Tanzanian population, despite its ongoing population growth, could easily be fed with food grown in Tanzania.

However, the 1990s saw a dramatic decline in the country's food-security situation to levels that were below the low 1961 levels and 14% below WHO requirements. Cereal areas and yields dropped somewhat, but this could not have been the sole cause of the fall in total food production. Problems were experienced in the yield levels of cassava, which fell to half those of a decade earlier, and they would never recover. In fact, the last decade has seen a further deterioration in the yield levels of roots and tubers, and particularly of cassava, although farmers have expanded their areas under cassava, sweet potatoes, and now also potatoes to compensate for these lower yield levels.

Over the last ten years, farmers have also more than doubled the area under cereals and under pulses, and roots and tubers areas have increased considerably. In a decade, the total area growing basic food crops increased from 5 million ha to 8.7 million ha. However, although average cereal yields dropped significantly as a result of adverse weather conditions in 2009, the 2006–2008 figures did not show any decline, with Tanzania reaching its highest-ever cereal production levels in 2007. As a result of an expansion of farmers' activities, the food-security situation improved again: to 13% above WHO requirements in 2007 and to 7% above these requirements in 2009. The food basket in 2009 shifted away from roots and tubers and was 57% cereals, 12% pulses, and 31% roots and tubers. In the good cereal year of 2007, this was even 62% cereals, 11% pulses, and only 27% roots and tubers.

Many changes can be detected if we compare 2009 with 1961. With its population rising from 10.4 million to 41 million, the cropping area for cereals grew at the same speed, with pulses far more so, and roots and tubers at only 80% of the level of total population growth. For both cereals and pulses, the total growth of production consisted of an area expansion of around 75% and yield improvements for the remaining 25%. For roots and tubers, yield levels in 2009 were lower than in 1961, and production increases were solely reached by an expansion in area.

Tanzania's total area of basic food crops expanded from 2.2 million ha to 8.8 million ha between 1961 and 2009, an increase by a factor of 4.1, which is higher than the factor of 3.9 in the population increase in this same period. Tanzania's basic food area increased from 58% of the country's total agricultural area to 70%, contrary to all the tendencies in the other Tracking Development countries (see Table 4.21). There were a lot of dynamics with regard to the other agricultural crops. The harvesting area of a few relatively small crops expanded most, namely tobacco, cocoa, and tea. Fruits and vegetables showed marked developments and oil crops also expanded significantly. With the exception of fibre crops (like sisal), tree nuts (cashew), sugarcane, and tobacco, the highest crop acreages for

Table 4.21 Tanzania's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	1,260	5,121	406	2009
Pulses	295	1737	589	2009
Roots/tubers	607	1937	319	2009
Fibres	450	404	90	1970
Oil crops	569	1852	325	2007
Fruits	209	912	436	2009
Tree nuts	87	86	99	1970
Vegetables	121	337	279	2009
Cocoa	1	8	800	2006
Coffee	85	150	176	2009
Sugarcane	15	23	153	1970
Tea	6	24	400	2009
Tobacco	5	41	820	2000
Total	3,710	12,632	340	2009
Basic food/Total	58%	70%		

all crops were reached in 2009 or in one of the years immediately before this. For fibres, cashew, and sugarcane, the harvested areas were highest in 1970. Yield levels for sugarcane and tobacco in 2009 were significantly higher than those in 1961, and most other non-basic food crops showed improved yield levels in these fifty years, resulting in the highest-ever production figures in or around 2009 for almost all crops. Finally, it is good to note that Tanzania still has considerable non-agricultural space and has ample room for expansion, but this would naturally be at the expense of other land use. In 1961, only 4% of Tanzania's land area of 886,039 km^2 was in use for crop cultivation, although there was a lot of shifting cultivation still going on, so the actual land being used for crop production was higher. By 2009, crop cultivation had increased to 14% of the country's total land area.

The number of pigs and chickens in Tanzania grew faster than the country's population; but owing to much lower growth figures for sheep and cattle, the total number of tropical livestock units increased at levels considerably below the (high) population growth, resulting in TLU levels per capita that are 60% of the (high) 1961 levels. This is not as bad as in Kenya but still worrying for a country where livestock wealth is regarded as an important sign of prosperity. And compared with Vietnam, the difference in Tanzania's overall growth trajectory is obvious. Unlike in Kenya, however, the 1980s were the worst decade, and since 1990 there have been signs of a promising recovery (see Table 4.22).

Table 4.22 Tanzania's livestock (× millions), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	8.1	10.1	12.6	13.0	16.7	19.1	237
Sheep	3.0	2.8	3.8	3.6	3.5	3.6	119
Goats	4.5	4.4	5.7	8.5	11.9	12.6	281
Pigs	0.1	0.1	0.2	0.3	0.5	0.5	489
Total	15.6	17.4	22.3	25.4	32.6	35.7	228
Chickens	7.0	11.0	17.0	21.0	28.0	30.0	429
*Total TLU**	6.5	7.9	10.0	10.6	13.6	15.3	237

* TLU: cattle × 0.7; goats, sheep, and pigs × 0.1; and chickens × 0.01.

Cambodia and Uganda

Cambodia

Cambodia's troubled history over the last fifty years can be seen in its population figures. The genocide that took place in the 1970s resulted in an (estimated) drop in population from 6.9 million in 1970 to 6.6 million in 1980, while the actual population should have been 8.4 million if the growth rates of the 1960s had continued. After this horrific period, Cambodia's population figures recovered, and today's population (14.5 million) is currently higher than its 1961 population by a factor of 2.6. In 1961, and in 1970 to an even greater extent, the country was the region's food basket, producing far more basic food (mostly rice) than its own population needed. In 1970, food production levels were so high that they could have fed their own population more than two and a half times.

It was not only the population that saw a decrease in the 1970s but also cropping areas and yield levels, and by 1980 the country had lost most of its surplus food production capability, although the average Cambodian could still get enough food for a healthy life according to WHO standards. It is well known that many Cambodians starved to death during this period, so, in such a situation, average figures are even less useful than in normal times. During the 1980s there was a slight recovery both in area and yield levels, and by 1990 total food production volumes were comparable to those of 1961 although Cambodia had more mouths to feed. The return to a more peaceful rural situation in the 1990s resulted in major yield improvements in rice production and in an expansion in cassava production. However, it is the last ten years that have seen spectacular growth in basic food production, with total cereal production doubling because of a major area expansion and further yield increases. In 2009 rice yield levels were around 3,000 kg/ha, while they had been only 1,100 kg/ha in 1961. There was also growth in cassava production and in the total food basket, with roots and tubers now making up 14% of total food energy value (although much of this was not used for Cambodian food consumption). In 2009 Cambodia had reached a level of food sufficiency that was so high that it could feed its 14.6 million people almost three times over (see Table 4.23). Today it is once again the region's food basket.

Table 4.23 Population and food production dynamics in Cambodia, 1961–2009

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	5.6	6.9	6.6	9.7	12.7	14.5	259
Cropping area (× m. ha of harvested crops)							
Cereals	2.3	2.5	1.5	1.9	2.0	2.9	126
Roots/tubers	0.0	0.0	0.0	0.0	0.0	0.2	4200
Yield (1000 kg/ha)							
Cereals	1.1	1.6	1.2	1.4	2.1	3.0	272
Roots/tubers	11.4	9.0	7.0	5.2	8.1	21.3	187
Total basic food production (million tons)							
Cereals	2.6	4.0	1.8	2.6	4.2	8.5	327
Roots/tubers	0.0	0.1	0.2	0.1	0.2	3.6	720
Food energy value (× 1000 Cal/capita/year)							
Cereals	1,655	2,050	990	957	1,182	2,114	128
Roots/tubers	11	12	43	15	22	345	3136
Total	1,666	2,062	1,033	972	1,204	2,459	148

Roots and tubers are mainly cassava in Cambodia, and for cereals it is mostly rice and some maize.

Cambodia's agricultural production has always been primarily directed at basic food production. In 1961 the basic food area was 93% of its total agricultural area and in 2009 the figure was still 91% (see Table 4.24). Of Cambodia's total land area of 176,520 km², 14% was used for crop production in 1961 and this had increased to 19% by 2009. Compared with other countries in the Tracking Development project, the total area under cultivation in Cambodia did not expand that much, and its non-basic food crops did not show the same dynamic picture as most other countries. Oil crops and vegetable production now dominate the non-basic food crops, with oil crops showing the most growth.

Overall livestock growth in Cambodia has kept pace with the country's population growth over the last fifty years. Very high growth figures can be seen for chickens and high growth figures for pigs, both of which are important in the country's diet. The country's turbulent past is visible in its livestock figures, with very high growth in the 1960s, dramatic decreases in the 1970s, a recovery to 1970 levels in 1990, and then growth figures in line with population growth (see Table 4.25).

Table 4.24 Cambodia's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	2,270	2,888	127	2009
Pulses	35	45	129	2006
Roots/tubers	4	168	4,200	2008
Fibres	19	1	5	1961
Oil crops	59	172	291	2009
Fruits	22	25	114	2006
Tree nuts	0	1	+	2009
Vegetables	60	77	128	1990
Sugarcane	4	13	325	2009
Tobacco	9	11	122	2009
Total	2,482	3,401	137	2009
Basic food/Total	93%	91%		

Table 4.25 Cambodia's livestock (× million,) 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	1.5	2.3	0.8	2.2	3.0	3.6	241
Pigs	0.6	1.2	1.3	1.5	1.9	2.2	357
Total	2.1	3.5	2.1	3.7	4.9	5.8	276
Chickens	2.0	4.0	2.0	8.0	15.0	17.0	850
*Total TLU**	1.1	1.8	0.7	1.8	2.4	2.9	259

* TLU: cattle × 0.7; pigs × 0.1; and chickens × 0.01.

Uganda

Uganda was chosen as an example of an African country that had had to cope with serious political trouble. The horror regimes of first Idi Amin (1971–1979) and later Milton Obote II (1979–1985) resulted in a major economic crisis, which is also visible in the agricultural performance of a country that was long seen as a land of milk and honey. If we consider the demographic data, Uganda did not show actual depopulation, unlike Cambodia. What is visible in Uganda, however, is a slightly lower population increase in the long-term demographic trend, which shows one of the highest population growth rates on Earth, based on very high fertility figures. In total, the country has grown almost five-fold and beaten even Kenya in its overall population increase over the last half century.

At independence, the country could easily feed its population, as it produced cereals (millets, sorghum, and some maize), various types of pulses, and roots and tubers (particularly cassava and sweet potatoes). However, these 'normal' basic food crops do not give the total picture for Uganda. Plantains are a very important source of food energy and in 1961 were even more important than cereals or roots and tubers. If we add plantains to the picture of food energy values, Uganda's population had a very good level of food self-sufficiency in 1961. The situation improved even further in the 1960s and the area harvested expanded for all crops, and yield levels also improved considerably. As a result, Uganda was able to feed its population almost three times over and functioned as the region's food basket, using a lot of its food in ways that were less food-energy efficient (e.g. to brew beer or feed animals).

Table 4.26 shows that the situation became problematic in the 1970s. Most food crop areas contracted during these difficult years, and the high plantain yield levels of the 1960s collapsed. As a result, total basic food crop production almost halved, although people could still easily be fed (to even 58% above WHO norms). During the 1980s, which were also difficult, the food crop area expanded again and yield levels either stabilized or improved somewhat. Food availability per capita therefore improved slightly, and in the 1990s, when the political situation stabilized under President Museveni, most area, yield, and production figures started to improve, although the very high population growth in this period meant that per capita food availability decreased a little. Over the last decade, this process has continued, and there have been improvements in area, yield, and production levels but not enough to keep pace with the country's population growth. Uganda can still feed its population, but the idea of it being a food basket for the larger region has begun to be challenged.

If we compare 1961 and 2009, average overall food sufficiency dropped from 1,443,000 Cal/cap/yr to 1,119,000 Cal/cap/yr. The composition of the food basket also changed considerably. In 1961 plantains were most important (37%), followed by cereals (33%, mainly millets and sorghum), roots and tubers (24%, mainly cassava and sweet potatoes), and finally pulses (6%). By 2009, roots and tubers had taken the lead position (33%, mainly sweet potatoes but also cassava and potatoes), followed by plantains (32%), cereals (28% but now mainly maize and some millet, sorghum, rice, and wheat), and pulses (6%). The production increases in cereals and roots and tubers between 1961 and 2009 can be attributed, almost 1:1, to area expansion and yield improvements. For pulses and plantains, increased production levels were reached by area expansion, which had to make up for yield decreases, and, for plantains, to only 75% of their 1961 yield levels.

Table 4.26 Population and food production dynamics in Uganda, 1961–2009

	1961	1970	1980	1990	2000	2009	Index 1961=100
Population (millions)							
	6.8	9.3	12.6	17.8	24.3	32.4	476
Cropping area (× m. ha of harvested crops)							
Cereals	1.0	1.2	0.7	1.1	1.4	1.8	180
Pulses	0.3	0.4	0.3	0.6	0.9	1.1	367
Roots/tubers	0.5	1.0	0.6	0.9	1.0	1.1	220
Plantain	0.6	0.9	1.2	1.4	1.6	1.7	283
Yield (1000 kg/ha)							
Cereals	0.9	1.4	1.5	1.5	1.5	1.5	171
Pulses	0.6	0.6	0.6	0.8	0.7	0.6	89
Roots/tubers	3.7	4.3	6.2	6.2	7.7	7.7	208
Plantain	6.0	12.8	4.8	5.6	5.9	4.5	75
Total basic food production (million tons)							
Cereals	0.9	1.7	1.1	1.6	2.1	2.8	311
Pulses	0.2	0.3	0.2	0.5	0.6	0.6	300
Roots/tubers	1.7	4.3	3.4	5.3	7.8	8.6	506
Plantain	3.7	7.7	5.7	7.8	9.4	9.5	257
Food energy value (× 1000 Cal/capita/year)							
Cereals	472	641	309	320	313	313	66
Pulses	91	104	53	102	87	72	79
Roots/tubers	351	649	383	421	452	373	106
Sub-total	914	1394	745	843	852	758	83
Plantain	529	1018	556	540	476	361	68
Total	1,443	2,412	1,301	1,383	1,328	1,119	78

Roots and tubers are mainly cassava and sweet potatoes in Uganda. Cereals are mostly maize, millet, sorghum, and later also rice. In 1961 millet and sorghum accounted for 82% of cereal production; in 2009 only 43%; and maize increased from 18% to 49%.

Since colonial times, Uganda has always been a country where non-basic food crops have been cultivated for both local and (mainly) external markets. In 1961, this was primarily fibres/oil crops (particularly cotton but also groundnuts and sesame) and coffee. In 2009 cotton had become far less important and groundnuts had stabilized, but the area growing sesame, soya beans, and sunflowers had increased significantly, while coffee and sugarcane areas had expanded and cocoa, sugarcane, and tea had expanded very rapidly. The total area being used for agriculture had increased from 24% of Uganda's land area (199,710 km^2) to 42%, giving the country ever more the appearance of a densely populated garden landscape (see Table 4.27).

Table 4.27 Uganda's crops: harvested area (× 1000 ha), 1961–2009

Crop	1961	2009	Index 1961=100	Highest in
Cereals	992	1,826	184	2009
Pulses	268	1,127	421	2009
Roots/tubers	469	1,121	239	2009
Plantains	616	1,682	273	2009
Fibres	841	70	8	1970
Oil crops	1,197	1,011	84	1970
Fruits	56	150	268	2009
Vegetables	172	960	558	2009
Cocoa	1	43	4,300	2009
Coffee	245	320	131	2008
Sugarcane	17	35	206	2006–09
Tea	6	25	417	2009
Tobacco	12	14	117	2008
Total	4,892	8,384	171	
Basic food/Total[9]	48%	69%		

With the exception of its pig population, Uganda's livestock numbers grew at considerably lower levels than its very high population growth numbers and, as a result, the total tropical livestock units per capita had decreased by 2009 to below half those for 1961. Although every decade showed overall growth in total TLU figures, the numbers for sheep and goats were erratic, and overall livestock growth figures were quite low between 1961 and 1990. Since 1990 there have been signs of faster growth, but it is still below the country's extremely high population growth figures (see Table 4.28).

Comparing the Agricultural Dynamics of Southeast Asia and Africa

Demography

Before starting an overview of the main findings on agricultural change and drawing some conclusions about the differences between the two macro-regions based on the above comparison of agricultural change between the four 'country pairs', it is important to look at the differences

[9] This includes plantains for Uganda. Without plantains it would be 35% in 1961 and 49% in 2009.

Table 4.28 Uganda's livestock (× million), 1961–2009

Year	1961	1970	1980	1990	2000	2009	Index 1961=100
Cattle	3.6	4.3	4.8	4.9	6.0	7.6	211
Sheep	0.9	0.8	1.3	0.8	1.1	1.8	208
Goats	2.6	1.8	2.5	4.7	6.4	8.8	339
Pigs	0.0	0.1	0.2	1.2	1.6	2.3	14,075
Total	7.1	7.0	8.8	11.6	15.1	20.5	288
Chickens	7.0	8.0	13.0	19.0	27.0	28.0	400
*Total TLU**	3.0	3.4	3.9	4.3	5.4	6.9	234

* TLU: cattle × 0.7; goats, sheep, and pigs × 0.1; and chickens × 0.01.

in population growth. Africa has obviously seen a much higher population growth than Southeast Asia, and this is true for all four pairs of countries (see Table 4.29). The Southeast Asian range of the index of population increase between 1961 and 2009 is between 246 and 306; while for Africa the range is between 347 and 476. The consequences are that Africa has had to invest much more social and economic energy in its demographic growth, in mother and child care, health care, and education, particularly primary education. Southeast Asia was in a position to already start harvesting its 'demographic dividend', with a larger proportion of its population in the cohorts of working youth. Table 4.29 also shows that Africa as a whole had lower average population growth than the average for the continent's four Tracking Development countries.

Table 4.29 Comparing population growth, 1961 and 2009 (index figures where 1961=100)

Indonesia	250	Nigeria	347
Malaysia	306	Kenya	464
Vietnam	246	Tanzania	394
Cambodia	259	Uganda	476
Average SEA4	**265**	**Average Afr4**	**420**
		Average Africa	**346**

Food Crop Self-Sufficiency: Changes between 1961 and 2009

If we consider the changes in basic food self-sufficiency,[10] the four Southeast Asian countries and the four African countries were not very different in 1961 (see Table 4.30). However, the average food-security situation had improved markedly by 2009 in Southeast Asia, while in Africa it had deteriorated somewhat but still remained above minimum WHO requirements. The situation is quite diverse, though, within the two macro-regions. In Southeast Asia, Vietnam and Cambodia were already food sufficient in 1961 and improved their overall food-security situation based on national basic food production between 1961 and 2009. The situation in Indonesia in 1961 was below food sufficiency, but it too succeeded in improving its food-security situation to a level considerably above WHO norms for a healthy life. Malaysia was the notable exception. Not only was it far below food security in 1961, but its basic food situation deteriorated even further between 1961 and 2009. In Africa, three of the four Tracking Development countries were food sufficient and the fourth was almost so in 1961. Nigeria produced more than enough food in 1961, and its food-security situation had improved by 2009. There was and is still no need for a 'food revolution' there, although Nigeria experienced decades when its food production levels were insufficient to feed its own population. Uganda's food situation has always been above food-security levels, despite its enormous population growth. In Tanzania, the problematic situation at independence has improved slightly over the last fifty years, but it is still close to the minimum levels of food security according to WHO norms. Kenya is the exception here. Barely food-sufficient in 1961, it is nowhere near food-sufficient today, but it is at exactly the same low level as the Asian country it was twinned with in the Tracking Development project, namely Malaysia. Table 4.30 also shows that the Kenyan and Ugandan experiences and, as a result, the average of the four African countries in the Tracking Development project, are far more negative than the situation in Africa as a whole, where average food security on the basis of cereals, pulses, and roots and tubers has improved over the last fifty years.

10 Measured by adding production totals of cereals, pulses, and roots and tubers (and, for Uganda, also plantains), calculating the relevant food energy values, and comparing the outcomes with the food energy demand, using general WHO norms, without further differentiation by country.

Table 4.30 Comparing food security levels, changes between 1961 and 2009 (100 = food self-sufficient)

Indonesia	92 → 168	Nigeria	131 → 152
Malaysia	64 → 47	Kenya	101 → 47
Vietnam	126 → 239	Tanzania	97 → 107
Cambodia	202 → 298	Uganda	175 → 136
Average SEA4	**121 → 188**	**Average Afr4**	**126 → 111**
		Average Africa	**100 → 112**

Agricultural Expansion Changes between 1961 and 2009

All eight Tracking Development countries have seen rapid agricultural expansion. In the four Southeast Asian countries under study, agricultural land covered only 11% of all available land in 1961, but by 2009 this had more than doubled (see Table 4.31). Growth was particularly high in Malaysia (but started from a very low level in 1961) and lowest in Cambodia. Vietnam both then and now stands out as the most intensively used land area for agriculture. The four countries studied in Africa started with higher levels of agricultural land compared with their total land area, and almost doubled their agricultural land surface in the 1961–2009 period. Kenya and Tanzania started at very low levels, and Kenya experienced a doubling of its agricultural land area, with Tanzania more than tripling its area under cultivation. Nigeria and Uganda started off with greater pressure on their agricultural land, and both countries have almost doubled their agricultural land surface to levels that can be regarded as very high by African standards today. Table 4.31 shows that the average for the four Tracking Development countries in Africa is much higher than for Africa as a whole, both in 1961 and in 2009.

Table 4.31 Comparing agricultural expansion (crop land as percentage of total land area), changes between 1961 and 2009

Indonesia	8 → 17	Nigeria	23 → 42
Malaysia	3 → 16	Kenya	4 → 9
Vietnam	19 → 39	Tanzania	4 → 14
Cambodia	14 → 19	Uganda	24 → 42
Average SEA4	**11 → 23**	**Average Afr4**	**14 → 27**
		Average Africa	**3 → 7**

Comparing the Relative Importance of Basic Food Crop Area in Total Agricultural Area

The relative importance of basic food crops (cereals, pulses, roots and tubers, and for Uganda plantains also) as part of the total agricultural land area shows a very different picture for the two macro-regions (see Table 4.32). Basic food crops completely dominated the agricultural land-use profile in Southeast Asia in 1961, but this became much less so over time, although there were major differences between the four countries. In Malaysia basic food production became marginal (in relative terms), the drop was considerable in Indonesia, but it was much less so in Vietnam and particularly in Cambodia. In the four African countries studied, the basic food dominance was much less compared with Southeast Asia in 1961, but here basic food increased in relative importance in two countries (Tanzania and particularly Uganda) or stabilized in the case of Nigeria. Only in Kenya did the relative importance of basic food crops decrease a little, but they still account for a relatively high level of total agricultural land use. For Africa as a whole, levels were slightly higher in 1961 and again in 2009 compared with the four African Tracking Development countries.

Comparing the Importance of Cereals in Basic Food Baskets

Scholars studying the food production situation in Southeast Asian agriculture generally focus on cereals. The relative importance (in food energy terms) of cereal production (particularly rice) was already very high in 1961 and became even more dominant in the period up until 2009, with cereal production now accounting for 90% of all basic food energy production. When scholars talk about a Green Revolution as a potential solution for Africa's 'food problems', they are usually thinking about rice and other cereals. However, the relevance of cereals in people's food energy baskets in Africa is much lower than in Southeast Asia, and even decreased in the

Table 4.32 Comparing the relative importance of basic food crop area in total agricultural area: changes between 1961 and 2009

Indonesia	76 → 56	Nigeria	63 → 63
Malaysia	61 → 14	Kenya	83 → 76
Vietnam	89 → 76	Tanzania	58 → 70
Cambodia	93 → 91	Uganda	48 → 69
Average SEA4	**80 → 59**	**Average Afr4**	**63 → 70**
		Average Africa	**71 → 74**

Table 4.33 The importance of cereals in basic food baskets: changes between 1961 and 2009

Indonesia	71 → 89	Nigeria	60 → 40
Malaysia	90 → 93	Kenya	71 → 66
Vietnam	91 → 91	Tanzania	44 → 57
Cambodia	99 → 86	Uganda	33 → 58
Average SEA4	**88 → 90**	**Average Afr4**	**52 → 48**
		Average Africa	**69 → 62**

period between 1961 and 2009. For Africa, the focus with regard to basic food improvements should be much more on roots, tubers, pulses, and plantains, although cereals (maize, sorghum, millets, and other cereals) are of course still important. However, Table 4.33 shows that cereals are less important in the four African Tracking Development countries than in Africa as a whole.

Comparing Cereal Yield Levels Changes between 1961 and 2009

However, if our focus is on cereal yield levels, we can see why Southeast Asianists are so vocal about the need for a cereal revolution in Africa. In the four Southeast Asian countries, cereal yield levels more than doubled, and they even more than tripled in Indonesia, while the four African countries show yield improvements (with the exception of Kenya, but 2009 was an exceptionally bad year there), but only marginally so, and they also started at a much lower level than Southeast Asia. Currently, the average cereal yield levels in these four African countries are still way below the 1961 cereal yield levels in Southeast Asia (Table 4.34). What is also worrying is that three of the four African Tracking Development countries (with Nigeria as the exception) show lower cereal yield increases compared with Africa as a whole, and the average levels for the four African Tracking Development countries, which were slightly higher in 1961 than the figures for Africa as a whole, are lower than the African average in 2009.

Table 4.34 Cereal yield levels (in tons per ha): changes between 1961 and 2009

Indonesia	1.5 → 4.8	Nigeria	0.7 → 1.5
Malaysia	2.1 → 3.8	Kenya	1.2 → 1.2
Vietnam	1.9 → 5.1	Tanzania	0.8 → 1.1
Cambodia	1.1 → 3.0	Uganda	0.9 → 1.5
Average SEA4	**1.7 → 4.2**	**Average Afr4**	**0.9 → 1.3**
		Average Africa	**0.8 → 1.5**

Comparing the Composition of Cereal Production Growth: Changes between 1961 and 2009

Total cereal production growth was high in both macro regions, although higher on average in Southeast Asia than in Africa and with major differences within the macro-regions (see Table 4.35). Cereal production growth in Southeast Asia was truly impressive in Indonesia and Vietnam but much less so in Malaysia, while in Africa, Tanzania had even higher growth rates than Indonesia, but Kenya lagged behind. Almost 67% of the growth in cereal production in Southeast Asia can be attributed to yield improvements, something that is true in all four countries. The growth of cereal production in Africa was mainly due to expanding cereal areas, particularly in Tanzania. It is interesting to note that Nigeria shows a much more 'Asian' profile, with cereal yield improvements being far more important than cereal land expansion.

Comparing Yield Growth for Roots and Tubers: Changes between 1961 and 2009

It has already been noted that roots and tubers are much more important in Africa than they are in Southeast Asia. Maybe Africa's Green Revolution should concentrate on these roots and tubers and discover what yield gains can be made. Yield gains in Southeast Asia have been achieved although not at the levels of cereal yield improvements. Once again, Vietnam and Indonesia are leading the way and Malaysia is trailing behind. In Africa, lessons could be learned from Uganda. However, for the other countries, root and tuber yields in 2009 were not much better or were even worse (in Kenya) than in 1961 (see Table 4.36). With the exception of Uganda,

Table 4.35 Composition of cereal production growth (P): yield growth (Y) and area growth (A) (index figures for 2009, where 1961 = 100)

	P	Y	A		P	Y	A
Indonesia	569	312	182	Nigeria	266	214	129
Malaysia	227	181	129	Kenya	200	97	209
Vietnam	465	268	170	Tanzania	570	137	392
Cambodia	327	272	126	Uganda	311	171	180
Average SEA4	**397**	**258**	**152**	**Average Afr4**	**336**	**155**	**228**
				Average Africa	**349**	**182**	**191**

Theoretically, Y × A = P, but due to separate calculations based on basic FAO data, there are slight differences in the results in this table.

Table 4.36 Yield growth for roots and tubers: index figures for 2009, where 1961 = 100

Indonesia	237	Nigeria	112
Malaysia	138	Kenya	102
Vietnam	245	Tanzania	84
Cambodia	187	Uganda	208
Average SEA4	**202**	**Average Afr4**	**127**
		Average Africa	**161**

roots and tubers yield increases for the African Tracking Development countries were much lower than for Africa as a whole.

Comparing Yield Levels for Roots and Tubers: Changes between 1961 and 2009

So what could Africa learn from Southeast Asian yield improvements in roots and tubers? Table 4.37 shows that yield levels more than or almost doubled everywhere in Southeast Asia (although Malaysia is again the exception), while in Africa there were yield gains too (the exception being Tanzania) but these were much more modest and started from much lower levels. And they also improved less significantly and reached lower levels than in Africa as a whole. The current yields for roots and tubers in these four African countries are below Southeast Asia's 1961 levels (the same as for cereals). The Southeast Asian country with the lowest yield levels (Malaysia) still has higher yield levels compared with the best-performing African country in our study (Nigeria). Much could therefore be gained from a systematic comparison of Southeast Asia and Africa.

Table 4.37 Yield levels for roots and tubers: changes between 1961 and 2009

Indonesia	7.2 → 17.1	Nigeria	8.6 → 9.6
Malaysia	8.1 → 9.8	Kenya	7.0 → 7.2
Vietnam	6.0 → 14.7	Tanzania	5.0 → 4.2
Cambodia	11.4 → 21.3	Uganda	3.7 → 7.7
Average SEA4	**8.2 → 15.7**	**Average Afr4**	**6.1 → 7.2**
		Average Africa	**5.8 → 9.3**

Comparing Livestock Dynamics Changes between 1961 and 2009

Livestock are seen as an important sign of wealth and social prestige in many rural societies and as a potential additional source of food (meat, milk, eggs) and income. Livestock wealth dynamics can be taken as a yardstick of overall economic performance and also as both a cause and result of economic growth or decline. In the four Southeast Asian Tracking Development countries, the average increase in livestock numbers (except chickens) was slightly higher than the population growth. Vietnam in particular showed very high growth figures in this respect. Average livestock growth in Africa has been much lower than population growth, as is certainly also the case in Kenya, Tanzania, and Uganda. Nigeria is the notable exception here. The average livestock growth figure for the four African Tracking Development countries is much higher than its average population growth figure and also considerably higher than the figures for Southeast Asia. Nigeria's oil boom has resulted in additional investments in its livestock wealth. The fact that livestock growth in Nigeria is mainly seen among sheep, pigs, and chickens means it is likely that this growth is widespread across the country (see Table 4.38). The general picture is the same in terms of tropical livestock units, with relatively better results emerging for Indonesia and Malaysia compared with Vietnam and Cambodia and with comparably even more problematic figures for Kenya (see Table 4.39).

Table 4.38 Livestock dynamics: number of animals (cattle + sheep + goats + camels + pigs; × million): changes between 1961 and 2009

	1961 → 2009	index		1961 → 2009	Index
Indonesia	20.6 → 45.7	223	Nigeria	8.3 → 113.4	1363
Malaysia	1.5 → 3.3	224	Kenya	16.6 → 37.5	226
Vietnam	9.2 → 35.1	382	Tanzania	15.6 → 35.7	228
Cambodia	2.1 → 5.8	276	Uganda	7.1 → 20.5	288
Average SEA4		**276**	**Average Afr4**		**519**
			Average Africa		**248**
Population Average SEA4		**265**	**Population Average Afr4/ Africa**		**420 / 346**

Table 4.39 Livestock dynamics: number of tropical livestock units (all domestic animals, including chickens; × million): changes between 1961 and 2009

	1961 → 2009	Index		1961 → 2009	Index
Indonesia	6.5 → 25.7	397	Nigeria	4.8 → 23.1	477
Malaysia	0.6 → 2.9	514	Kenya	6.4 → 12.4	194
Vietnam	2.4 → 9.1	382	Tanzania	6.5 → 15.3	237
Cambodia	1.1 → 2.9	259	Uganda	3.0 → 6.9	234
Average index SEA4		**388**	**Average index Afr4**		**286**
			Average Africa	**120 → 288**	**239**

Comparing Livestock per Capita Dynamics

If we combine livestock data for 1961 and 2009 (using tropical livestock unit calculations) with population data, the results show improvements in Southeast Asia and a decline in Africa. This decline is dramatic in Kenya, Tanzania, and Uganda although the situation is improving in Nigeria and it is enjoying the best results in terms of relative change of all the eight Tracking Development countries. However, it is obvious that the livestock per capita situation in Africa (and in the four African Tracking Development countries as a whole) is much better than in the four Southeast Asian Tracking Development countries. In Southeast Asia, Cambodia stands out as being closest to the African situation, while in Africa, Nigeria is closest to the Southeast Asian situation despite its rapid improvements (see Table 4.40).

Table 4.40 TLU/capita: changes between 1961 and 2009

Indonesia	0.07 → 0.11	Nigeria	0.11 → 0.16
Malaysia	0.07 → 0.11	Kenya	0.76 → 0.32
Vietnam	0.07 → 0.10	Tanzania	0.62 → 0.37
Cambodia	0.20 → 0.20	Uganda	0.43 → 0.21
Average SEA4	**0.10 → 0.13**	**Average Afr4**	**0.48 → 0.27**
		Average Africa	**0.42 → 0.29**

Population and Livestock Densities

Although both population and livestock numbers increased considerably in both Southeast Asia and Africa, the relative population and livestock densities have always been quite different (see Table 4.41). In Southeast Asia there were almost four times more people than livestock per km² in 1961, and this had declined by 2009 to three times more as livestock became more important. In the four African Tracking Development countries, the total livestock numbers were almost as high as the population figures in both 1961 and 2009. The average population densities were half those in Southeast Asia in 1961, but the current levels of the two regions as a whole were more comparable in 2009. The livestock densities in the Tracking Development countries in Africa as a whole are still almost double those of the four Southeast Asian countries. It is important to note that the African case-study countries (particularly Nigeria and Uganda) have much higher population and livestock densities than Africa as a whole, where there are large areas where no people or livestock live. Comparison of the eight Tracking Development countries shows that, in terms of current population densities, Vietnam tops the list, followed by Nigeria, Uganda, and Indonesia, while Nigeria is ahead of all the other countries in terms of livestock densities, followed by Vietnam, Uganda, and Kenya. It is interesting to note that in 1961 Nigeria lagged a long way behind the other African countries (and had even lower livestock densities than Indonesia, Cambodia, and Vietnam). In terms of livestock prospects, and probably also in terms of a potential Green Revolution in Africa, Nigeria would seem to be the most likely candidate for further major improvements.

Table 4.41 People and livestock per km²: changes between 1961 and 2009

	People/ km²	Livestock/ km²		People/ km²	Livestock/ km²
Indonesia	50 → 125	11 → 24	Nigeria	47 → 164	9 → 125
Malaysia	25 → 78	5 → 10	Kenya	15 → 69	29 → 66
Vietnam	109 → 267	28 → 108	Tanzania	12 → 46	18 → 40
Cambodia	32 → 82	12 → 33	Uganda	34 → 162	36 → 102
Average SEA4	**54 → 138**	**14 → 44**	**Average Afr4**	**27 → 110**	**23 → 83**
			Average Africa	**1 → 3**	**1 → 3**

Livestock (cattle + sheep + goats + camels + pigs), excluding chickens

Final Comparison

In this final section the ranks for the eight Tracking Development countries will be compared, first by looking at the changes in their relative position for a number of parameters in 1961, compared with 2009 (Table 4.42), and finally by looking at the index figures for the speed of changes between 1961 and 2009 (Table 4.43).

Assuming that a higher score and hence a higher rank for these eight core variables of agricultural performance make it possible to use an 'overall rank' for the eight tracking developing countries and also that the change in the overall rank position between 1961 and 2009 give us an indication about relative improvement or deterioration, it is clear that three of the four Southeast Asian countries ranked higher than all African countries in terms of agricultural performance in 1961, and also in 2009. Malaysia is the

Table 4.42 The rank of the eight Tracking Development countries in 1961 and 2009 for a number of agricultural key variables (8 = best/highest; 1 = worst/lowest)

		Indonesia	Malaysia	Vietnam	Cambodia	Nigeria	Kenya	Tanzania	Uganda
Food security	1961	2	1	5	8	6	4	3	7
	2009	6	1.5	7	8	5	1.5	3	4
Crop land/ total land	1961	4	1	6	5	7	2.5	2.5	8
	2009	4	3	6	5	7.5	1	2	7.5
Food crop percentage	1961	5	3	7	8	4	6	2	1
	2009	2	1	6.5	8	3	6.5	5	4
Cereal importance	1961	4.5	6	7	8	3	4.5	2	1
	2009	6	8	7	5	2	4	3	1
Cereal yield	1961	6	8	7	4	1	5	2	3
	2009	7	6	8	5	3.5	2	1	3.5
Roots and tubers yield	1961	5	6	3	8	7	4	2	1
	2009	7	5	6	8	4	2	1	3
Livestock numbers	1961	8	1	5	2	4	7	6	3
	2009	7	1	4	2	8	6	5	3
TLU numbers	1961	7.5	1	3	2	5	6	7.5	4
	2009	8	1.5	4	1.5	7	5	6	3
Average score	1961	5.2	3.4	5.4	5.6	4.6	4.9	3.4	3.5
	2009	5.9	3.4	6.1	5.3	5.0	3.5	3.3	3.6
Overall rank	1961	6	1.5	7	8	4	5	1.5	3
	2009	7	2	8	6	5	3	1	4
Rank change 1961–2009		+	(+)	+	–	+	–	(–)	+

big exception. Within Southeast Asia, Vietnam and Indonesia improved their relative position; Cambodia lost its leading position. Within Africa, Kenya had a relatively leading position in 1961, but its relative position deteriorated considerably. Nigeria succeeded in improving its relative position, and it has come nearer to the leading Southeast Asian cases of 2009.

If we look at the speed of demographic change (Table 4.43), all four African countries show a higher growth than all four Southeast Asian countries. There is an almost inverse relationship with agricultural change between 1961 and 2009. Three of the four Southeast Asian countries show the most rapid agricultural growth, with Indonesia leading. Malaysia and Nigeria follow with the same overall rank (but showing the highest change for livestock numbers as measured by tropical livestock units); the three other African countries have the lowest rank positions, with Kenya at the tail end. Tanzania and Uganda show remarkable outlier positions within Africa for cereal production increases (Tanzania had the highest growth rates of all eight countries) and for roots and tubers yield improvements, with Uganda close to the best performers. There is more to come from Africa, partly as a result of learning from the experiences in Asia.

Table 4.43 The speed of demographic and agricultural change in the eight Tracking Development countries between 1961 and 2009: rank (8 = highest change)

	Indonesia	Malaysia	Vietnam	Cambodja	Nigeria	Kenya	Tanzania	Uganda
Population change	2	4	1	3	5	7	6	8
Agricultural change								
Cereal production	7	2	6	5	3	1	8	4
Cereal yield	8	4	6	7	5	1	2	3
Roots and tubers yield	7	4	8	5	3	2	1	6
TLU numbers	6	8	5	4	7	1	3	2
Average rank	7.0	4.5	6.3	5.3	4.5	1.3	3.5	3.8
Overall rank	8	4.5	7	6	4.5	1	2	3

PART TWO

COMPARING INDONESIA AND NIGERIA

5

Technocracy and the Institutionalization of Economic Development in Indonesia and Nigeria (1967–1990)[1]

Riwanto Tirtosudarmo

> *The historical course of development sets a pattern, but paths may be altered and new equilibria attained. Economic development rests upon politically negotiated institutions.*
>
> Peter Lewis (2007: 295)

Introduction

Scholars' attempts to find satisfactory answers to the problem of economic development in developing countries began in the early 1950s and have continued until today. One of the intriguing issues centres on the role of institutions. In his study on Indonesia and Nigeria, Lewis (2007: 268) noted that institutional factors are increasingly important in explaining

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[1] The period of study is limited to 1965–1990, as during this time the processes of institutionalizing economic development in Nigeria and Indonesia by the economist-technocrats were clearly laid down. I would like to thank specifically my senior colleague at LIPI, Thee Kian Wie, for carefully reading the paper and for the suggestions and corrections to improve it. Comments on an earlier draft, from David Henley, Helmy Fuady, Akinyoade Akinyinka, Kheang Un, and Joseph Fernando are highly appreciated. Collegiality during the course of the Tracking Development (TD) project and encouragement from Roel van der Veen, Bernard Berendsen, Jan Kees van Donge, Ursula Oberst, and Henk Schulte Nordholt has maintained the spirit to complete the research project constantly high. While I was revising this chapter, Widjojo Nitisastro, the main architect of Indonesia's New Order economic development, sadly passed away on 9 March 2012 at the age of 84 after suffering from a long illness.

the character of markets and the qualities of economic governance. In a more theoretical approach, MacIntyre (2003) argued that the structure and process of politics are centred on the role of institutions. Among economists, Hoff & Stiglitz (2001, quoted in Portes, 2006: 233), advanced the new meaning of development, as a notion that is no longer seen as a process of capital accumulation, but as a process of organizational change.

This chapter attempts to look at the contribution of economist-technocrats to the process of institutionalizing economic development. Economist-technocrats are actors actively taking part in the process of an organizational change that is vital in economic development. This chapter argues that the economic-technocrats in Indonesia were more successful in institutionalizing economic development than the economist-technocrats in Nigeria.[2] The broader comparison of the structural and institutional factors between Indonesia and Nigeria, and two comparative studies on the role of particular economist-technocrats, namely Widjojo Nitisastro[3] and Ali Wardhana[4] in Indonesia and Alison Ayida[5] and Olu Falae[6] in Nigeria, will be the focus/subject matter of this chapter.[7] These economist-technocrats were chosen because they were played an important role during their tenures as economic minister or permanent secretary in 1970s and 1980s in their respective countries. Two turning points, in the mid-1960s and the mid-1980s, remarkably triggered the divergent paths that then strongly reflected the success and failure of the

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2 Technocrats in this paper are economists that hold a high position in government offices, such as economic ministers in the case of Indonesia, and permanent secretaries in the case of Nigeria.

3 Widjojo Nitisastro was Head of the National Development Planning Board (1967–1983), Minister of Development Planning (1971–1983), Coordinating Minister for the Economy, Finance and Industry (1973–1983), and in 1983 was appointed as Suharto's economic adviser.

4 Ali Wardhana was Minister of Finance (1968–1983) and Coordinating Minister for Economy, Finance and Industry (1983–1998), and in 1988 was appointed as Suharto's economic adviser.

5 Alison Ayida was Permanent Secretary at the Ministry of Economic Development (1967–1972), Permanent Secretary at the Ministry of Finance (1972–1975), and Secretary to the Federal Military Government (1975–1977).

6 Olu Falae was Permanent Secretary of the Economic Department (1977–1981), Secretary to the Federal Military Government (1986), and Minister of Finance (1987–1990).

7 See three previous related papers, under the TD project, by the author: (1) 'Indonesia and Nigeria, 1965–1985: Structural Factors, Technocracy, and the Politics of Rural Development', presented at the TD project meeting in Leiden, The Netherlands, 2007; (2) 'Widjojo Nitisastro, the Praxis of Development in Indonesia, and Its Comparison with Allison Ayida of Nigeria', presented at the TD project meeting in Dar es Salaam, Tanzania, 2008; (3) 'Technocracy and Economic Reform under Authoritarian regime, 1983–1993: Ali Wardhana (Indonesia) and Olu Falae (Nigeria)', presented at the TD project meeting, Kuala Lumpur, Malaysia, 2009.

two countries in institutionalizing economic development. The period of the study covers from roughly 1965 to 1990, during which time the role of economist-technocrats was clearly recognized, especially in Indonesia.

Economic Development in Indonesia and Nigeria

Scholars in the field of politics, economics, and economic development in general have become interested in comparative studies. In this research trend, Indonesia and Nigeria have come up among recent comparative studies. This began in the late 1980s, particularly among the economists who were working at the World Bank, which looked at development processes across the globe. The international data panel and cross-country studies show similar features between Indonesia and Nigeria in terms of their geographic and demographic size, resource endowments (particularly oil), political development, and ethnic diversity. The two countries faced relatively similar economic conditions in the late 1960s, but within two decades showed a different path in their economic performance. The first comparative analysis was a study by Brian Pinto, as part of a World Bank comparative study.[8] The study emphasized the spending effect and its impact on resource allocation in the non-oil sectors of the economy. The comparison revealed that there were important differences between the countries with regard to fiscal and exchange rate policies. Major differences also existed in their foreign borrowing strategies—which were more conservative in Indonesia—and agricultural policy—which was market-oriented and included provision of transitional assistance in Indonesia. Pinto's comparative study showed clearly the different outcomes of economic policies in Nigeria and Indonesia during and after the oil-boom period.

8 Appears as an article entitled 'Nigeria During and After the Oil Boom: A Policy Comparison with Indonesia', in *World Bank Economic Review* 1, No. 3, pp. 419–45, 1987. Though less substantial, the comparison between Indonesia and Nigeria's development also appears in several studies, among others the following: Sara J. Scherr (1989) 'Agriculture in an Export Boom economy: A Comparative Analysis of Policy and Performance in Indonesia, Mexico and Nigeria', in *World Development* 17(4): 543–560; Robert Dibie (1998) 'Cross-National Economic Development in Indonesia and Nigeria', *Scandinavian Journal of Development Alternatives and Area Studies* 17(1): 65–85; Sven Wunder (2003) *Oil Wealth and the Fate of the Forest: A comparative study of eight tropical countries*, London and New York: Routledge (especially Chapter Six, 'More tales of oil wealth and forests: Mexico, Nigeria and Indonesia'); and Andrew Rosser (2007) 'Escaping the Resource Curse: The case of Indonesia', *Journal of Contemporary Asia* 37(1): 38–58; Franqois Regoli (1996) 'Integrating Social Formations into The World Economy: The case of Indonesia and Nigeria', Unpublished Master's Thesis, Department of Political Science, University of Ottawa.

In an attempt to explain what factors influenced the development policies, which was not discussed in Pinto's study, Erik Thorbecke in 1996 wrote a conference paper that dealt with the institutional basis for economic development. The paper that eventually appeared in the proceedings of the conference in 1998 was entitled "The Institutional Foundations of Macroeconomic Stability: Indonesia versus Nigeria".[9] The main question raised by Thorbecke was this: "What then accounts for the widely divergent paths they have followed—for Indonesia's stability and impressive growth and Nigeria's instability and economic stagnation?" According to Thorbecke, there were four initial conditions that played a major role in leading the two countries onto different paths: (1) the size, distribution, composition, and characteristics of the main ethnic groups; (2) the form and content of the original constitutions; (3) the process through which independence was obtained; and (4) the background of the leaders. Thorbecke argued that, looking at the similarity in its initial factors, Indonesia in fact could easily have followed Nigeria's path. Yet Indonesia's performance was helped by some favourable conditions, particularly more consensual ethnic relationships, a unitary constitution, and uninterrupted leadership.

Ten years after Pinto had published his study, another World Bank study was published in 1999 that was based on what its authors, Bevan, Collier, and Gunning called "analytical economic history" and "political economy". The book, entitled *The Political Economy of Poverty, Equity, and Growth in Nigeria and Indonesia, 1950–86* provides a substantial analysis on the development of the two countries from the early-1950s to the mid-1980s. By pairing the two countries over a particularly long historical period, it was expected that the study would be able to offer "a novel and promising way of reconciling in-depth case studies with a broader comparative method of analysis" (see Bevan *et al.*, 1991: 1). The study could also be seen as a move from what is conventionally called statistical comparative studies to an analysis that goes beyond statistics. The central question explored in the book was why equitable growth did not take place in Nigeria after 1972 when, at least superficially, it had the same opportunities as Indonesia. Since both countries received an enormous oil windfall during this period, it is tempting to focus on differences in the handling of the windfall as accounting for the differences in outcomes.

9 See Thorbecke's contributing chapter (pp. 106–139) and Mari Pangestu's comment on Thorbecke's paper (pp. 140–143) in Yujiro Hayami & Masahiko Aoki (1998).

According to this study, Indonesia turned oil income mostly into productive investment, whereas Nigerian oil income was either siphoned abroad or used for prestige projects.[10] According to the authors of this book, the key to success for Indonesia was that Indonesia was able to establish an environment conducive to growth in the non-oil economy, while Nigeria could not. Indonesia was also able to implement an economic liberalization policy, which was in general sustained from 1967, whereas Nigeria delayed liberalization until 1986 and subsequently reversed it.[11] The book, which was published after Indonesia had experienced a severe economic crisis in 1997–1998, concludes and supports the author's argument that the explanation for the different development trajectories between the two countries found in the more current change conjunctions of circumstances rather than from deep-rooted historical causes.

In 2007, Lewis, a Nigerian specialist, published a book from an institutional perspective, entitled *Growing Apart: Oil, Politics and Economic Change in Indonesia and Nigeria*. Lewis began his book by asking two basic questions: "What types of institutional arrangement are essential for economic growth in poor countries?" and "What are the political conditions that foster the development of growth-inducing institutions?" (see Lewis (2007: 1). Viewing Indonesia and Nigeria in the mid-2000s, Lewis was able to look at Indonesia and Nigeria after both countries had experienced a long authoritarian regime, economic crises, and a political transition from an authoritarian to a civilian government and democracy. Again, the strikingly different paths of governance and economic performance from the late-1960s through the 1990s have also led other observers to make a comparative analysis of what constitutes the driving force to finding a better explanation of what Lewis believes lies in the institutional dimensions of economic change. The main thrust of the book is therefore about the interplay of politics, institutional change, and economic growth

10 While Indonesia performed better than Nigeria in managing the oil boom, in a personal communication with the author, Thee Kian Wie, the Indonesian economic historian, noted that one should not forget that part of the oil-boom revenues were also wasted in Indonesia when the Indonesian government in early 1975 had to bail out Pertamina. Because of its imprudent borrowing of short-term loans, which it invested in long-term projects, Pertamina faced bankruptcy when a small bank in Texas, the Republic Bank, demanded the return of its loan to Pertamina, which Pertamina was unable to repay. Ibnu Sutowo, the head of Pertamina, acted as a state within a state and used some of Indonesia's oil money in building prestige projects.

11 It is surprising that Lewis did not mention in his book (2007) any findings of Thorbecke's analysis on the institutional fundamentals of macroeconomic development in Indonesia and Nigeria (1998).

that produced the economic divergence (and lately convergence) in Indonesia and Nigeria. Lewis's analytical framework can be seen as a further refinement of what had been done previously by Thorbecke & Bevan *et al.* While these previous studies emphasized mainly the endogenous factors, only Rosser, in his article "Escaping the Resource Curse: The case of Indonesia" (2007), looked at both endogenous and exogenous factors that fundamentally contributed to the success story of Indonesia in avoiding the resource curse—as experienced by other resource-rich countries such as Nigeria. Those two fundamental factors, according to Rosser, are: (1) the political victory of counter-revolutionary social forces over radical nationalist and communist social forces in Indonesia during the late-1960s; and (2) the country's strategic Cold War location and proximity to Japan.

In viewing the development prospect, particularly in Africa, there are two existing views. On the one hand are observers who believe in the "deep" determinants of development—namely geography, institutions, and history—and for this reason their outlook is more pessimistic; on the other hand there are observers who hold that the problems lie in the policies, and what matters is whether or not the right policy levers can be pulled at the right times to yield large policy impacts (Johnson *et al.*, 2007: 26).

Widjojo Nitisastro and Allison Ayida: Technocrats in Different Institutional Settings (1967–1983)

Widjojo Nitisastro was born in Malang, East Java, on 23 September 1927. After graduating from high school he studied economics at the Faculty of Economics, University of Indonesia in Jakarta. In 1957 as a lecturer at the Faculty of Economics, University of Indonesia, Widjojo obtained a scholarship from the Ford Foundation to pursue a postgraduate study in economics at the University of California, Berkeley, USA. In July 1967, at the age of 39, Widjojo was appointed Head of the National Development Planning Bureau (Bappenas), the powerful planning institution, a post that he held for sixteen years. In September 1971, Widjojo was promoted to Minister for Economic Planning, and from 1973 to 1983 served as Coordinating Minister for Economics, Finance, and Industry.

Allison Ayida was born in Gbelebu, Siluko, Benel State, on 16 June 1930 and was educated at King's College in Lagos, Queen's College at Oxford University, and the London School of Economics and Political Science (LSE), 1956–1957. He began his carrier at Chase Manhattan Bank, New York, from October to December 1958, and then went on to work at the Federal Reserve Bank, New York, from January to March 1959. Within the

Nigerian government, he was appointed as Assistant Secretary, Federal Ministry of Finance, 1957–1963; Permanent Secretary, Federal Ministry of Economic Development and Reconstruction, 1963–1971; Permanent Secretary, Federal Ministry of Finance, 1972–1977.

Compared with Widjojo, whose knowledge was more broad-based (demography, economics), Ayida's knowledge was more concentrated on conventional economics and finance. Aside from his broad knowledge, Widjojo was exposed to the microeconomic realities in rural areas, while Ayida was more exposed to the macroeconomic situation of his country. While Widjojo had strong support from his university, Ayida did not have such academic institutional support, apart from his long career as a civil servant within the Ministry of Finance. Widjojo, on the other hand, had successfully established a strong team of competent economists, who were not only loyal to him but were also men of integrity and not corrupt, united in their shared nationalist-pragmatist characters and commitment to improving the welfare of their people.

Federalism, as a state format adopted by Nigeria at its independence in 1960, constitutes a political dynamic and context not experienced by Indonesia, which adopted a unitary state in 1950. While in Indonesia state power is centrally controlled by the national government in Jakarta, state power in Nigeria tends to be diffuse and highly contested between the different states and power centres. The decentralized nature of power and authority in Nigeria contributed to the difficulties of the economist-technocrats in supervising the implementation of development plans. Compared with Widjojo's role, which "isolated" him in a position where economic policy was freed from politics, Ayida neither had the luxury to do the same as Widjojo nor any intention whatsoever to isolate himself from politics. Ayida's attitude towards politics is clearly evident from his writings, in which he liked to be called the adherent of a new political-economy approach. Ayida criticized the orthodox economy approach which assumed efficiency as the highest value while neglecting the importance of power in the allocation of resources.

According to Ayida, the Nigerian economy after the civil war should be seen through the new political economy framework in which the balance of power was very important. This position, among others, was evident in his presidential address at the Nigerian Economic Society meeting in which he reflected on the so-called "Nigerian Revolution", which was essentially mapping the balance of power in Nigeria according to the ideal number of states based on ethnicity, territoriality, and religion. Politics in Nigeria is state-based and south-north territorial divides constitute the geographic distribution of power, which in turn should be considered in formulating an economic plan and its implementation. In Indonesia, politics was centralized and a public domain that was fully controlled by Suharto.[12] Suharto was the protector of Widjojo from the harm of politics. He cleared the way for Widjojo and his economic team to formulate and implement economic development plans and policies. The centrally controlled politics by Suharto provided a public space in which Widjojo could formulate and implement development strategies and policies. Ayida, on the other hand, was often left unprotected, as the president of Nigeria would first think about his political survival rather than anything else. In the aftermath of the civil war, Ayida argued that the threat to the continued existence of Nigeria would not come from the East but would originate in economic problems and social conflicts.

Agriculture was the "topmost priority" in Nigeria's national development, but the major problem in financing agricultural development was not inadequate public savings or lack of funds. The problem was related to the lack of communications between those who managed the agricultural sector and the administrator; between the farming community, the agriculturalists, extension workers, and research workers, on the one hand, and on the other hand, the administrators in the Ministries of Agriculture, Planning, and Finance. According to Ayida, another serious problem was the communication gap between the technocrats and the political leadership concerning the rational allocation and responsible use of resources (see Ayida (1972). Concerning Nigeria's demography, Ayida argued that, as the most populous country in Africa, demography constituted a significant factor in Nigeria's economic development. However, the divisive nature of post-colonial politics along the lines of ethnicity and territory unfortunately affected the production of reliable statistics in Nigeria. The demographic division between the southern part of the country, dominated by a Christian population, and the northern part, dominated by a Muslim population, turned out to be an obstacle to conducting a proper population census, as demographic composition became a very political factor in such a divided society. The problem of producing available census data in Nigeria was one reason that planning seemed an elusive undertaking. The lack of demographic data constituted a major problem for the formulation of development planning. When a country does not know, for example, the size of its childhood population or the proportion attending schools or

12 Suharto was the second president of Indonesian, in power from 1967 to 1998.

the number and distribution of unemployed adults, its planning process is likely to be confused and haphazard, such that resources may be allocated to persons and areas which needed them the least (see Ahonsi (1988). Ayida argued that the population problem in Nigeria involved delicate and controversial policy issues which the planners and the policy-makers had to handle with great care. The statistical basis itself had yet to be firmly established. In a situation where reliable demographic data was lacking, economic planning in Nigeria mainly relied on demographic estimates. In the case of Indonesia, Widjojo, being a demographer himself, was very aware of the need to produce reliable statistics for economic planning. In 1964 Widjojo established the Demographic Institute at the Faculty of Economics, University of Indonesia, as a research centre for demographic analysis. This centre then became very instrumental in providing statistical data for five-year economic development planning, as Widjojo become the head of the National Planning Bureau from 1967.

Widjoyo's approach to development should be understood within the context of the developmental state, which is characterized by a leadership which is strongly committed to developmental goals and places national development ahead of personal enrichment and short-term political gains, and which looked at Indonesia as a shared national project. Widjojo and his fellow economist-technocrats' team might be described as "pragmatist-nationalists". The political upheaval that led Indonesia into a severe economic crisis in the mid-1960s opened opportunities to implement new policies under Suharto's repressive developmentalistic ideology (Feith, 1980); Widjojo, however, continued to be haunted by his nationalist conscience about how to find a pragmatic way to help his fellow countrymen out of poverty. The main limitation to Widjojo's economic development plan and strategy was related to the absence of a clear strategy to make economic growth more evenly distributed—that is, equity. While Widjojo was undoubtedly responsible for improving the economic conditions of the majority of the rural population and reducing the number of people below the poverty line, he was criticized for not considering the distributive dimension of economic growth.[13] In an apparent response to critics

[13] On this issue, see the arguments made in Arndt (2007) 'Is Equality Important?', when defending against attacks by critics of Widjojo's economic development strategy. Inequality was raised by Jan Pronk (1993: 260) in the conclusion of an NGOs' workshop to review Indonesia's development in April 1991 in The Hague. Pronk, who at the time was the Netherlands Minister for Development Cooperation, argued that after considering different concepts of poverty, the various nuanced views on Indonesia's performance, and a comparison between Indonesia and other countries, the following

and the student protests in the major cities in 1978–1979, a new slogan of "development trilogy"—stability, growth, and equity—was launched at the beginning of the third five-year development plan (1978/79–1984/85).

An important element that can be found both in Widjojo and Ayida is their consciousness of taking part in the process of nation-building and their strong desires to improve the economic situation of their countries. Widjojo's strong commitment to the policies of agricultural development and population control, however, reflected his deep knowledge of Java's economic-demographic dynamics, which was then translated into development praxis. These two policies, in Widjojo's view, were imperative for the poverty reduction that was necessary to emerge from Indonesia's development impasse in the early 1960s. Widjojo's success in the reduction of poverty should be seen in tandem with his success in reducing the growth of the population through a government-imposed family planning programme.

Ali Wardhana and Olu Falae: The Possibilities of Institutional Continuity (1983–1990)

Ali Wardhana was born in Solo, Central Java, in 1928 and was one year younger than Widjojo. While Widjojo wrote a dissertation on demography, Ali Wardhana's doctoral thesis was entitled "Monetary Policy in an Underdeveloped Economy: With Special Reference to Indonesia". From their topics of dissertation, demography for Widjojo and monetary policy for Ali, it appears only as a coincidence that after Widjojo had successfully laid the economic fundamentals that emphasized macroeconomic stability and pro-poor and pro-rural policies, Indonesia faced new economic challenges in the mid-1980s after the end of the oil-boom era in 1982. Arguably, Ali could solve this as it was his area of technocratic expertise. Olu Falae was born in Akure, Ondo State, in 1939. In 1986, he was 47 when he was appointed as Secretary to the Federal Military government under Babangida. Before this appointment, Olu Falae served with the

consensus would emerge: "economic poverty has decreased while inequality has increased, because polarization has increased". Pronk noted that there was a consensus on the factors behind Indonesia's remarkable performance: "this is due to governmental policies". The Indonesian policies were oriented towards rural development, infrastructural development, and human resources' development, with priority for agriculture. Other developing countries, according to Pronk, "would have been wise to follow the Indonesian example".

Federal Public Service as a public servant for 25 years and in 1981 achieved the highest position as the Permanent Secretary. In 1981 he resigned and took the job as Managing Director of the Nigerian Merchant Bank. The appointment by General Babangida, as some observers have argued, was politically motivated by the desire to represent the Ondo state, since there was no one else from that state in the Babangida cabinet.

Both Indonesia and Nigeria show that 1983 was a crucial year, as several economic and political events occurred that significantly shaped the future of both countries' economic development. In 1983 Widjojo Nitisastro, the chief architect of New Order's economic development in Indonesia, officially resigned from the ministerial post of Suharto's New Order government. Widjojo was replaced by Ali Wardhana, who under Widjojo had served as Minister of Finance for 15 years. Although Widjojo stepped down from public office, this did not much affect the subsequent course of development, as he still played an important role as economic advisor and continued to act as the main guardian of economic development in Indonesia. Amidst the continuing important role of Widjojo, economic policy experienced a major shift when new economic resources had to be identified, as the state was no longer able to rely on the oil revenue after the end of the oil-boom era in 1982. In 1983 Nigeria experienced a changing of the power elite as the civilian government under Shagari was ousted by the military junta under General Muhammad Buhari. The changing political regime and the new economic pressures constituted the fragile policy environment that Nigeria had to face compared with the more stable situation in Indonesia.

In responding to the new economic challenges, General Buhari did not bring in a dynamic fresh economic team, but simply revived the Murtala and Obasanjo regimes' decision-making structure, which was strongly characterized by its ad hoc policy approach. As observed by Lewis (2007: 161), Buhari's resistance to more basic macroeconomic and institutional reforms was the major constraint to economic reform. Lewis (2007: 161) further noted that the enthusiasm that had greeted Buhari's intervention quickly paled as repression and economic drift worsened. In August 1985 General Ibrahim Babangida replaced Buhari in a peaceful coup. Babangida immediately declared an economic state of emergency and began a nationwide "IMF debate" to find a solution to the economic downturn. As Lewis (2007: 162) has described, public debate revealed widespread opposition to IMF policies, and Babangida used a political legerdemain to advance a reform agenda. Babangida introduced the so-called "home grown" Structural Adjustment Programme (SAP), comprising budgetary restraint, exchange rate reform, trade liberalization, and partial privatization. According to Forrest (1993: 207), the economic reforms introduced after the Babangida regime came to power were the most important economic reforms in Nigeria since independence and the most comprehensive in Africa. The introduction of SAP in 1986 marked a shift in economic policy towards a strategy that relied more on market forces and private enterprise to promote national accumulation.

The SAP is generally considered a success in resuming the growth of the economy and improving the balance of payments. The SAP, however, also triggered widespread popular protest. As noted by Lewis (2007: 164), popular pressure and cross-currents within the regime gave rise to inconsistent economic policies. While preserving core elements of the adjustment programme, leaders selectively circumvented policies and steadily relaxed macroeconomic discipline. Despite uneven performance on macroeconomic targets, the growth of the economy accelerated. Although GDP grew at an average rate of 6.5% from 1988 to 1990, the government "reflationary" policies of 1988 fostered monetary growth that aggravated inflation. Widespread social unrest—popularly known as the "SAP riots"—broke out in mid-1989 and involved several universities and urban commercial districts, and ended in a number of civilian deaths. Lewis (2007: 165) aptly described the "SAP riots" as a reflection of the political dilemmas of reform arising from elite fragmentation and distributional pressures on the state. While the SAP was able to achieve macroeconomic stabilization, this policy change did not elicit a sustained supply response in productive activities that could alter the structure of the oil-dependent economy.

Despite inevitable yet unorganized public resentment, President Babangida appears to have been quite adroit at managing events and opinions. Ihonvbere *et al.* (1998: 120) described Babangida as a person known for his often unpredictable political actions, yet he survived controversial debates over devaluation, the constitution, and housing and foreign policy. In association with determined monetarists such as Drs. Kalu Kalu,[14] Olu Falae, and Chu Okongwu, he agreed and stay on good terms with the World Bank. While the senior technocratic elite may be

[14] Dr. Kalu Kalu was Dr. Thee Kian Wie's fellow student at The University of Wisconsin, Madison, in the mid-1960s, when his name was George Kalu. Dr. Thee Kian Wie is a leading economic historian at the Indonesian Institute of Sciences.

rather thin and isolated, preoccupied with foreign exchange rates and debt renegotiations, it has thus far been quite masterful and consistent. The oil-price issues, according to Ihovbere (1998: 123), are characteristic of politics under SAP: general guidelines from the World Bank, the IMF, and creditors, which failed in their implementation because of continual internal controversies and disagreement in what Watts (1987: 33) claims to be “the most dynamic and volatile economy in Africa”.

In Indonesia, the economic reforms that were implemented after the oil price fell in 1982 also heralded a major shift in economic policy. However, the reforms reflected the ability of the economist-technocrats in Indonesia to take a rational yet unpopular decision. The reforms showed that the economist-technocrats were able to convince President Suharto to take a painful economic measure that would hurt the majority of the people, and that they were able to maintain their influential position. The economic reform basically consisted of two main policies: deregulations and liberalizations of the financial sector, in order to adjust to the drastic decline in development financing that was previously dominated by oil revenue. The relative success of the economic reforms in the mid-1980s, however, should be seen as a continuation of several economic policy measures, particularly the currency devaluation policy in 1978. The decision to devalue the rupiah against the US dollar by 50%—in anticipation of a slump in the oil price—shows the courage of the economist-technocrats to take action to avoid an economic crisis. The relative decline of tradable non-oil goods against non-tradable goods at that time was perceived by the economist-technocrats as a strong indication of imminent major economic difficulties.

The characteristics of economic policy reforms in the 1980s, according to Alisjahbana (2005: 20), can be summarized as the following: (1) The slump in oil price in 1982 was responded to by several macroeconomic policy measures, most particularly postponing major development projects, reforming the tax system, devaluing the rupiah, and deregulating the banking and trading sectors; (2) The second major oil price drop, in 1986, was responded to not only by continuing the previous macroeconomic policy measures, but also by taking microeconomic policy measures, particularly in the trading sector; (3) In order to bolster the new sources for financing of development in 1987, the government deregulated the capital market, known as the “December 1987 Policy Package” or *Pakdes 1987*; and (4) In 1988 the government again launched a policy package to deregulate the banking sector, referred to as the “October 1988 Policy Package” or *Pakto 1988.*

At the beginning of his academic carrier, Ali Wardhana had majored in monetary policy and was later appointed as the Finance Minister in the creation of the so-called Development Cabinet in 1968. Ali worked closely with Widjojo in raising the Indonesian economy out of the disorder it was in in the mid-1960s. Although the term structural adjustment had not yet been introduced in the 1970s, Ali Wardhana (1994), in his recollections, strongly believed that two main features of macroeconomic management that Indonesia adopted consistently for twenty-five years had been instrumental in guiding the economy through the process of what is now known as structural adjustment. Firstly, the government constrained its spending by requiring a balanced budget every year for the past 25 years. This budgetary discipline has protected Indonesia from inflationary excesses ever since. Secondly, in 1970 the government declared the currency—the rupiah—to be a fully convertible currency, with no restrictions on the flow of foreign exchange into and out of Indonesia. This rule provided an important check on monetary policy, since any mismanagement would show up almost immediately in the outflow of foreign exchange. Ali Wardhana convincingly argued that these two management rules reflected the fundamental commitment that has left Indonesia with no choice but to keep its macroeconomic stability under control at all times.

Ali Wardhana (1995: 79) explained what he meant by financial reform in the following terms: "Reforming a financial system is fundamentally a two-pronged process. On the one hand, it involves the removal of direct controls over prices, quantities and activities, combined with an easing of the process that governs the entry of new firms. The result should be that economic choices will be determined mainly through the interaction of market forces. On the other hand, it requires the imposition of prudential regulations that ensure that clear and sufficient information is available to all, reducing excessive risk and minimizing opportunities for fraud and manipulation at the expense of the general public". Furthermore, Ali Wardhana (1995: 80) explained: "It is probably correct to characterize the very first steps taken by the Indonesian Government in June 1983 as deregulation. These initial steps consisted of the removal of direct central bank control over the state banks' interest rates, and over credit allocation by all banks. Subsequent measures affecting the financial system involved a two-pronged change: measures were introduced that further reduced direct control, while steps were also taken to introduce a reliance on indirect rule of action, either by strengthening prudential regulations or by improving the systems of indirect monetary management. This later stage is best characterized as regulatory reform". Ali Wardhana (1995: 80) noted that economic reform in Indonesia was aimed at achieving three objectives: (1) to move toward a predominantly market-based financial system; (2) to provide effective protection as needed for the general public so that they could benefit more fully from the services offered by the financial system; and (3) to build a financial system that would support stable and healthy growth of the national economy.

The background of Olu Falae's career as a public servant, as well as a long-serving Minister of Finance, has undoubtedly reinforced his reputation as an economist with a strong technical ability in the area of finance and monetary policy. On one occasion, Olu Falae recalled his job as Permanent Secretary: "Good things advocated in the past did not catch on, because many people did not share the perception. For example, unemployment and rural development did not feature because no pressure was felt by the big people in government who were in a position to make things happen".[15] As Permanent Secretary, as he recalled, he faced two immediate tasks. The first was to explain the government's strategy for revamping the economy to the public. Since the president's budget broadcast, not much had been said about this strategy and how it was going to be implemented. The second was to convince the sceptical nation, anxious for action from the government, that although the great drums of publicity may not be attendant on the actions of the government, the administration was moving full steam ahead. The government strategy on the economic front was rather complex. In simple terms, however, it fell broadly into two categories: increased agricultural and industrial production, and fiscal policies that were in every sense revolutionary.

Recalling his role after being appointed as the Secretary of the Federal Military Government, Falae revealed the following: "Babangida came [in August 1985]. He invited me to serve as Secretary to his government, and later I became Minister of Finance, for a year 1989–90. The Babaginda years were of course the years of the IMF debate and the years of SAP, which was designed to get Nigeria out of the bind that it found itself in. I left government in August 1990. I'm not trying to suggest that by any means my departure had any effect on government policy. But there was some kind of coincidence that the last two years of that government there was virtual abandonment of many requirements of the SAP. Import licensing came back—not across the board, but for specific products". When asked what the main problem of Nigeria was, either "a slump in oil price",

[15] See interview with Olu Falae in *Newsmatch* (1986), p. 13.

"leadership", "state-related", or "resource-related", Olu Falae answered the following: "There is no whole-hearted pursuit of good policy or for a period sufficiently long for that policy to make an impact.... [R]egimes and policies have been changed completely over time ... No matter how good your policy may be, if it is not pursued conscientiously and for a fairly long period, I can say mind you, we have a stop and go every day; each time we go back to the foundation level ... Some don't look into the future to make sacrifices, and for that reason hardly have time to make an investment and wait for the gestation to produce employment and income".[16]

The mid-1980s marked a critical policy shift as the state had to restructure the economy through various reforms, most specifically in the financial, banking, and trading sectors. In Nigeria the process of economic recovery through SAP generally failed, as the income per capita after the mid-1980s tended to decline. Nigeria also continued to rely on oil and was unable to diversify its economy. In comparison with Nigeria, Indonesia successfully overcame the period of crisis, and its overall economy continued to grow at a relatively high rate. Indonesia was also able to reduce its dependency on oil and embark on increasing its non-oil exports since the late-1980s. It is interesting at this particular juncture, when the economy is becoming more market- and export-oriented, to see what the impact was on the majority of people in Indonesia and Nigeria, who were mainly living in rural areas. How did the economic liberalization, which tended to benefit the urban-sector economy, such as manufacturing, trade and service industries, influences the livelihoods of the majority who are still occupied in the agricultural sector?

In Nigeria, it is generally observed that "[t]he agricultural sector, which was hitherto the mainstay of the economy, underwent a steep decline, almost in tandem with the rising national reliance on oil. With this decline came an increasing dependence on food imports, as the production of food as well as cash crops declined sharply.... An exodus of people away from rural farming communities into the cities was also set in motion, reinforcing the crisis of agricultural production and urban squalor".[17] The tendency to neglect the majority of people in the agricultural sector indicates the urban bias in the development orientation in Nigeria. The

[16] From transcript of an interview with Olu Falae, by Akinyinka Akinyoade and Jan Kees van Donge, 18 February 2008.

[17] See Chapter 7, 'The economy and poverty', in International IDEA (2000: 156).

explanation on this urban bias development orientation varies depending on the perspective that we take to analyze this phenomenon. Looking at the situation in terms of the role of technocracy in development, there is almost no disagreement among observers that the Nigerian technocrats failed to have an influence mainly owing to their marginal position and the unfavourable policy environment. Yet it is still valid to ask why a serious intention and commitment was lacking among the elites to improve the livelihood of the majority of their people. In Indonesia, the strong commitment to improve the welfare of the majority of people who still depended on agricultural activities in the rural areas provides a striking contrast with Nigeria. As the two countries' economies had to shift toward more market orientation and manufacturing industries, it was very natural that agriculture would likely be given less attention by the policy-makers. In the case of Indonesia, this was apparently not the case, as pro-poor and pro-rural policies, which are instrumental in poverty reduction, have apparently continued as a high priority in national development agenda. In an assessment of the impact of economic reforms on the rural agricultural sector, for example, it is clear that the reform in the banking sector not only benefited the urban sector, but also the rural and small-scale economic sectors.

Conclusion

The different paths taken by Indonesia and Nigeria are perhaps most clearly shown by the existence of a group of technocrats who promoted economic development over a relatively long period of time. The existence of such a group of development experts is vital when a country's institutional structure is generally weak due to volatile bureaucratic politics and internal political rivalry. Historical continuity is important, and understanding the path of economic development is not possible without understanding structural processes and the institutional development of the state and the economy.

This chapter emphasizes the importance of human agency in the process of institutionalizing economic development. The quick decision by the Indonesian technocrats, led by Widjojo Nitisastro, to control the strategic economic development institutions in the beginning of the New Order period in the late-1960s, for instance, has been very instrumental in the achievement of major economic goals in Indonesia, particularly macroeconomic stability, poverty reduction, and sustained economic growth.

While many other factors certainly play an important role, especially the political instability and the fragmented nature of the society in Nigeria, the failure of Nigerian technocrats to convince the military leaders to hand over economic matters to them significantly affected the achievement or lack of economic development. While politics and economy are indeed inseparable and closely interconnected, in the case of Indonesia there seemed to be a division of labour between the technocrats, who were in charge of economic policy, and the military, who controlled politics. The economist-technocrats were not passive agents but were each in their own way deeply engaged in power politics. Yet in the case of Indonesia the existence of an autocrat like Suharto, who controlled the country for a long period, strongly contributed to the construction of a political environment in which political space was created for technocrats like Widjojo Nitisastro to play their role. Such an long-surviving autocrat as Suharto was obviously nonexistent in the case of Nigeria, which consequently could not provide a similar political environment in which the Nigerian technocrats could manoeuvre.

The portraits of individual policy-makers elaborated in this chapter indicate different trajectories in economic development in Nigeria and Indonesia. The role and contribution of economist-technocrats behind the economic policies of the two countries were strikingly different, as shown by Widjojo Nitisastro and Ali Wardhana in Indonesia and Allison Ayida and Olu Falae in Nigeria. It was under Widjojo Nitisastro and then Ali Wardhana that three strategic economic development institutions—namely, the National Development Planning Board, the Ministry of Finance, and the Central Bank—were tightly controlled. It was through such a long period of control that the technocrats in Indonesia were able to achieve sustained economic growth and, more importantly, institutionalize economic development. The three key economic institutions successfully developed during the period 1967–1990 were the following: (1) development planning and macroeconomic policy; (2) pro-poor agricultural policy; and (3) monetary and banking reform policy. In the case of Indonesia, interestingly, the legacy of the economist-technocrats in instituting economic development goes well beyond the span of Suharto's New Order regime.

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6

Elites and Exchange Rate Policy in Indonesia and Nigeria[1]

Ahmad Helmy Fuady

Indonesia and Nigeria are both located in the tropics, have a large, ethnically diverse population, are rich in natural resources (particularly oil), and have a long history of an economy dominated by agriculture. Both countries were ruled by military leaders from 1966 to 1998, with two brief civilian administrations in Nigeria in 1979–1983 and 1993. In addition, both are notorious for their high level of corruption. The two countries, however, experienced a sharp contrast in their economic development, particularly since the onset of the 1970s' oil boom. In 1967, in Indonesia, per capita gross national product (GNP) was only 50 USD, or roughly half of Nigeria's per capita GNP (World Bank, 1990: 1). However, by the late 1980s, Indonesia's purchasing power parity and per capita GNP were double that of Nigeria, accompanied by a more equal income distribution (Bevan, Collier, & Gunning, 1999: 1). In terms of poverty alleviation, industrialization, life expectancy, and adult literacy rate, Indonesia also progressed more than Nigeria in the period 1960–1997 (Lawrence & Thirtle, 2001: 2; World Bank, 2007). These indicators show that Indonesia managed its development better than Nigeria did. Put simply, Nigeria turned into a development 'tragedy', while Indonesia turned into an economic 'miracle'.[2]

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[1] This is a part of my PhD thesis, entitled *Elites and Economic Policies in Indonesia and Nigeria, 1966–1998*. A previous version of this paper was presented at the 5th Asian Graduate Forum on Southeast Asian Studies, Asia Research Institute, National University of Singapore, Singapore (7–9 July 2010).

[2] The World Bank (1993) definition of 'miracle' and Easterly & Levine's (1995, 1997) definition of 'tragedy' fit very well with the pair of Indonesia and Nigeria. In fact, comparison

The difference in exchange rate policy turned out to be decisive for the diverging economic performance of these two countries. To limit the negative effects of the oil boom in the 1970s, the Nigerian government chose to compensate the non-oil tradable sector by protecting import-substituting manufacturing; in contrast, the Indonesian government chose to intervene through currency devaluation. "Indonesia's strategy benefited exports whereas Nigeria's strategy further handicapped them" (Bevan *et al.*, 1999: 395). The overvaluation of the domestic currency because of the influx of oil money led to relatively cheap imports and made Nigeria's non-oil products less competitive on domestic and international markets. Therefore, unlike Indonesia, Nigeria failed to diversify its economy away from oil dependence. "The management of foreign exchange provides one of the strongest points of contrast between the two countries" (Lewis, 2007: 193).

This chapter looks at differences in exchange rate policy in the two countries. It explores why Indonesia's economic policy elite devalued the rupiah several times (1978, 1983 and 1986) to boost export performance and to break dependence on oil money, while Nigerian policy-makers refused to devalue the naira and preferred to have a strong currency. It examines the exchange rate policies during the oil boom and bust in the 1970s and 1980s by exploring economic and political explanations for the decisions.

In addition, it shows that the decision to devalue or not to devalue can be partly explained by examining the personal background of the policy-makers responsible for the decisions. In particular, I analyse the personal background of Ali Wardhana (Minister of Finance, 1968–1983) and Radius Prawiro (Minister of Finance, 1983–1988) for Indonesia, and James Johnson Oluleye (Commissioner of Finance, 1976–1979), Onaolapo Soleye (Commissioner of Finance, 1983–1985), and Chu Okongwu (Minister of Finance, 1986–1990) for Nigeria. Those trained in economics tended to favour a more realistic exchange rate than those trained in other disciplines, such as the military, sociology, and politics, who put political considerations before economic rationale.

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of the two countries offers a microscopic sample of what has been happening in Asia and Africa in the last few decades. In 1993 the World Bank published *The East Asian Miracle*, highlighting how Asian countries managed to achieve rapid economic growth and impressive poverty reduction. Easterly & Levine (1995) published *Africa's Growth Tragedy*, because Africa has "potential unfulfilled, with disastrous consequences". Africa's economy, which was predicted to grow ahead of East Asia, in fact experienced a stagnation of per capita income from the 1960s (Easterly & Levine, 1995; 1997).

This chapter is organized as follows. I briefly discuss the exchange rate policy in Nigeria, followed by the one in Indonesia, particularly regarding the 1978, 1983, and 1986 devaluations. I then discuss some possible explanations behind the decision to devalue or not to devalue in these two economies: economic and political considerations, as well as the personal backgrounds of the policy-makers responsible for the decisions.

Exchange Rate Policy in Nigeria

Prior to 1959, Nigeria was part of the West Africa Currency Board. In 1959, with the establishment of the Central Bank of Nigeria (CBN), the Nigerian pound was introduced. The new currency was fixed at par to the British pound sterling. In 1961, Nigeria joined the International Monetary Fund (IMF). As a consequence, in June 1962 the government defined the Nigerian pound in terms of gold, instead of pegging it to the British pound sterling. At the time, one Nigerian pound was equal to 2.49 grams of fine gold (Komolafe, 1996). Therefore, when the pound sterling was devalued by 14.3% in 1967, the Nigerian pound remained unchanged.

Following the collapse of the Bretton Woods system in 1971, the Nigerian pound in 1973 was pegged to the US dollar (Fadahunsi, 1993: 36). However, when the US dollar was devalued, the Nigerian pound was not, because the authorities were concerned about inflation, which was high in the wake of the civil war. Therefore, the Nigerian pound appreciated against major currencies. The nominal value of the Nigerian pound increased from 2.8 to 3.04 USD (Jerome, Adenikinju, Raheem, & Ademeyo, 1998: 11).

The Nigerian pound was decimalized and changed to the naira in 1973. The changes in currency, from pounds and pennies to naira and kobo, symbolically demonstrated "Nigeria's attempt to decolonize its monetary system which had been tagged to the British sterling zone before and after independence" (Elaigwu, 1987: 150). When the US dollar once again was devalued that year, the naira was also devalued. The Nigerian naira was pegged to the US dollar and the British pound sterling up until 1978. Gradual appreciation of the naira in relation to the US dollar and sterling was allowed during the 1974–1978 period because of the improving balance of payments as a result of increasing oil prices (Jerome *et al.*, 1998: 11). In addition, as noted by Rimmer (1985: 438–9), overvaluation of the naira was tolerated from 1974 to reduce the cost of living because Nigerians relied heavily on imports. According to Rimmer (1985: 439), the overvalued currency (which implicitly subsidized the naira) not only reduced export competitiveness but also increased demand for naira in Nigeria, which flew out of the country. To correct the situation, in 1978 the Nigerian government changed their exchange rate management; thereafter, the value of the naira was based on the fluctuation of a basket of currencies of Nigeria's major trading partners, namely the US dollar, pound sterling, German mark, Japanese yen, French franc, Swiss franc, and Dutch guilder. During 1978–1979, the Nigerian government also tightened administrative controls on foreign-exchange flows (Rimmer, 1985: 439).

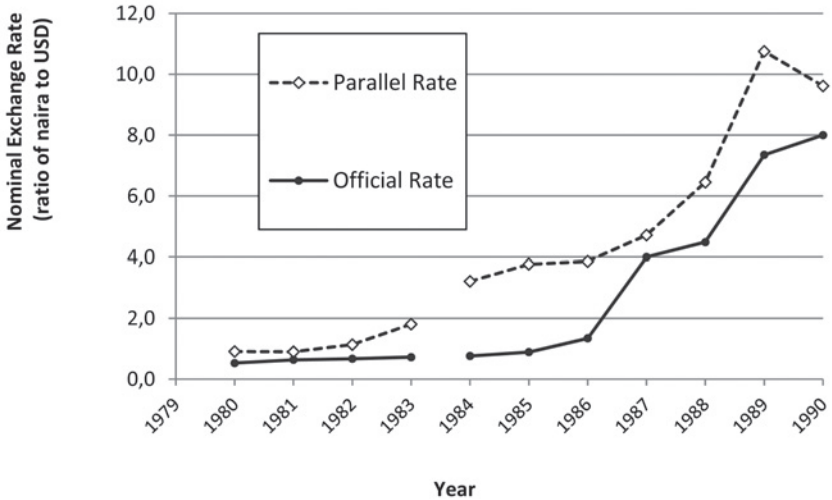
Even though oil prices increased, Oluleye, Federal Commissioner of Finance under Obasanjo, notes that foreign reserves had deteriorated. "While the country was earning N400 million a month, the level of imports stood at N950 million monthly, running a monthly balance trade deficit of N550 million" (Oluleye, 1985: 210). He did not, however, turn to the IMF for balance-of-payments support. According to Oluleye (*ibid.*), resorting to the IMF could have had severe repercussions:

(1) The Board of IMF would assume Nigerian policy-makers have mismanaged the economy and they would dictate techniques of new-style management and restructuring.
(2) Their earlier pressure to devalue the naira would be difficult to oppose. Devaluation, however, would not solve the problem but only 'postpone the evil day'.
(3) Their earlier criticism that interest rate was too low could have received an immediate solution by imposing a higher interest rate.

Further, he notes: "Resorting to the IMF could have meant walking into an economic ambush out of which we could not get out for some years to come. Emphasis on honouring our international repayment obligations would be enforced" (Oluleye, 1985: 210–1).

During the oil boom (1974–1981), the real value of the naira depreciated and the currency was considered overvalued. The gap between the official exchange rate and the rate on the parallel (black) market was also very wide. In the first quarter of 1980, for instance, the official rate was 0.55 naira per dollar, while the price of one naira on the parallel market was 0.97 naira per dollar or about 1.77 times the official rate (see Figure 6.1). The World Bank (1982) therefore noted that Nigerian goods were at a significant disadvantage relative to foreign goods in export markets because of overvaluation. The overvaluation of the naira was seen by the World Bank as a major constraint on Nigerian export products.

When oil prices decreased in the early 1980s, Nigeria experienced an economic crisis. Fadahunsi (1993: 33) notes that "[t]he crisis manifested



Sources: 1980–1981 from Pinto (1987: 440), 1982–1990 from Bevan *et al.* (1999: 395).

Figure 6.1 Official and parallel exchange rate in Nigeria (naira per US dollar)

itself not just in the form of revenue falls but also in industrial decline, inflation, a payment crisis, rising unemployment, and a debt service problem". The naira depreciated in 1981, and by the end of 1984 it had depreciated about 33% against the US dollar (Jerome *et al.*, 1998: 11). However, the Shehu Shagari administration was reluctant to adjust the value of the naira to the market rate. Forrest (1986: 13) notes that, during the Shagari administration (1979–1983), devaluation became a bottleneck that prevented agreement with the IMF. Instead of devaluing the naira, the civilian government tightened administrative controls on foreign exchange in 1982 (Rimmer, 1985: 439).

After Buhari overthrew the civilian government in 1983, the gap between the official and the parallel market rates widened. By the second quarter of 1984, the exchange rate on the parallel market was 4.45 times the official rate. The refusal of Onaolopo Soleye, Federal Commissioner of Finance during the Buhari regime (1983–1985), to drastically devalue the naira was widely seen as responsible for the growing overvaluation. Like the Shagari civilian government, Buhari's regime negotiated with the IMF for extended credit and also for a medium-term loan to support structural adjustment of the Nigerian economy. However, the requirement to devalue the naira again prevented the negotiations being concluded. Soleye says that he refused to devalue the naira because the proposal made to him was to initially devalue the naira by 30%, but he saw this as just the first step without knowing where it would end up (Interview, 12 May 2009). Soleye preferred administrative controls on foreign exchange. He also decided to print new notes in April 1984 to prevent the repatriation of naira through smuggling (Rimmer, 1985: 439).

In August 1985, when the economy was worsening, Ibrahim Badamasi Babangida (Chief of Army Staff and a member of the Supreme Military Council) overthrew Buhari's regime. In 1986, the Nigerian government adopted the structural adjustment programme as suggested by the IMF and the World Bank. A core element of the structural adjustment programme was the Second Foreign Exchange Market (SFEM),[3] which was designed to provide a framework for a realistic exchange rate through market forces (Jerome *et al.*, 1998: 11). The SFEM was intended as a transition stage toward a unified competitive foreign exchange market. The foreign exchange market was then unified in 1987. However, the free fall of the value of the naira caused the Nigerian government to prevent the market from deciding the value of the naira. As a result, the gap between parallel and official rates continued to exist.

Exchange Rate Policy in Indonesia

Unlike in Nigeria, Indonesia had devalued the rupiah several times since the start of the New Order. When it began in 1966, Indonesia's New Order government was faced with a chaotic political and economic situation. One important challenge was to arrive at a rational foreign-exchange system. Therefore, the new government allowed capital to move into and out of the country freely without any restrictions. The October 1966 stabilization programme also simplified a multiple exchange rate system to two rates, called BE (Bonus Ekspor) and DP (Devisa Pelengkap)[4] (Prawiro, 1998: 70). There was an initial sharp devaluation of the rupiah by 900%, from 10 rupiahs per dollar to 100 (BE) rupiahs per dollar (Siber, 2007: 112).

[3] During the structural adjustment programme, Nigeria adopted a dual exchange rate policy in 1986. The first-tier exchange rate was designed for foreign debt and service obligations. The second-tier foreign exchange market (SFEM), determined by market forces, covered all trade transactions as well as auctions for official foreign-exchange receipts and the interbank market (Bevan *et al.*, 1999: 75).

[4] BE was foreign exchange that could be used specifically for importing or buying priority products. On the other hand, DP could be used for any purpose, such as tourism abroad or buying lower-priority products. The price of BE was much lower than the market price, while the price of DP was closer to the market price.

The double exchange rate system was then modified continually so that the values of BE and DP gradually approached each other. In 1970 the double exchange rate system was abolished; BE and DP were unified at the price of 375 rupiahs per US dollar (Prawiro, 1998: 71). After the exchange rate unification in 1970, the rupiah was devalued in 1971. At that time, it was devalued by about 11%, from 375 to 415 rupiahs per US dollar (Patmono, 1998: 202). The 11% decrease was a response from the government to the rupiah's overvaluation, resulting from a high level of inflation in the previous period. The New Order regime had inherited a severely troubled economy from the previous regime. In 1966, when Suharto took over power from Sukarno, inflation reached 650%. In the early 1970s, the rupiah was still pegged to the US dollar. As a consequence of the ultra-high inflation, which was very much higher than inflation in the United States, the rupiah was considered overvalued. Theoretically, an overvalued currency will negatively affect export performance. Costs of production will be higher, so international competitiveness will decrease. In order to correct the value of the rupiah, and particularly to improve the competitiveness of Indonesian products on the international market, the government in 1971 devalued the rupiah (*ibid.*).

The 1978 Devaluation

After a cabinet meeting on 15 November 1978, Widjojo Nitisastro, Coordinating Minister of Economy and Finance, announced a 51% decrease in the value of the rupiah. In his explanation, he argued that the Indonesian economy was in a prime condition to undergo a drastic adjustment. Foreign reserves, mainly from oil money, were sufficient to finance imports for five months. Therefore, he said, it was a good time to conduct a devaluation to boost export performance, particularly of non-oil exports (Nitisastro, 2010: 331–2). The devaluation, according to Dick (1979: 2), may have been influenced by the American government's decision to strengthen the US dollar, which could be expected to cause the rupiah to appreciate with the dollar against other currencies, particularly the Japanese yen, which would decrease Indonesian exports to Japan.

Besides changing the value of the rupiah, the government also changed the way they managed the exchange rate. According to Nitisastro, from 1971 the rupiah was pegged to the US dollar, at 415 rupiahs per dollar. As of 15 November 1978, the rupiah was no longer pegged to the US dollar; it could vary. The government, however, tried to manage things so that the rupiah would not fluctuate too much. So, the rate of 625 rupiahs per dollar would not be fixed, but could have small fluctuations. This is called a managed floating exchange rate, which means that the exchange rate is not permanently fixed, but it floats and is controlled. The government would also allow foreign currencies to flow freely. People could bring foreign currencies in and out freely. People that needed dollars could buy them from banks, and banks could buy from the central bank (Bank Indonesia). Finally, there was a policy related to materials imported for domestic production. Import fees on imported materials needed for domestic production were reduced by 50%. Taxes on sales of imported products were also reduced. This applied to materials that were used to produce goods for domestic consumption or for export. If the product was for export, to be sold abroad, there was no need to pay import fees or taxes on the sale of the imported materials (Nitisastro, 2010: 331–2).

The 1983 Devaluation

Ali Wardhana, Coordinating Minister of Economy and Finance, after a meeting on 30 March 1983 in the Cabinet Secretariat Building in Jakarta, announced that the Indonesian government would peg the rupiah at the rate of 970 rupiahs per US dollar. With this decision, the government would sell and buy one US dollar at 970 rupiahs. The government would maintain a managed floating exchange rate and there would be a free flow of foreign currencies (*Sinar Harapan*, 1983).

Ali Wardhana said that the measure had been taken to solve Indonesia's economic problems (*Sinar Harapan*, 1983; *Suara Karya*, 1983). First, there was a problem because of the world economic recession of the preceding three years. Many countries had attempted to protect their economies by devaluing their currencies, which caused prices of Indonesia's non-oil exports to continually decrease.

Second, there had been a sharp decrease in oil prices, from 34 to 29 USD per barrel, because of the OPEC decision to cut the crude-oil price by 5 USD per barrel (see also Arndt, 1983: 1). For Indonesia, this decrease affected both government revenue and foreign reserves.[5] Therefore, the government took action to prevent a further decrease in foreign reserves. Third, there was a problem with monetary stability. In the preceding two

[5] Arndt (1983: 2) notes that the current account surplus in 1980/81 had turned into a deficit of nearly 3 billion USD in 1981/82 and 6.7 billion USD in 1982/83. Meanwhile, the decline in oil prices had decreased government revenue from oil company taxes by 10% in nominal terms in 1982/83 and threatened to become a much larger decrease because of the price cuts in March 1983.

years, inflation had stayed below 10%, but in the years before that, inflation had been high. This high inflation had decreased the competitiveness of Indonesian exports on the world market; and on the domestic market, Indonesian products lost out to imported products. In sum, Ali Wardhana said, "[w]ith the change in the rate of the rupiah in relation to the US dollar, it is expected that foreign reserves can be maintained and be used as capital ... for development and also to strengthen Indonesian competitiveness in the world economy" (*Kompas*, 1983).

The 1986 Devaluation

In 1986, the Indonesian government again devalued the rupiah. On 12 September 1986, Radius Prawiro, Minister of Finance, announced the devaluation of the rupiah from 1,134 to 1,644 per US dollar, a devaluation of 45% (Nitisastro, 2010: 243). Once again, decreasing oil prices was the reason for the government's choosing this policy. Nitisastro noted: "[t]hat oil prices will decline is something that's been predicted before, but a very sharp decline in a very short period of time is beyond the estimation" (Nitisastro, 2010: 242–3). In March 1986 oil prices began to decline rapidly. In subsequent months they declined very sharply in a very short period. In July 1986 the price of oil was 10.25 USD per barrel and in August 1986 it dropped to below 10 USD (Nitisastro, 2010: 242). The sharp drop in oil prices had reduced foreign-exchange earnings and heavily burdened the country's balance of payments. Also, the economy had been slowing down since 1985, shown by the sharp decline in the rate of growth. Growth rate of GDP was only 1.9% in 1985, compared with 6% in 1984 (Booth, 1986: 2).

Since 1983, the exchange rate had been managed by using a crawling peg system. But the rupiah moved too slowly, from 994 per US dollar in 1983 to 1,134 per US dollar in September 1986. Demand for imports was still strong, however, and inflation in the preceding three years had been high (Prawiro, 1998; Nitisastro, 2010).

The 1986 devaluation was intended not only to improve the balance of payments, but also to allow the market mechanism to function (Booth, 1986: 20). Booth (*ibid.*) notes that "a devaluation of this magnitude is a clear signal that the Government has decided to give a major role to the price mechanism in bringing the balance of payments back into equilibrium". Moreover, the 1986 devaluation was intended to be the last devaluation in Indonesia. After 1986, the rupiah was periodically adjusted by about 3% annually until 1997, when the economic crisis hit hard. Because of the 1997 economic crisis, the value of the rupiah substantially decreased. However, this study does not treat the post-1997 period.

Economic Explanations

Theoretically, for oil-rich countries such as Indonesia and Nigeria, an increase in oil prices, such as in the 1970s, could lead to 'Dutch disease'. Dutch disease is a negative economic consequence, particularly decreasing exports' competitiveness due to overvaluation because of a large increase in national income associated with natural resources. The name originated from the situation in the Netherlands in the 1960s after the discovery of large deposits of natural gas.

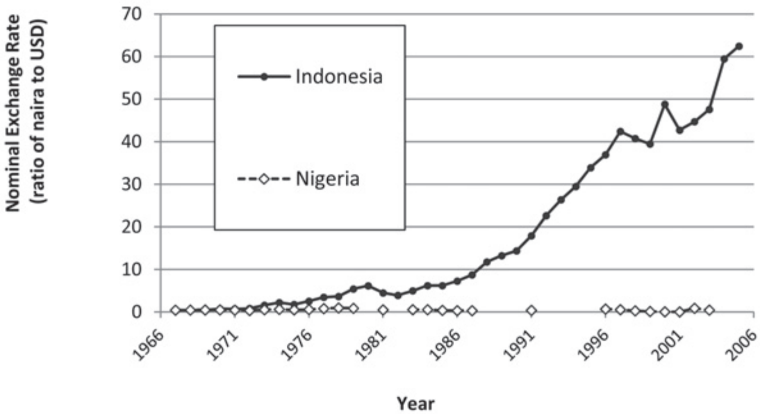
There are at least two ways that an increase in oil prices can lead to economic problems (Pinto, 1987: 421–2). First, an increase in oil prices is predicted to drive resource allocation toward the oil sector, and not to other sectors such as manufacturing. However, since the oil industry is an enclave sector, this is unlikely to happen. Second, an increase in oil prices will increase national income, which is predicted to increase demand for and prices of non-tradable goods, such as services. This situation is expected to divert resources from tradable to non-tradable sectors, for instance from manufacturing to construction and services. In such a situation, de-industrialization is likely to occur. Moreover, the increased demand for and prices of non-tradable goods would lead to overvaluation or the decrease of the real value of the domestic currency below its nominal value. The overvaluation of the domestic currency can further reduce the competitiveness of exports because it increases the relative prices of exported goods. To prevent decreasing exports because of Dutch disease, exchange rate management is crucial. Devaluing the nominal value of the domestic currency is a way to improve the competitiveness of non-oil exports (*ibid.*).

Further, the increasing income from a rise in oil prices in combination with an overvalued currency can also lead to higher demand for cheap imports. As a result, increased competition from imported tradable goods threatens the domestic production of tradable goods and could lead to devastation of the agricultural sector. Efforts to prevent de-industrialization could lead the government to spend more of the oil revenue on the manufacturing sector, with the result that the wages of labour in the sector increase. Consequently, labour can be expected to move from the rural-agricultural sector into the urban-manufacturing sector, and this will reduce agricultural production (Pinto, 1987: 422).

The argument for devaluation is straightforward: devaluing the domestic currency will make exports cheaper than the prices on the world market. This will improve the competitiveness of exports. Thus, devaluation can help an economy escape from Dutch disease and can prevent a country from becoming an oil-dependent economy. Devaluation will also make imports more expensive and lessen the competitive pressure on domestic industries. As a result, imports decrease and domestic production recovers.

Figure 6.2 shows how non-fuel exports in Nigeria have lagged behind Indonesia since 1973. It also shows an upward trend in Indonesian non-fuel exports after the 1978, 1983, and 1986 devaluations. It can be concluded that the objective of devaluation to increase non-fuel exports was quite successful. The question is: why did Nigerian policy-makers not choose to devalue the naira?

A common explanation for the hostility to devaluation is that Nigeria is a country with a single export commodity. Nigeria's only major export is oil, and therefore the country will not benefit from devaluation. In fact, devaluation will generate even less income for the country. This basically follows the argument of the elasticity requirement for devaluation to be successful: if imports are largely complementary or inflexible and if there is a low supply response (that is, if exports fail to increase), then devaluation will deteriorate the balance of payments. However, as Odife (1989) notes, the argument of a single commodity does not really apply to the case of Nigeria. Export products are paid for in dollars, and therefore oil



Source: World Bank (2007).

Figure 6.2 Non-fuel exports (current price, billions of USD) revenue will not decrease because of devaluation. Moreover, the revenue from oil exports can buy more devalued naira.

In contrast to the single export commodity argument, Ali Wardhana, who was responsible for the devaluations in Indonesia, says that devaluation was designed to prevent the country's dependence on oil.

> What I thought [we needed to do was to increase] exports. Our oil production had started to decrease. If non-oil exports did not work, how could we get foreign reserves? So devaluation was the only way to boost exports. Even though the oil price was increasing at the time, we had to consider that oil is a non-renewable resource. So, alternatives were needed. (Interview, 29 November 2008)

The second reason for the hostility to devaluation was due to the fact that Nigeria is an importer country. As a 'chronic importer', Nigeria will suffer from devaluation because it will lead to higher prices for machinery, raw materials, and other imported products. Further, the higher prices of machinery and raw materials for industry will raise costs of production, and this will lead to inflation. Odife (1989), however, provides a counter-argument to this. According to him, companies that rely on imported raw materials should no longer be protected. Also, devaluation will encourage import-substituting industries to grow, so dependence on imports can be reduced.

Illusion of Strong Currency

Allison Ayida, Permanent Secretary at the Ministry of Finance during the Gowon period, in his *Reflections on Nigerian Development* expresses the paradox of having a strong currency: "Can you have a strong currency in a weak economy?" (Ayida, 1987: 223). According to him, the founding fathers of the naira had predicted that the naira would be a strong currency in a strong economy. However, when the Nigerian economy deteriorated because of decreasing oil prices in the 1980s, the wisdom of having a strong currency should have been questioned.

Similarly, Kalu Idika Kalu, twice (short-term) Minister of Finance during the Babangida and Abacha regimes, and known for his affiliation with the World Bank, questions the merits of having a strong currency for a developing economy (Interview, 28 September 2009). A strong naira will lead to import dependence to the detriment of local manufacturing industries. Kalu was therefore surprised that the Manufacturing Association of Nigeria did not support him to devalue the naira.

In fact, the idea of having a strong currency is widespread among Nigerians. There is an illusion that a strong currency is better for their standard of living. This can be seen in the following story:

> In 1976, I was in London. My salary was 4,800 naira. That was about 6,000 US dollars. I bought a brand new Mercedes Benz, and I still had 1,000 naira in change. For 7 naira, I had a full tank of fuel for the Mercedes Benz, which was about 70 litres. Now, with 4,800 naira I can only get the fuel. So, you can imagine how strong our currency was at the time, how strong our economy was. (Interview, Abuja, August 2009)

Even though the story may be inaccurate or exaggerated, it clearly shows that members of Nigeria's elites enjoyed a strong currency for their personal benefit. A similar story is the following:

> Before, I could send my son to study in London because the naira was very strong, but now it is very difficult to do so. (Interview, Lagos, 2009)

Interestingly, the illustrations of how strong the naira was seem always related to personal gain in the situation. The sensitivity about having a strong currency is also described by Ayida:

> When we talk seriously of the external value of the naira, we think of the naira in our pocket and in our bank accounts, as Customers, Investors, Businessmen, Industrialists, Importers, Smugglers, Commission Agents especially in the petroleum sector. Like any other policy measure, it affects the individual or corporate entity in different ways. But because of the money illusion, our reference point is normally sterling or dollar parity. Those in a position to conduct their foreign currency transactions at the official rate are likely to be adversely affected by devaluation. (Ayida, 1987: 223)

Political Explanations

In fact, devaluation is not only about economics. From a political economy perspective, devaluation involves national prestige and can trigger a battle of "economic efficiency versus political prestige concerns for a government" (Denoon, 1989: 5). Benefits of devaluation, such as expansion of exports and creation of employment, come after possible costs, such as inflation and increased prices of imports. Denoon notes that it takes 12 to 18 months for the benefits to come after the costs, and therefore political leaders need to limit the negative effects.

Devaluation also has different effects on different groups, of which policy-makers should really be aware. While devaluation benefits exporters, it is costly to importers; it helps the rural-agricultural sector, but punishes import-dependent urban-sector consumers (*ibid.*). Thus, devaluation can be seen as a bargain between the rural-agricultural sector and the urban-manufacturing sector. Devaluation in Indonesia, in fact, benefited the Outer Islands at the cost of urban areas. In Indonesia, Wing (1988) views the 1978 devaluation as a victory for the agricultural-based Outer Islands against urban manufacturing-based Java. Similarly, according to Dick (1979: 1):

> In the Indonesian economy devaluation also redistributes income from the urban elite, whose consumption has a high import content, to export producers, particularly farmers and not least those in the Outer Islands. A successful devaluation would therefore not only stimulate the rate of growth but also bring about a fairer distribution of income.

In fact, hostility to devaluation came not only from traders who sold imported products, but also from manufacturers. For traders, devaluation will make them dig deeper into their pockets because prices will be higher. If they sell imported goods in naira, the selling price could be too high for consumers. It is understandable that importers are afraid of decreasing the volume of imports. For manufacturers the story is a bit different. As noted by Odife (1989), as the prices of imports rise, there will be new opportunities for manufacturers to fill in the domestic demand left by the higher prices of imported goods. In addition, with the changing relative prices in favour of manufacturers, because their products will be cheaper on the world market, there should be new incentives for export production. Unfortunately, such ideas were not easy to accept, particularly because manufacturing in Indonesia and Nigeria was highly dependent on imported raw materials. Perhaps it was also because of vested interests; existing producers enjoying protection would lose the benefit of having cheap imported materials if the currency was devalued, and therefore resisted it.

In Indonesia, Rahmat Saleh, governor of the central bank (Bank Indonesia) in 1978–1983, says:

> The resistance mainly came from the industrial environment, because they did not really comprehend it. They thought that devaluation would increase their costs, because they depended on imports. It would not be good for industry. They did not think that their products would be more exportable because of the more interesting exchange rate. Also, we should not forget that increasing import prices would reduce the incentive to import, because the imported products would be expensive. Thus, domestic consumption could be supplied by domestic products. This notion was not comprehended quickly. But later they agreed it was the right policy because it had been proven. (Interview, 30 October 2008)

To counter the resistance from urban manufacturers, the Indonesian government reduced import fees on imported materials by 50%. Imported materials used for products to be exported were even reduced to zero. This would not only boost the Outer Islands agricultural-based economy, as argued by Wing (1998), but would also help the urban-industrial sector. There was compensation for the losers.

In Nigeria, urban dwellers are perceived as a more relevant political constituency because of their proven opposition to poor performance of government; rural dwellers, in contrast, are usually more passive, not protesting too much (Osaghae, Isumonah & Albert, 1998: 24–25). With no significant agricultural-export interests and with urban dwellers afraid of increased import prices, it was difficult politically to defend a devaluation.

Moreover, to arrive at a realistic exchange rate is not an easy task in Nigeria. Black-market racketeers grew very strong in the country. They took advantage of differences between the official rates and the market rates of foreign exchange. Ibrahim Babangida, President of Nigeria (1985–1993), in an interview explored how interests of particular groups became obstacles for achieving a realistic foreign-exchange rate.

> Actually the black-market racketeers were just a small tip of the iceberg. What we found out, which was much more serious, was that we, as Nigerians, have not lived up to our patriotic duties to our fellow citizens. We had cases of abuses. We sold foreign exchange at the official rate only for the people who bought them to go, against all convention, all laws of decency, to resell it at exorbitant profit to other people.... Secondly, we also discovered ... that some manufacturers ... passed back [their product prices] to the consumers based on unofficial rate, which is not fair. A good citizen should not exploit his fellow citizens. I also believe there is what I may call a cartel, people who want to corner this thing [foreign exchange], cause panic in the system, make us believe the whole world is coming to an end, then keep on getting the maximum out of the sweat of the people, out of government's acts. (Adeneyi, Sonaike, Ughamadu, Darah & Othihiwa, 1992: 20)

Educational Background of the Policy Elites

To what extent did the contrast between Nigeria and Indonesia in exchange rate policy reflect the ministers' personal background? All the policy-makers analyzed in this chapter (Ali Wardhana, Radius Prawiro, Oluleye, Soleye, and Okongwu) came from middle-class families. Ali Wardhana's father was an accountant, among the first Indonesian accountants educated in the Netherlands, while his mother was a teacher and at one time an elementary school headmaster. Radius Prawiro's father was a teacher and his mother was a nurse in Yogyakarta. Okongwu's father, a school headmaster, always expected Okongwu to be first-class and nothing less. Interestingly, policy makers that rejected devaluation in Nigeria came from middle-class, traditional ruler families. Oluleye came from a traditional ruler's family in Efon-Alaaye, West Nigeria (now Ekiti State), which is mainly inhabited by Yoruba like himself. His father, famous for his wrestling prowess, died when Oluleye was 14. As an orphan from an early age, Oluleye was raised by his brother, Michael Folayan, who was a military soldier before being discharged in 1954 with the rank of corporal. Similarly, Soleye came from a traditional ruler's family in Abeokuta. However, we need to be careful in speculating on the effect of background in a traditional ruler family on exchange rate policy. It has often been outlined that traditional elites are the 'bridge' between the central state and local communities or the area of origins (see Fisiy & Goheen, 1998: 384). They tend to pursue an advocacy role for their area of origin or for channelling the resources from the state to their home areas. However, Oluleye's and Soleye's decisions not to devalue the naira in 1978 and 1984 do not seem to be related to the interests of their regional origins in the western part of Nigeria, which was well known as a cocoa-exporting area. In addition, there is also lack of evidence to suggest that their decisions not to devalue the naira were influenced by a tendency of traditional ruler families to maintain the status quo in a society.

The relevance of the personal biographies of policy-makers lies particularly in their academic background. Ali Wardhana, Radius Prawiro and Okongwu, who devalued their currency, had been trained in economics. Ali Wardhana earned his bachelor's degree from the Faculty of Economics, University of Indonesia (FEUI) in 1958. While studying for this degree, he wrote *Foreign Exchange and Its Implications in Indonesia* (Wardhana, 1957). With a scholarship from the Ford Foundation, he then studied at the University of California at Berkeley and obtained his MA in economics in 1961. In 1962, he successfully completed his PhD at the same university, with a dissertation titled 'Monetary Policy in an Underdeveloped Economy, with Special Reference to Indonesia'.

Radius Prawiro studied engineering at the Faculty of Engineering, Gadjah Mada University, Yogyakarta. After one year at that university, he moved to FEUI in Jakarta. At the time, he was sponsored by the Department of Finance, where he was registered as an employee. He studied economics for two years at FEUI before continuing his education at the Nederlandse Economische Hogeschool in Rotterdam (1953–1960), where he studied business economics. After returning to Indonesia, he studied accounting at FEUI.

Okongwu went to Boston, Massachusetts, USA, to study economic theory at Boston University, finishing in 1961. Among his teachers there were John R. Meyer, Gottfried Haberler, and Robert Dorfman, all well known for their quantitative analyses (Okongwu, 1987). John Meyer was well known for his quantitative approach, particularly in the area of transportation. Gottfried Haberler "was one of the first economists to make a rigorous case for the superior productivity and universal benefits of 'free' or politically unrestricted international trade in terms of the modern subjective theory of value" (Salermo, 2010). Haberler actively opposed protectionist and inflationist policies. Meanwhile, Dorfman was an expert on econometrics. In 1961, Okongwu was a research assistant at the Board of Governors of the Federal Reserve System, Washington DC. In 1965 he obtained his PhD from Harvard University, Massachusetts, USA. Professor Lattee, A. Fahm, and Ayo Ogunsheye were part of his Harvard-MIT circle discussing Nigerian affairs (Okongwu, 1987). He returned to Nigeria just before the first military coup. From 1965, he was a lecturer at the Economic Development Institute, University of Nigeria, Enugu campus. In addition, from 1965 to 1970, he was a staff member at the Centre for Development Planning, Projections and Policies, UN Secretariat, New York, USA. At the centre, he worked on country growth models with Mark Golansky and Jacob L. Mosak (Okongwu, 1987). He also studied at the Nederlandse Economische Hogeschool (Netherlands School of Economics) in Rotterdam for one year. During that period, he often had lunch-time discussions with Professor Jan Tinbergen, a Dutch economist who was a winner (with Ragnar Frisch) of the first Nobel Prize for economics.

How about Oluleye and Soleye? Oluleye attended St Luke's College in Ibadan after leaving primary school. He taught briefly after completing his teachers' training. In 1959, he opted for a military career, attending the Regular Officers Special Training School in Ghana. He was also at the Nigerian Military Training College in Kaduna, and the Defence Services Staff College in Wellington, India. He joined the Nigerian military as an officer cadet, rising to second lieutenant in 1960. He was with the First Battalion, Enugu, from 1961 to 1963. From 1964 to 1965, Oluleye was chief mortar instructor at the Nigerian Military Training College. In 1966, he became the commandant, operations officer, Nigerian Army Headquarters, and then general officer commanding of the Second Infantry Division, Ibadan, from 1970 to 1975. Prior to his appointment as Federal Commissioner for Finance, Oluleye did not have any economics training.

Soleye attended the London School of Economics and Political Science and the University of Manchester, UK. He is a sociologist, but many think of him as an economist because of his London School of Economics background. In fact, he says he prefers to see himself as a sociologist rather than an economist. His interest is particularly the sociology of industry and industrial relations, studying relations between management and workers in companies and factories (Interview, 12 May 2009). In 1967, he joined the staff at the University of Ibadan and was a junior research fellow at NISER. He retired in 1996 as a senior lecturer in the Department of Sociology, Faculty of the Social Sciences, University of Ibadan. He is a life member of the Nigerian Economics Society, and a member of the International Industrial Relations Association.

Differences in academic background of the policy elites manifest themselves clearly in their ideology. Ali Wardhana is a self-proclaimed market-oriented economist. He believes in market forces managing the economy. He sees financial liberalization as his major achievement. This is stated in his keynote address at an annual conference held by the Australian National University, called Indonesian Update 1994, titled 'Financial Reform: Achievements, Problems and Prospects' (Wardhana, 2000). He says the title is actually a disguised reference to a market economy, because market economy as an aim was 'taboo' among economists at the time. When Indonesian policy was dominated by the principle of a 'guided economy', the economic situation was very poor. Ali Wardhana then introduced measures to move toward a market economy to liberalize the economy, which was important to achieve Indonesia's economic development. He wanted everybody to be able to participate in the market, not only state enterprises. Responding to a question about how Indonesian government policies of the period were regarded by many people as having too many regulations, he said that it was because there was too much resistance to reform (Interview, 29 November 2008). Therefore, economists had to wait for the right time to carry out the proposed reforms. His article in 1965 on *Inflasi dan Ketegangan-Ketegangan Strukturil* ('Inflation and Structural Tensions') describes the tensions between the structuralist and the monetarist groups that he faced during his tenure in the New Order, even though he says that the article is merely academic and that the tensions in the cabinet were due more to certain groups wanting to protect their own interests rather than to a difference in economic views.

Radius Prawiro was a pragmatic liberal economist who believed in a market economy. This can be seen clearly in his book, *Pragmatism in Action* (1998). His address to the Indonesian Institute for Management Development at the tenth graduation ceremony of its MBA programme in Jakarta in 1989 was titled *Back to the Wisdom of the Market Economy*. In that speech, he acknowledged that so far Indonesia had never adopted a market economy. Instead, "Indonesia has followed what is generally referred to as an 'interventionist' approach to economic management" (Prawiro, 1989). As to foreign-exchange management, in a briefing to the branch heads of Bank Indonesia on 4 November 1966 in Jakarta, Radius Prawiro said that multiple rates of foreign exchange had led to distortion everywhere. To eliminate the distortion, there was a need to adopt a single exchange rate against foreign currencies. This single exchange rate would apply to all transactions, without exception, both for private and for government agencies. In addition, as far as possible, he advocated returning to a policy of setting the exchange rate based on supply and demand (Patmono, 1998).

Oluleye was an avid reader, and he authored *Military Leadership in Nigeria 1966–1979* and *Architecturing a Destiny*. Unfortunately, the two books do not really say much about his views on economic management since they focus mainly on internal security (see Oluleye, 2001: 134). Limited notes on the Nigerian economy, particularly on devaluation, however, can be found in his *Military Leadership in Nigeria*. He notes that there was pressure from the IMF for devaluation, a measure that he thought would not solve the problems of the Nigerian economy, but would only "postpone the evil day" (Oluleye, 1985: 210).

Soleye believes that governance is not an accountancy issue. The best way to manage finance and economic development is by a political economy approach. According to Soleye, government budgeting is not just a matter of marginal productivity. Policy-makers need to be politically aware of people who may or may not accept a policy. Therefore, sometimes the government needs to implement a project that is not economically viable in the first one or two years, but may lead to other dividends such as innovation. A government project should seek not only profit, but also social benefit (Interview, 12 May 2009).

Similar to Oluleye, Soleye recalls that the pressure from the IMF to devalue the currency was what he describes as "tremendous". Moreover, he did not believe the proposal to devalue the naira by 30% initially and later by 50 or 60% would be successful (see also Kalu, 1996: 235). It should be noted that before the Buhari regime took power, the economy had been hopelessly mismanaged. Unfortunately, Soleye recalls that when he went to the US Department of State asking for economic help, he was blamed for not cooperating with the IMF. There were always two requirements: to devalue the naira and to get out of OPEC. He recalls that Donald T. Regan, White House chief of staff, said: 'No IMF, no credit; no IMF, no aid' (Interview, 12 May 2009).

In forming their opinions and their policies, policy elites also learned from neighbouring countries and from their own development experience. The Nigerian policy-makers learned from neighbouring countries in Africa, as seen in Soleye's response to why he refused to follow the IMF's prescription:

> We use a political economy approach in economic development. We are an African nation; we have to look at African countries, what happens to them. If you remember, Sierra Leone did not make it, Sudan did not make it, Tanzania … There is a cultural tradition we are in … Why did all my neighbours that followed the IMF collapse? … If a dog barks all the time, something is wrong. (Interview, 12 May 2009)

Conclusion

This chapter has described how, facing a similar economic situation in the 1970 and 1980s, Indonesia and Nigeria picked contrasting exchange rate policies: Indonesia's policy-makers several times devalued the rupiah to boost export competitiveness, while Nigerian policy-makers chose not to do so. This paper also shows that devaluation is a complex macroeconomic measure. Although there is almost no disagreement among economists on the importance of having a realistic exchange rate, taking the step of devaluing a currency is always controversial. Devaluation is a painful decision that has 'winners' and 'losers'. Export-oriented sectors, such as agriculture in Indonesia, benefitted, while the import-dependent urban-industrial sector was hurt. In Indonesia, there was an attempt to compensate the 'losers' through several measures, such as decreasing import fees on raw materials and measures to control inflation. It is more complicated if the authorities take into account interest groups, such as black-market racketeers, who take advantage of the difference between the official and the black-market exchange rates. Devaluation also increases the probability of a regime, as well as a minister of finance, being replaced (Wing, 1988: 335). Therefore, there is a need to ensure that negative effects of devaluation, such as inflation, are seriously considered.

Furthermore, devaluation involves not only domestic actors but also international players, particularly the World Bank and the IMF. As noted by Denoon (1986: 20), a country usually devalues its domestic currency "before, during, or shortly after the provision of IMF standby credit". This can be seen in Nigeria as well as Indonesia. In Nigeria, as noted by Oluleye and Soleye, it was the IMF who prescribed the devaluation. Similarly, Pangestu (1996) speculates that in Indonesia the idea for devaluations in the 1970s and 1980s came from the IMF and the World Bank, as well as from the economic ministers. Economist-technocrats find it easier to connect with the IMF and the World Bank, as they use the same language namely, that of economics. Another thing that should be considered is the relationship of the country's regime with international organizations. Ali Wardhana and Radius Prawiro worked under Suharto, who turned to the IMF and the World Bank for support. Similarly, Chu Okongwu worked under Babangida, who had promised to continue working with the IMF in his first speech upon assuming power (Biersteker & Lewis, 1997). In contrast, Oluleye and Soleye were close to Obasanjo, who preferred protectionist measures in the 1970s, such as indigenization policies.

Along with all the political and economic explanations, it is useful to consider the personal background of policy-makers, particularly their educational background. It seems that those who had more training in economics preferred the benefits of having a realistically valued currency. This is one way of making sense of the fact that Ali Wardhana and Radius Prawiro chose to devalue the rupiah several times in order to keep the currency at a realistic rate in order to boost exports and also to prevent a decrease in government revenues, and that Chu Okongwu, an economist-technocrat during Babangida's regime, also chose to devalue the Nigerian naira in order to help the economy. By contrast, Oluleye (a military man) and Soleye (a sociologist) tended to see devaluation as a power play among economic actors; they saw devaluation more as a measure by the IMF to control the Nigerian economy, and therefore refused it.

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7

Population Programmes and Their Implications for Poverty Reduction in Indonesia and Nigeria, 1966–1999

Akinyinka Akinyoade

Introduction

This paper assesses the contribution of population policy and programmes to the divergence in poverty levels between Nigeria and Indonesia in the period 1966–1999. These two dates marked the span of military regimes (Suharto's in Indonesia, 1966–1998; seven military leaders in Nigeria) and the transition to democratic governance in 1999. Primary attention is given to the different institutional set-up for population policy formulation (Isaacs *et al.*, 1985) and implementation in the two countries. The study of their divergence borrows from works of Bevan *et al.* (1999) and Lewis (2007), which have explained the post-1970 economic divergence of the two countries from a policy perspective.

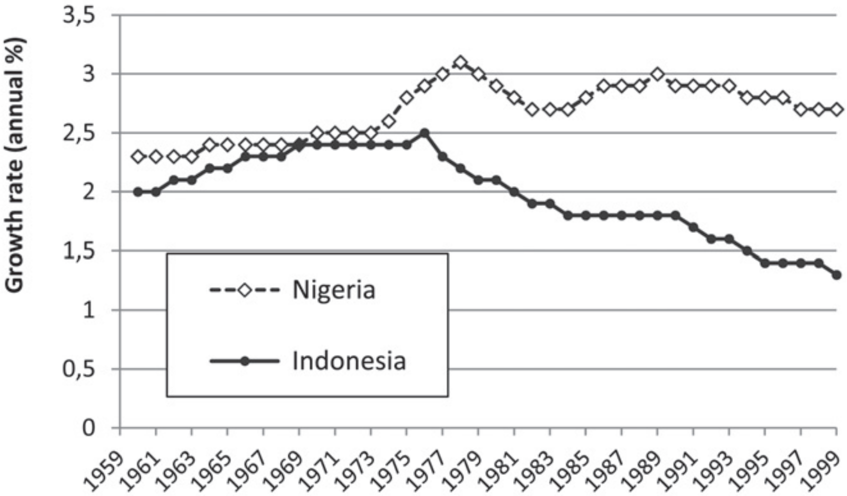
The nexus between population growth and development has been explored among others by Benneh (1990), Leete (1991), Eltigani (2001), Karim (2004), Szirmai (2005), and HPCR (2006). Common to all the aforementioned scholars is the fact that the content of population policy and its contribution to reduction in poverty levels was virtually untouched. Particularly in regard to the divergence in development trajectories of Nigeria and Indonesia, Tirtosudarmo (2009) and McNicoll (2009) alluded to the potential impact of the population factor, but not specifically to the differential adoption and implementation of population policies and the implications for poverty reduction in the two countries. McNicoll's analysis was limited to an examination of legacy factors that affect fertility (initial stock of natural and human capital, existing physical infrastructure, inherited economic and political institutions, family and household organizations, kinship systems and community structure, belief systems—as they influence agency—and aspects of public administration and local government organization). This study discusses the importance of standard population policy as a driver of the fertility transition that played a significant role in sustaining poverty reduction in Indonesia and vice versa in Nigeria. As an alternative proposition to McNicoll (2009), it argues that the implementation of standard population policy in Indonesia in the 1970s brought profound changes to legacy factors that in turn positively influenced processes of socio-economic development. Thus, this study offers a hypothetical alternative direction for Nigeria's socio-economic development if similar population programme options—like the ones in Indonesia—had been pursued in the same period.

The Population Factor

Nigeria's population grew from barely 50 million at independence in 1960 to about 125 million people in 1999. Within the same period, Indonesia's population doubled from approximately 100 million to 200 million people. In absolute numbers, when compared with Nigeria, Indonesia's population may represent a larger developmental burden. However, a population problem arises not from a population's size but from its rate of growth (Akinyoade, 2007). Nigeria annual rate of population growth is now at 2.4%, having reached highs of over 3% in the 1970s and 1980s (Figure 7.1). If we project forward, based on current annual growth rate, the two countries' populations could be on a par by 2050. The implication of Nigeria's growth rate is that it is currently adding some 3.5 million persons annually; even in the face of the decline in national fertility levels, the annual increase would still be almost 3 million in 2050, with implications for family and national dependency burden.

In addition, Indonesia's fertility transition started in the 1970s, and by the 1980s fertility rates fell close to replacement level. In Nigeria, fertility levels remained high, at about seven children per woman in the 1970s, until the later part of 1980s when a slight decline was observed; fertility transition began later, in the first years of the twenty-first century, with regional differences clearly marked, as depicted in the 2003 Nigeria Demographic and Health Survey (NDHS) records (five children per woman in 2003).

It is also interesting to note that a simultaneous decline in poverty rate and a rise in per capita income occurred in Indonesia at the time



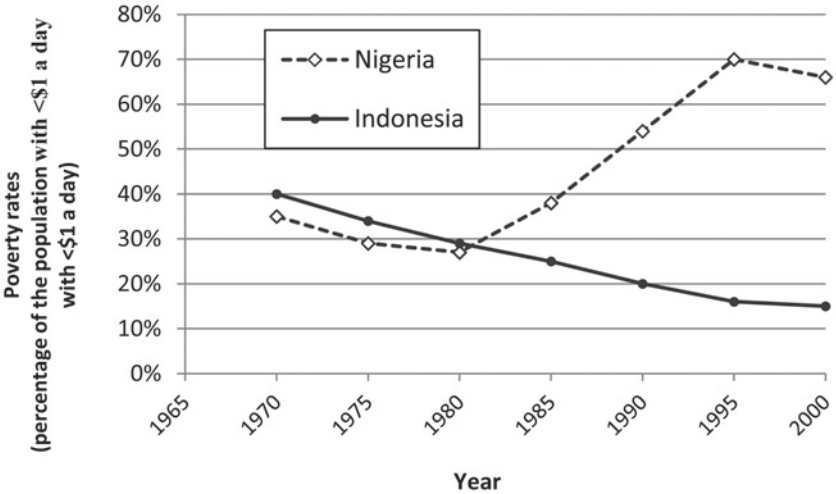
Source: ERS International macroeconomic dataset.

Figure 7.1 Annual growth rate of population of Nigeria and Indonesia: 1960–1999

it experienced declining population growth rates (Akinyoade & Enweremadu, 2009).

The poverty figures in Figure 7.2 are telling: Indonesia recorded a strong decline in poverty rate from 60% in 1970 to about 20% by the mid-1990s, appearing to level-off at 15% by the year 2000. An opposite trend was recorded in Nigeria, with poverty rates more than doubling in this period to more than two-thirds of the population (Lewis, 2007: 198–9).

It is recognized that fertility transition may have occurred with little or no deliberate intention on the part of governments, or even in the face of official opposition in other places. Also, common to Western countries' experience is that the underlying forces that make for fertility transition are those of economic and social development. For Indonesia, Nitisastro (1995) explained that the sharp drop in poverty in Indonesia was a result of sustained rapid economic growth, reinforced by an array of policies targeted at provision of infrastructure, improvement of health and education of the poor, and reduction in rate of growth of population growth. Thus, decline in poverty levels in Indonesia is associated with both a decline of population growth rate and an increased desire for and actualization of smaller family sizes, resulting from the successful implementation of a national family planning programme (late 1960s) as well as a population policy (early 1990s) by the Suharto administration (Hull & Hull, 1977;



Source: Adapted from Sala-i-Martin (2003) in Collier *et al.* (2008).

Figure 7.2 Poverty trend, Nigeria and Indonesia

McNicoll & Singarimbun, 1983; Hull & Hatmadji, 1990; Leete, 1991). For Nigeria, on the other hand, although the 'four [children] is enough' policy launched by the Babangida administration in 1988 initially had a modest effect on reining in the country's high fertility and helped to partially initiate a decline in annual growth rates, it was in the long run deemed a failure, with little or no contribution to stemming the tide of poverty (Renne, 1996; Caldwell *et al.*, 1992; Obono, 2003). This study sees population programmes as central to national economic development programmes. Since the late 1960s, a deliberate implementation of a population policy in Indonesia was crucial to lowering poverty levels in subsequent decades. In contrast, Nigeria's official refutation of a population policy in the 1970s and half-hearted attempt at a population policy in 1988 had a negative impact on its macroeconomic development trajectory.

Methodology

Primary information was obtained from semi-structured interviews with officials in ministries, departments, and agencies charged with formulation and implementation of population policies and programmes in Indonesia (1970s) and Nigeria (1980s). Secondary information was derived from population statistics' records, which were used to construct trends in fertility, contraceptive use, and migration. Information was obtained from population policy documents and periodic assessments made by agencies—in Indonesia: the National Family Planning Coordination Board (NFPCB/BKKBN), the Planned Parenthood Association of Indonesia (PPAI), and the State Ministry of National Development Planning (BAPPENAS, Badan Perencanaan dan Pembangunan Nasional); and in Nigeria: the Ministry of Health and the Federal Office of Statistics (FOS).

Indonesia: The Family Planning Programme of the New Order

The dramatic decline in Indonesia's fertility rate between the late 1960s and the mid-1980s has been attributed largely to the successful implementation of a national family planning programme launched by General Suharto in the late 1960s. On accession to power, Suharto faced problems of economic reconstruction comparable to those faced by Sukarno 20 years earlier. Suharto turned to experts to help with the economy and requested foreign assistance with an initiative to bring a 'New Order'[1] to Indonesian society. The general, documented as Acting President of Indonesia, was one of the first 30 heads of states that signed the United Nations Declaration on Population of 1967 (Ayala & Caradon, 1968). Widjojo Nitisastro, then an influential presidential adviser, posited that labour-intensive economic growth together with rapid growth of primary education, and the effective delivery of health care and family planning services, were of great importance for achieving the objective of poverty reduction (Nitisastro, 1995). By implication, reduction in population size and/or annual rates of population growth could help increase GDP per capita and lessen the pressure on the government's capacity to deliver and manage social welfare.

Having recognized the limitations posed by unchecked population growth on development, a family planning programme was launched. It was thought that large-family traditions were too entrenched, religions too conservative, and the government too disorganized to be successful in promoting small family sizes and distributing contraceptives.[2] Therefore, a high-level institution, called the National Family Planning

1 Reform of government administration, provision of mass schooling, opening the country to foreign aid, trade and investment, and expansion of the health services to rural areas—these were all crucial to the development and acceptance of family planning

2 Dr Emil Salim, personal communication at the Presidential Office, Jakarta, March 2010. Salim, a presidential adviser on environment issues, was a former Minister of Population and Environment.

Coordination Board (NFPCB), was formed to ensure effective and efficient functioning of all government departments involved in family-planning implementation.

The deliberate introduction of a public population programme to reduce the rate of population growth was crucial to the success of the government's first five-year development plan (REPELITA I). In the late 1960s, Indonesia's annual population growth rate of nearly 3% meant a doubling in less than 20 years for its population size,[3] with dire consequences for economic development. According to Penny & Singarimbun (1973), "not even quite large increases in agricultural production in Java will, over a term of years, save the people from harsh poverty unless population increase can be controlled". With family planning, Java's population was projected to rise by 35 million between 1971 and 2001; without it, a rise of 61 million was projected (Iskandar, 1971).

Part of the problem was the high population density of Java (where more than half of Indonesia's population live). At this time, Java, like the rest of Indonesia, had a young population with 40% in the age group 0–14 years. This meant a growing number of people who were yet to marry and have children. Landholding was getting smaller in Java, and rice production was declining, with increasing incidence of hunger/malnutrition. Utrecht (1973: 149) noted that, at this time, shortage of rice was estimated at one million tons and there were cases of hunger oedema in several parts of Java and Lombok in the first half of 1970. Population pressure reduced average family land holdings, and Java fared worse than other regions (McCulloch, 2008). Since the population problem was huge, solutions proposed included family planning and trans-migration to less densely populated parts of Indonesia as part of a multi-prong approach to address the problems of landholding, income generation, unequal distribution of wealth, and poverty. The option of family planning was required because, statistically speaking, large number of children per family meant strain on family resources and maternal and child health, with associated negative costs—resulting in more poverty. Based on the anticipated achievement of food self-sufficiency, the target of the first five-year plan period (1969/70–1973/74) was to register 6 million acceptors, which would prevent a total of 1.2 million births in all by the end of the plan period (Penny & Singarimbun, 1973).

[3] UN Demographic Yearbook 1970.

The administration's long-term motivation was simple: taking active steps to reduce population growth rate would help stabilize or lower population size, which in the long run would match anticipated rates of job creation, leading to reduction in unemployment levels. As part of the planning process it was estimated that an economic growth rate of 1% higher than annual population growth rate statistically meant creation of 100,000–200,000 jobs;[4] within 20 years this would help Indonesia increase the female labour-force participation of mothers and improve family income, thereby sustaining the decline in poverty levels that had already been initiated.[5]

The goal therefore was to achieve a stable population in 30–40 years, by encouraging families to have not more than two children per family (not per woman). In 1970, the NFPCB/BKKBN was established with substantial seed money from government to oversee the implementation of the family-planning programme. The board's operational strategy was to put a family-planning unit in all government ministries owing to the "cross-cutting nature of population activities".[6] The largest proportion of funding (75%) for BKKBN activities came from external sources, while the government provided the rest (25%). Funding from outside Indonesia came from the United States Agency for International Development (USAID), multilateral donors such as Japan and Sweden (and later the European Union [EU] in the mid-1980s), and the World Bank (loans). Working with funds from international donors brought a demand for accountability and proper management of Indonesia's family-planning programme. Indonesia was highly successful in receiving the necessary foreign aid (Akinyoade & Enweremadu, 2009).

Results

Available statistics show that from the mid-1970s to late-1990s, Indonesia achieved remarkable success in its population programme, with outcomes such as an increase in number of contraceptive users from 18.3% to 57.4%

4 A negative difference means higher unemployment.
5 Dr Djunaedi Hadisumarto, advisor to the head of BAPPENAS, interviewed in Jakarta, March 2010. Dr. Hadisumarto was former Dean of the Faculty of Economics, University of Indonesia, trained in Berkeley USA (1964–1971), and was close to the Berkeley Mafia—a term applied to a group of Indonesian economists, educated in the USA in the 1960s, who returned to Indonesia at that time to contribute to the development of policies that rescued the country from dire economic straits.
6 Dr Hasmi, interviewed at BKKBN, March 2010.

and a reduction in total fertility rate (TFR)[7] from about six to two children per woman (Figure 7.3).[8] (Ross, 2003). Added to this, reductions in family size were further achieved as women were freed up for new roles and interests supplementary or alternative to those of marriage (Concepcion, 1974) female labour-force participation rose from 27.2% to 50%,[9] and poverty levels went down to about 10% (from over 60% in the 1960s).

Given the large proportion of population that adopted the use of modern contraceptives, fertility rates and population growth rates declined dramatically (Figure 7.3). The effect of these declines in demographic rates on the general economy was positive both for families and for the government. Family sizes became more manageable, the number of unemployed was reduced, labour-force participation of women increased as well as their contribution to family income, and poverty rates went down in a decade. However, labour regulations were weak, and the population programme could not contribute to a reduction in the uneven distribution of wealth.

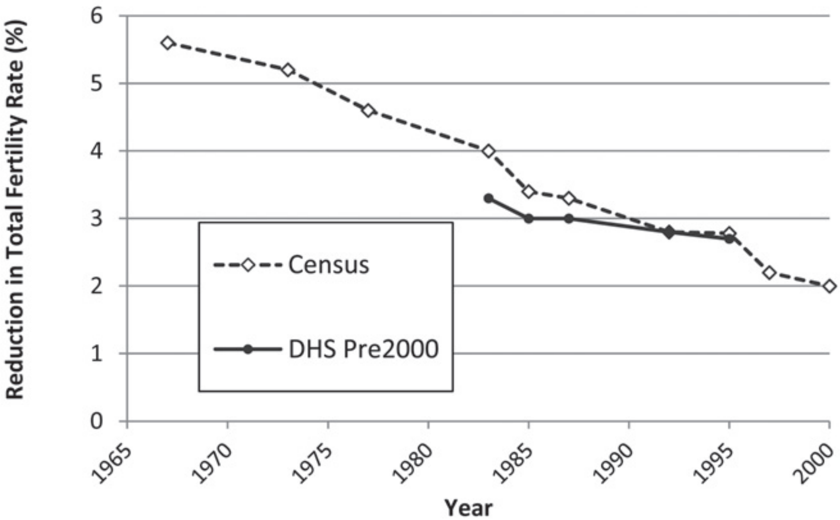


Figure 7.3 Reduction in TFR using different survey estimates in Indonesia: 1965–2005

[7] World Bank (1992); Hull & Mosley (2009).
[8] The line graph was derived using fertility data from Indonesia population census and Demographic and Health Survey (DHS) estimates pre-2000. See also Ross (2003).
[9] LABORSTA International Labour Office database on labour statistics, operated by the ILO Department of Statistics. Available at: http://laborsta.ilo.org/STP/guest [accessed 9 September 2012].

BKKBN: Methods and Incentive Systems

BKKBN started a progressive implementation of the family planning programme in Java and Bali; this later spread to large provinces (outer Java I), and later again to all other provinces (outer Java II) in 1975–78. The family-planning drive was successful in areas where highly educated people resided—for example East Java, Jogjakarta, Bali, Central Java, and Jakarta. In West Java, though educational attainment was relatively high, the resistance of Muslim clerics negatively disposed towards family planning was also high; it was alleged that family planning entailed killing babies.

Over time, the BKKBN involved religious leaders in the family-planning programmes. Islamic leaders from West Nusatangara were invited to Jakarta for meetings and consultations to prove that there was really no objection to contraceptive use in Islamic texts, especially in a series of books locally known as *kitab kuning* (Indonesian, meaning 'yellow book'). *Kitab kuning*, popular among students of *pesantren* (Islamic boarding schools), "are classical books recording exegeses and explications of Islamic teachings by *ulama*[10] of pre-modern schools of thought" (Arimbi, 2009: 59). Intonations matter in readings of the 'yellow book'; therefore, texts that were earlier used by clerics to denounce family planning were re-read, with other tones, to show that Islam was not opposed to contraceptive use.[11] Muslim clerics from West Java were persuaded—by Hariyono Suyono[12]—to visit Tunisia to learn about the convergence of family planning with Islam. On their return, with further discussion on the benefits of family planning, the clerics and the council of *ulama* issued a *fatwa*[13] in support of family planning; thus, contraceptive use gained ground in West Java.

The head of BKKBN used two distinct but complementary approaches for public sensitization to the programme: first, the widespread use of the

10 *Ulama* (or *ulema*) "refers to the educated class of Muslim legal scholars engaged in the several fields of Islamic studies". See http://en.wikipedia.org/wiki/Ulama [accessed 20 September 2012].

11 Account given by Dr Emil Salim, Presidential Office, Jakarta, March 2010.

12 Hariyono headed BKKBN in the period 1983–1993, when he was promoted as Minister of Population. He has a background in statistics and graduated from Chicago, a departure from the Berkeley California background of technocrats tagged the Berkeley Mafia. He is a good communicator and was able to promote the population message in the rural areas, where the relatively lower educational attainment of people could have hindered the acceptability of the family-planning drive.

13 A *fatwa* is a legal pronouncement in Islam, issued by a religious law specialist on a specific issue. See http://en.wikipedia.org/wiki/List_of_fatwas [accessed 20 September 2012].

slogan 'two is enough'[14] to drive home the objective of population control; and second, inserting key words on family planning into presidential speeches to show presidential demand and favour for family planning.

In the 1970s, technological innovation in methods of contraception resulted in the availability of and accessibility to new methods. Highly favoured methods in the 1970s include the Pill (in West Sumatra), IUD (in Java), and, later, injectables. It was easy to introduce the Pill in rural areas as it was less complicated to use; IUD needed the assistance of medical/skilled personnel and was thus favoured in urban areas.

Up until 1999, political stability and quiescence was additionally maintained by a formal military hierarchy that paralleled the civilian one at each regional level (McNicoll, 2009). Governance was politically centralized; this system was replicated in family-planning delivery, with strong management from the centre to grass roots. Orders to implement family planning were given to governors, who in turn relayed such orders to subordinate district heads, whose successful performances were rewarded with re-appointment of tenures. Free tuition subsidy was given to families with only two children, especially valued in a society where education aspiration was running high. Couples with only two children also had priority for getting access to public housing.[15]

In addition, the president issued a decree in 1980 to ban government officials from having two wives, to show as an example that officials had smaller family sizes. Civil servants were fired if found to have two wives. Village-level health centres were established in each *kabupaten* to combat rising maternal mortality rates. All these measures were adopted to create disincentives to having large families.[16] Family-planning delivery concentrated not only on provision of contraceptive use but also on educating locals about the benefits of having small family sizes.

Coercion in the Process of Family Planning Programme Implementation: Pre-1991

Local civil and military leaders adhered religiously to annual family-planning targets, and some of these officials used location-specific individual initiatives to attain set targets. They made family-planning method adoption compulsory, even in mundane areas of life. For instance, for

14 Two children per family.
15 Personal communication with Professor Salim, Jakarta 2010.
16 Dr Hadisumarto, Jakarta, March 2010.

individuals to cross a bridge from one community to another in some rural areas, women who could not show evidence of using any type of contraceptive were mandated to become users, scored on a card which was then useful for subsequent bridge crossings in those communities.[17] Some governors and district heads adopted coercive methods to get more acceptors onto family-planning registers—involving things such as citizens' eligibility for letters of recommendation for schooling placement for their children, registration of change of address when parents moved to new localities, and acquisition of local identity cards required for job applications, for drivers licenses (in Jakarta), and for protection/immunity from raids on illegal residents.

Population Policy in Indonesia: Post-1991

In the early 1990s, a population policy was adopted to consolidate gains made in the earlier family-planning programme. Demographic change was no longer the objective; the focus now was on quality, and poverty reduction became more desirable. The richer echelons of Indonesian society were persuaded to contribute seed money to kick-start foundations that gave loans/grants for the establishment of small-scale industries.[18] Later in the 1990s, income-generating projects became the focus of NGOs, with a view to integrating family planning with provision of grants for small-scale enterprises.

In summary, we can say the following about Indonesia: (1) The changed structures of governance instituted after 1965 provided the basis for an administratively strong family-planning programme, and the innovative contraceptive technologies of the pill and the IUD provided easily accepted and effective methods of fertility control. (2) These institutional changes were intensified in the period 1970–1980, owing to major changes in state ideology, which now stressed the importance of efficient government control at all levels of administration, balanced and rapid economic growth, and the promotion of an equitable distribution of social infrastructure in the form of schools, clinics, and roads (Hull & Hatmadji, 1990).

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17 Anecdotal evidence, Dr Hadisumarto, Jakarta, March 2010.

18 Hariyono Suyono went on to manage a charity organization that gives micro-credits to women. The first period of the credit scheme was 1995–1999. Criteria for eligibility for receiving assistance include being poor and using contraceptives. Information on contraceptive users can be obtained from local registers.

Population Policy in Nigeria

Nigeria is the most populous[19] African country and one of the ten largest by population in the world (PRB, 2009). As far back as 1963, Nigeria had a youthful population with approximately 45% aged less than 15 years. Both direct and indirect estimates of demographic indicators showed consistently a high level of fertility (National Population Bureau, 1984).[20] Even in the era of controversial census-taking, researchers and international organizations used three different annual rates of growth—2.5%, 3.0% and 3.5%—in the early 1980s, which all showed potential doubling of Nigeria's population by year 2000 (Orubuloye, 1983). The statistics indicated the presence of a high child-dependency ratio, representing a burden for deploying resources of individual households to meeting basic needs, particularly for education, health, food, clothing, and housing. The figures also had implications for socio-economic development because a large share of public and private resources needed to be devoted to the needs of the young, resources which otherwise could have been invested in development programmes (Benneh *et al.*, 1990).

Assessment of Nigeria's national development plans from the 1960s to the early-1980s shows that various governments of Nigeria attached little importance to demographic processes in socio-economic development.[21] For instance, at the 1974 World Population Conference in Bucharest, Nigeria's delegation re-stated the position taken in its 1970–74 Development Plan that "the government does not consider these demographic factors to constitute a significant or a serious obstacle to domestic economic progress" (Ayida & Chikelu, 1975).

The Third and the Fourth National Development Plans (1975–1985) did not go beyond mere recognition of the close relationship between population dynamics and economic development. The official attitude to the country's large and rapidly growing population was not different in the Third National Development Plan, 1975–1980, where it was noted on page 293 of the document:

> Although Nigeria has (by world standards) a large rapidly growing population, these demographic factors do not appear as yet to constitute a significant or serious obstacle to domestic economic progress. The coun-

[19] 140 million people enumerated in the 2006 census. See also Population Reference Bureau, 2009, World Population Data Sheet, PRB, Washington DC 20009, USA.
[20] National Population Bureau (1984), World Fertility Survey (1984).
[21] Nigeria (1970: 1975), Federal Republic of Nigeria (1981), Ayida (1971).

> try is fortunate in possessing a large land area well-endowed with natural resources which, if carefully exploited,[22] should provide a basis for building a viable economy which would ensure a steadily rising standard of living for the population within the foreseeable future ... Emphasis of policy is therefore being deliberately placed on accelerating the growth of the economy rather than on direct action to achieve a drastic or immediate reduction in the overall birth rate. It is believed that the tempo of social and economic development will itself accentuate the forces already at work, which will tend to bring down the birth rate in the long run.

In Nigeria around this time, the euphoria of oil proceeds from the first boom was still high. In the policy document, government's position not to introduce population policy was rather based on "the sensitive nature of the subject, the cultural diversity of the country and the lack of firm statistical basis for decision-making".[23] Thus, successive governments simply found it better to accept somewhat passively the developments on the population front than to attempt to control or modify the natural trends".

Thus, Nigeria experienced accelerated demographic growth and increased migration from rural to urban areas (Feyisetan & Ainsworth, 1996). The sustained high population growth rates in Nigeria can be attributed to several reasons. Firstly, government at that time saw little or no need to take conscious steps to limit population growth. The population question was relevant to sharing of the national cake through creation of sub-national units, with a contradictory desire not to know Nigeria's ethnic and religious divide.[24] Secondly, the hesitation in supporting family planning was due to concerns about the political implications of smaller population size, and the desire to limit family size was contrary to deeply held social values (Ekanem & Farooq, 1976; Goliber, 1985; Locoh, 1991; Family Planning Council of Nigeria, 1967). Having a large family was beneficial, not because of blind adherence to tradition but as an essential source of labour to more than half of the country's population, who were involved in agriculture; moreover, children provided security for the old and those in poor health. Thirdly, high mortality rates and dependence of production on the available labour force hardly changed family size

22 At no stage did development planners recognize that their policy plans were not being followed as envisaged, which would have necessitated a change in track or engendered new policy recommendations.
23 Preface, Chapter 29 of 4th National Development Plan 1981–85.
24 Questions on religion and ethnicity are typically omitted in census-taking in Nigeria, owing to the potentially explosive nature of such topics.

desires, especially among men. The World Fertility Survey showed that family size desires remained high in Nigeria, far above actual family size.

The downside was that as rapid population growth ensued, this curtailed government efforts in the provision of adequate nutrition and created difficulties in preserving the land base essential for future development, in meeting the demand for jobs, education, and health services, and in addressing the overcrowding in urban areas (Goliber, 1985). As level of urbanization increased in the 1980s, demand for modern contraception began to appear, gradually replacing traditional means of child spacing. Social progress (improved health and education of women) emerged as one of the principal routes to fertility transition in Nigeria.

The 1988 Policy

In 1988 the Babangida government launched a population policy, the central plank of which was frequently repeated by the president: 'four [children] is enough'. Nigeria's ambitious population policy was largely dictated by international population and development thinking of the time, which had its roots in the World Population Plan of Action and the Kilimanjaro Programme of Action (1984). At the Mexico conference, the Nigeria Head of State declared that "we in Nigeria now feel that in the face of rapid population growth, a well-articulated population policy is necessary" (Federal Ministry of Health, 1985). One of the goals of the 1988 population policy was to achieve lower population growth rates, through the reduction of birth rates by voluntary fertility regulation methods compatible with the attainment of the economic and social goals of the nation. An office of Planning and Coordination for the Population Programme was established in the Federal Ministry of Health.

In addition, the government established agencies whose activities had some indirect consequences for population growth. Among these were the Directorate of Food, Roads and Rural Infrastructure (DFFRI) and the National Directorate of Employment (NDE). Nigeria's anti-natal policy also existed side-by-side with tax concessions for up to four children and very attractive maternity leave conditions for workers in the public sector. Some measures to improve women's status were proposed in the main policy document. These included provision of day-care centres for nursing mothers; introduction of labour-saving technology in agriculture, industry, and domestic work (to reduce the heavy burden of work that rural women had to bear), establishment of agro-allied, small-scale industries to engender women's economic independence, help to raise the age of first marriage, and development strategies to involve employers in the provision of family planning, with incentives for having smaller families. Pilot projects were launched in Anambra, Gongola, Sokoto, Plateau, and Ogun States, where women were trained in handicrafts.

The 1988 population policy had a modest effect on reining in the country's high fertility and helped to partially sustain decline in annual growth rates in the late 1980s and early 1990s (Akpasubi 1988: 2). Though population growth rate started to decline in 1988, it cannot be concluded that the official launch of the policy resulted in immediate gains. Prior to 1988, families had just begun to bear the brunt of having to fulfil much of their children's need for health care, education, and employment. This brought to the fore a desire for smaller family sizes at a time when family size had reached an all-time high of approximately seven children per woman.

The first hurdle was scaled in the detailed documentation, approval, and declaration of an official population policy. But policy implementation had to contend with strong, deep-seated, traditional quasi-religious and political attitudes. By the mid-1990s, the population policy was as good as dead. The problems family-planning programmes faced in Nigeria were and still are numerous. For example, on 14 April 1988, a former civilian governor addressing students at the University of Lagos contended that Nigeria needed more people and that family planning should be left to individual families (Olusanya, 1989: 445).

The resistance to programme implementation and the ultimate success of the policy were varied. The problem of ethnic nationalism and the nature of inter-governmental fiscal transfers, which denied Nigeria an acceptable population census for more than two decades, also became an obstacle to enthusiastic implementation of family-planning programmes. Local government authorities derived allocations from the centre and maintained that quarterly transfers must not be reduced, given that their areas had real or imagined large populations. During the sensitization campaign in Benue State, Olusanya (1989) documented one of the participants, who said:

> If the Igalla embraced your gospel, we will continue to be small in number and the government will continue to neglect us. Our roads are bad; we have no hospitals and there is no school, no government investment of any substantive nature. If we accept your preaching, what will happen to us as a people?

There was a misconception during awareness campaigns that family planning was a ploy by Western countries to repress population growth of blacks, and that a country would simply stop growing if family planning was adopted (Olusanya, 1989). In the Muslim north, automatic success of policy implementation of four children per woman was not guaranteed, based on the notion that polygyny was not just a tradition but a religious injunction, taken seriously even by educated elites except constrained by material resources. Here, participants claimed that it was against Islamic principles to fix marriage age for girls at 18 years, as they would have problems getting husbands at that age.

In the policy design, two aspects made it impossible to realize the stated demographic goals. The first was the voluntary nature of the policy, as people were to "decide freely and responsibly the number and spacing of their children". Secondly, the target of four children per woman would have less impact than if it were four children per couple. There were neither disincentives for flouting targets nor incentives for women who took deliberate steps not to overstep the maximum number of children; thus, it was difficult for the policy to have any serious demographic impact (Orubuloye, 1989). Socially, if a woman has four living daughters, she stands the risk of divorce from a husband who desperately needs a son to maintain the family name. "Not wanting children is not in tune with the customs and mores of the African. If anyone is caught going to a family-planning clinic, she has had it, because her neighbours will gossip about it" (Falodun, 1983: 4). This raises the question: "What kind of family system will emerge to accommodate low fertility in Nigeria?" (McNicoll, 2009).

In addition, the policy had no legal provision so it was not an offence to flout the provisions. In the long term, the policy was deemed a failure, as argued in some quarters, owing to its implicit assumption of a single, monolithic, cultural reality and the non-consideration of male reproductive motivation. Belief systems and patterns of social organization in Nigeria are very diverse in detail but share a common interest in the fertility of crops, livestock, and people (Obono, 2003). Also, the SAPs had produced a contradictory effect on population growth in Nigeria. Because the implementation of SAPs caused reductions in social investments in the mid-1980s, social progress goals were made more distant. Fertility attitudes remained highly resistant to change in rural parts of Nigeria, and fertility levels remained high despite the official declaration of a population policy. Moreover, local suspicions in northern Nigeria about the policy and the family-planning programmes suggest that they cannot be implemented in isolation from broader political and economic concerns.

The potential fertility effects of these contrasting family systems are apparent. Indonesian families for the most part are unable to offload child-raising costs, and hence they have been responsive to the competitive pressures of the expanding market economy and its educational requirements by lowering their planned family size. In Nigeria, the analogous effect—the quality-quantity substitution of Beckerian family economics—has been obstructed by the mesh of transfers (in cash or kind) among kin and by the non-pooling of household resources. The critical question for fertility transition is how quickly that obstruction will erode. Moreover, slowness in coming to terms with population growth might have been expected, given a political landscape fractured by ethnic, regional, and religious divisions (McNicoll, 2009).

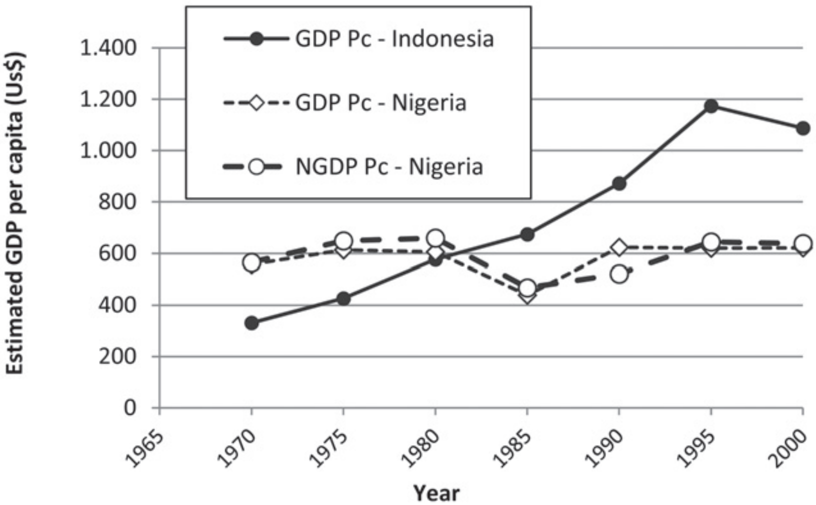
The following section is an examination of the possible picture of what Nigeria's GDP per capita might have been if it had experienced Indonesia's population growth between 1970 and 1999.

Nigeria's Development, Using Indonesia's Population Growth Rate

The population component is an integral part of calculating some measures of economic development such as per capita income and GDP per capita. As earlier noted, the development trajectories of Nigeria and Indonesia, measured in terms of GDP, crossed path in the early 1980s. While Nigeria's GDP took a downward turn in 1980 despite more than a decade of relative success, Indonesia's economic development, having started lower than Nigeria since the 1960s, continued on its upward path, and has remained higher since the early 1980s. A statistical exercise was conducted to derive a picture of what Nigeria's GDP per capita might have been if its population had grown at Indonesia's population growth rate.[25] The estimated GDP per capita trajectory is illustrated in Figure 7.4.

It is observed that if Nigeria were to assume Indonesia's population growth rate from the mid-1960s to the late 1990s, the point of divergence in GDP per capita would have occurred a bit later in the 1980s, but signs of

[25] A new GDP per capita for Nigeria was derived using the following procedure using two indices: GDP values for the period 1965–1995, and base year population for Nigeria in 1960. Estimates of Nigeria's population size, using an exponential projection technique, were derived at five-year intervals using Indonesia's rate of population growth starting from 1960. This exercise was based on the premise that Indonesia had better statistical records, relative to the dearth of data for Nigeria, worsened by the controversial 1973 census figures, scattered vital statistics, and conflicting growth rates used by international bodies for Nigeria in the 1970s and 1980s. Thus, by using Indonesia's population growth rate to standardise for Nigeria's population, and keeping economic performance (measured as GDP) of the two countries constant in the period under review, new GDP per capita was obtained for Nigeria.



Source: GDP Data obtained from the World Bank, World Development Indicators (WDI), International Financial Statistics of the IMF, Global Insight, and Oxford Economic Forecasting, as well as estimated and projected values developed by the Economic Research Service[26] converted to a 2005 base year.

Figure 7.4 Estimated GDP per capita for Nigeria using Indonesia's population growth rate for 1970–2000

Nigeria's economic recovery would have been higher towards the end of the 1990s. In the construction of this scenario, all socio-economic conditions, with the exception of Nigeria's population, were held constant for all factors endogenous and exogenous to the two countries.

From a short-term perspective, the effect of changes in rate of population growth and structure is reflected minimally in socio-economic indices pertaining to that population. But in the long term, when we consider outcomes such as absolute number of poor people and calculation of economic indices such as GDP per capita, then the rate of population growth becomes quite important. The extrapolation of Nigeria's performance by GDP[27] per capita, using Indonesia's population growth rate, illustrates the importance of the relative success of Indonesia's population programme over that of Nigeria. The pattern of economic development trajectory using GDP per capita would have been the same using standardized population

[26] Available at: http://www.ers.usda.gov/Data/Macroeconomics/Data/HistoricalRealGDPValues.xls (updated 16 December 2008) [accessed 15 October 2010].
[27] Using Real Historical Gross Domestic Product (GDP) for Baseline Countries/Regions (in billions of 2005 USD) 1969–2008.

growth rates. However, the difference observed in the GDP per capita in graphical illustration is more significant in terms of the millions of people that would have been lifted out of poverty if Nigeria had assumed Indonesia's population growth rate in the long term.

Conclusion

This study has attempted to examine measures undertaken by each country to rein in the growth rate of its population and its effect on lowering the proportion of poor as well as lessen the dependency burden on families in particular, and the nation in general. It is instructive to note that Nigeria does not have a special ministry or governmental organ dedicated to population issues. Rather, implementation of population policy was under the Ministry of Health. The success of family planning programmes lies in the political will exhibited by central leadership.

A population programme may not tell the complete the story of poverty reduction, but it is an important factor that in the long-run has implications for the successful implementation of pro-poor policies. Though multiple processes drove poverty decline in Indonesia, controlling population growth rates had consequences for poverty reduction. It was apparent that there was a greater awareness of the close relationship between population growth and the capacity of the country to cope with the problems of socio-economic development in Indonesia, whereas this came rather late in Nigeria. In Indonesia, it helped to consolidate the gains made in poverty reduction in a faster way.

Looking at the differential nature of adoption and implementation of population programmes in the two countries, it was not surprising that in the 1990s Nigeria's annual population growth rates declined at a slower pace relative to Indonesia, where a consistent move towards smaller family sizes had already taken root. In Indonesia, the changing nature of structures of governance and socialization transformed institutions of the economy and the family in ways generally conducive to fertility decline. Institutional transformations guaranteed a continuing decline in fertility levels. The foregoing analysis show that two factors common either to the success or failure of family planning programmes in both countries are the integration of local initiatives/belief systems and institutional considerations. Population policy implementation encountered resistance of various sorts in the two countries. Steps taken to overcome the barriers were largely more persuasive and successful in Indonesia, though some aspects were less desirable socially and not likely to be workable/transferable/accepted in the contemporary world.

Another critical requirement for successful implementation of population policy is the development of local individual initiatives and institutional capabilities to identify problems and opportunities and to design and implement poverty reduction policies and programmes. Some of the local individual initiatives in the implementation of family planning programmes in Indonesia would be deemed negative in the current human rights context. However, poverty reduction should not be postponed until positive aspects of such capabilities are completely developed.

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8

The Impact of Corruption on Economic Development: Comparing the Experience of Nigeria and Indonesia (1967–1998)

David U. Enweremadu[1]

Introduction

By mid-1998, when Nigeria began its economic and political reform programme, it was clear to all stakeholders that all the efforts and strategies that were formulated and implemented in the preceding decades had not translated into the development expectations of Nigerians. Indeed, Nigeria's failure to kick-start any meaningful economic development project, despite the presence of abundant natural resources and a proliferation of official national development plans, had long been a source of intellectual debate. Why had other nations at comparable stages of development at independence and fewer resources witness significant transformations, while Nigeria's economy and human development statistics had stagnated or even declined? While most opinions agreed that an alternative development strategy was required to bring about a change (Igbuzor, 2011: 11), there was, and still is, hardly any form of consensus regarding the actual causes of Nigeria's predicament. Consequently, a wide variety of explanations have been offered to explain Nigeria's poor economic performance. These explanations fall into four broad viewpoints.

[1] The author wishes to thank all the members of the Tracking Development team for their generous contributions to the actualization of this research. I want to particularly acknowledge the positive comments of all the reviewers of this article, especially Ahmad Helmy Fuady, Peter Lewis, Liang Un, and an anonymous reviewer.

The first strand of explanations blames Nigeria's failed development trajectory on the 'oil curse' or 'paradox of plenty', where abundant natural resources—oil in this case—breeds widespread rent-seeking that makes development difficult (Karl Terry, 1997; Sela-i-Martin & Subramanian, 2008). A second perspective attributes Nigeria's woes to a deeply fragmented political system and a long history of political instability, arising from the absence of a securely dominant ethno-religious group, durable political consensus, and a strong centralized state, all of which ensures that the political calculation of each government is shaped by the short-term exigencies of regime survival, providing little incentive to establish a developmental regime (Lewis, 2007: 280). A third view, mainly championed by foreign economists, argues that Nigeria's developmental failure is the product not only of the resource curse and fragmented political system, but also of the habitual adoption of bad economic policies (Dibie, 1996; Collier & Bevan, 1999; Collier *et al.*, 2008). This latter view has been re-emphasized by Tracking Development researchers David Henley (2009) and Jan Kees van Donge (2009). Using the experiences of some successful Southeast Asian countries, notably Indonesia which also boasts of abundant natural resources and ethnically fragmented population, as a guide, they argue that Nigeria's problems are more related to how her policy-makers have consistently failed to promote macroeconomic stability (low inflation and little currency overvaluation), pro-poor public spending (mainly on agriculture, public services, and rural infrastructure), and economic freedom (especially for farmers and entrepreneurs), policies which helped Southeast Asian countries achieve transition to sustained growth. The fourth explanation, which is perhaps the most widespread view,[2] emphasizes the effects of decades of widespread corruption and weak governance (Odekunle, 1986; Ereho & Oladoyin, 2000; Smith, 2007).

The empirical validity of the first three explanations appears not to be in contention, so that they have been applied without provoking much argument. However, the issue of corruption, and its role in Nigeria's development, has become a puzzle, so to speak.[3] On the one hand, only a few people who are familiar with Nigeria's development history will deny that corruption is a key issue in any explanation of Nigeria's development

[2] This view is more particularly shared by Nigerians within and outside the country, making the topic of corruption one of the most reported issues in the media.

[3] The issue of corruption has in this sense received significant attention within the Tracking Development project, but the prevalent opinion has been that corruption might not be a significant explanation for divergent development in Africa and Asia, and more specifically in Nigeria and Indonesia.

problems, especially when viewed against the constant revelations of massive plunder and transfer abroad of public resources by past and present Nigerian leaders. On the other hand, however, the view that corruption is responsible for Nigeria's slow development, quite unlike the other three categories of explanations mentioned above, suffers from more obvious empirical problems. For instance, while the majority of poor countries have tended to exhibit evidence of very high levels of corruption (African states are good examples), there are still other states that have witnessed rapid transformation despite tolerating a high incidence of corruption. Many Asian nations, including South Korea, China, India, and notably Indonesia, fit into this category of what Klein (2011) describes as "enrichment with growth". If this is true, how then can corruption be held responsible for Nigeria's poor development record?

The diverging experiences of Nigeria and Indonesia, which are the focus of this paper, have attracted more interest in recent times. Many studies carried out in recent times, especially under the Tracking Development project, have emphasized the fact that Nigeria and Indonesia have experienced serious levels of corruption but produced different development outcomes, making it difficult to sustain the hypothesis that corruption was the significant factor in Nigeria's underdevelopment. What is not very clear, however, is whether Nigeria and Indonesia have experienced corruption in exactly the same way. For it is when one can show that both countries experienced corruption in exactly the same way that one can make a categorical statement that corruption is inconsequential in explaining the development trajectories of these two countries. In my view, it is important to first examine the similarity and specificity of corruption in each country, before making any categorical statement about the possible linkages to economic development, or even economic growth. The major objective of this paper was therefore to investigate, using insights from existing scholarly works and recently obtained primary data, the experiences of these two countries with corruption, and its possible role in fostering differential levels of economic development. Economic development here is measured in terms of changes in economic growth, income per capita, and poverty rates. In doing this, we do not suggest that other explanations for developmental outcomes are not tenable. One must recognize the fact that, even though a crucial factor, corruption alone could not have been the sole, or even the most important, cause of the divergence witnessed in the development history of Nigeria and Indonesia.

In terms of research method, this study utilized two methods for data collection, library-based research and in-depth interviews which were conducted in March 2010 with selected stakeholders, including policy makers (past and present), officials of Indonesia's anti-corruption bodies, academics with deep knowledge of corruption, journalists, and members of civil society.

Corruption and Development: A Review of the Literature

Throughout the past two or three decades, corruption has occupied a central position in academic and official discussions, especially those focusing on economic development in the Third World. The general consensus emerging from these discussions has been that corruption, in all its forms, is a serious obstacle to economic growth and development.[4] To a large extent, the perception of corruption as a key factor militating against development stems from the strong correlation often observed between corrupt and underdeveloped states in cross-national research studies. In this context, the link between the cancer of corruption and poor development has been more aptly demonstrated by a combination of Transparency International's (TI) yearly survey *Corruption Perception Index* (CPI), which measures the perceived levels of corruption in different countries of the world, and the World Bank's *World Development Indicators* (WDI) (TI, 1995–2009; World Bank Institute, 2003), which describe the levels of human development among states of the world. In almost all of these surveys, the countries with the lowest score on the CPI-WDI have often tended also to be the least developed states on the planet.

Despite some misgivings expressed in some quarters about these surveys, the idea of a strong negative relationship between corruption and economic development has remained the dominant one and continues to define global thinking about development even in the present decade. This can be seen in the official publication of several other influential international organizations. For instance, a UNDP strategy paper published in 2008 noted:

> [C]orruption is an urgent development concern in the Asia-Pacific region. It smothers opportunities for the most vulnerable, limits their access to education, and compromises basic health services. It also destroys natural resources and defeats the Government in realizing development objectives. It is therefore essential that every opportunity is used to raise awareness of corruption's detrimental effects, and encourage its eradication across all levels of society. (UNDP, 2008: 1)

[4] Only a few studies have attempted to argue that corruption aids economic development in any way. These include, notably, Huntington (1989) and Leff (1989).

Also, in a more recent report, published in November 2011[5] and focusing on Africa, the African Centre for Strategic Studies (ACSS) noted:

> There is a strong relationship between corruption and stagnant growth. African countries with weaker controls on corruption were much more likely to have experienced stagnant or contracting economic growth over the previous five years. Zimbabwe, Chad, Comoros, Guinea, Côte d'Ivoire, Madagascar, Guinea-Bissau, Burundi, the Democratic Republic of the Congo, and Togo all fall in the lower-left "high corruption & stagnant growth" quadrant. Countries with above-average controls on corruption, in contrast, tended to realize eight-fold greater gains in per capita income during the previous five years. (ACSS, 2011: 32)
>
> This mirrors a pattern seen across all regime categories—in no instance does a country score in the top quartile of development performance while simultaneously tolerating high levels of perceived corruption. This is particularly evident within the autocracy category, where the countries that are realizing the most development progress have maintained at least a median level of controls on corruption. Rwanda stands out among the autocracies for its superior economic growth, development, and control of corruption—substantiating its "performance-based" claim on authority. (*ibid.*: 49)

The assumed negative effect of corruption on economic development is premised on two fundamental grounds. The first one is that a high level of corruption leads to slower economic growth, which is a necessary precondition for economic development. This occurs, for instance, because corruption undermines institutions, negatively affects productivity, and deters national and foreign investments, which, in turn, all have effects on growth (Mauro, 1995: 683; GTZ, 2007: 1). A large number of cross-national studies have been published to establish strong linkages between corruption, economic growth, and development (Mauro, 1995; 1997; World Bank, 2000). The second strand of argument is that even if rapid growth was to occur in corrupt countries—for example, as a result of a surge in revenue from natural resources—corrupt regimes would be unable to translate economic growth into tangible benefits for a majority of a population, owing to a possible misallocation of funds. Thus, there will be little or no investment in infrastructure, social services (health or education), and poverty reduction, as corrupt leaders will simply siphon off a large chunk of the resources or spend them on projects that allow them to draw rents

[5] The finding was based on data from World Development Indicators and Transparency International for 2011.

but bring little benefits to ordinary citizens. In other words, there will be growth without development.

In theoretical terms, therefore, the view that corruption is incompatible with development sounds quite convincing. The problem, however, is that empirical evidences do not support that conclusion. As we have already noted, a puzzling characteristic of Indonesia's economic history is that the country not only experienced rapid economic growth but was also able to translate it into development, measured in terms of changes in economic growth, income per capita, and poverty rates, despite the country's high level of corruption (Hofman *et al.*, 2004: 12). Indeed, there was a general belief that corruption in Indonesia *facilitated* economic growth and development. While not ruling out the fact that corruption inhibited development in some areas, corruption, as one Indonesian economist puts it, "was widely seen to provide incentive for many actors to perform their roles' in several other contexts". In one specific context, for example, it was considered that it reduced delays within the bureaucracy, helping to support development projects.[6]

But while many scholars have sought to explain why corrupt states are, in general, more likely to grow more slowly than states that are less affected by corruption (Mauro, 1995, 1997; Paldam, 1999; Tanzi, 2000; Treisman, 2000; World Bank, 2000; Svensson, 2005; Selcuk Akcay, 2009), very few empirical studies have specifically investigated why some corrupt states like Indonesia have experienced rapid development, while others failed to do so (Shleifer & Vishny, 1993; Sindzingre, 1997; Easterly, 2001; Lambsdorff, 2005; White, 2006; GTZ, 2007: 1). Worse still, even the findings of these few studies appear not to have gained sufficient recognition. The limited influence of these studies may perhaps be explained by the fact that many people reading these studies make a distinction between economic growth and development.[7] More seriously also, some of these comparative studies included countries whose corruption level and development outcome were similar. For instance, White (2006) studied

[6] I am grateful to Ahmad Helmy Fuady for drawing my attention to this fact during the Final Plenary Conference of the Tracking Development project, held in The Hague, 12–14 December 2011.

[7] Many of these studies were actually focussed on economic growth and not development. The former should more appropriately be used to describe changes in the GDP, while the latter is a more inclusive term, taking into account, for instance, changes in average income and poverty rate.

China and Indonesia, while excluding countries whose corruption levels, although similar, produced strikingly different development outcomes, such as Nigeria and Indonesia. Other authors, such as Sindzingre (1997), who studied Nigeria and South Korea, have narrowly focused on factors that simply reduced the impact of endemic corruption (for instance, ensuring that the proceeds of corruption are invested at home and not exported off-shore), ignoring the reality that, in some cases, development outcomes could also be because countries experience different forms of corruption.

The Seriousness of Corruption in Nigeria and Indonesia

How corrupt was Indonesia, especially under Suharto? And how does this compare with the situation in pre-1999 Nigeria? As I have said earlier, the Nigeria-Indonesia pair represents one of the most interesting cases, giving the number of similarities they share, one of which is certainly their record in corruption, especially bribery and embezzlement of public funds. During critical moments of their histories (1966–1999), the two countries were ruled by very corrupt and authoritarian regimes. The only notable difference was that while Indonesia was ruled by a single dictator, Nigeria was pillaged by a succession of several corrupt military autocrats and a gluttonous civilian regime. Otherwise, the level of corruption in the two countries was indistinguishable, one of the reasons the problem attracted the regular attention of academics and international anti-corruption NGOs such as TI, who repeatedly called for reforms in the two countries to no avail.

To begin with Indonesia, one of the most profound legacies of President Suharto, and one of the main reasons the people turned against him in the wake of the Asian crisis, was the naked greed that characterized his regime, especially in its later years. As many researchers have shown, corruption was extremely pervasive under Suharto. At the bottom, petty officials stole nugatory amounts. At the top, the scale of the theft was egregious. It was also blatant. At early stages of Suharto's rule, his wife Ibu Tien Suharto was nicknamed 'Ibu Tien Prosen' (Ibu Ten Percent), referring to the amount of money that was usually creamed off from contracts facilitated by her. By the middle of the 1990s, the 'First Lady' had been renamed 'Ibu Fifty-Fifty', indicating that her 'share' had increased significantly (Schulte Nordholt, 1996: 77). Suharto's six children, other relatives, and his business friends also benefited from the largesse. These individuals were routinely granted state monopolies over commodity sales, exclusive supply contracts, and special tax breaks. Instruments such as trade policy were often used to further not only the national interests but also the business interests of the president and people around him. These practices enabled the Suhartos and their key allies outside the government to venture into and gain commanding positions in key sectors of the economy, including the cement and petro-chemical industries. Among the key Suharto cronies who built large conglomerates with the sponsorship and support of the regime were the likes of Liem Soe Liong and Bob Hasan. Many of these individuals were of Chinese origin. Other trusted allies who were not of Chinese origin, such as Ibnu Sutowo, who headed the state oil company Pertamina, were also placed in strategic positions in government, enabling them to gain enormous economic power and influence (Schulte Nordholt, 1996: 78).

Confirming the serious level of corruption in Indonesia, a 2003 World Bank report observed that, in the 32 years (1967–1998) during which Suharto presided over the presidency of Indonesia, his legacies were "weak and corrupt institutions, severe public indebtedness, mismanagement of the financial sector, rapid depletion of Indonesia's natural resources, and a culture of favours, nepotism and collusion in the business elite, among others" (World Bank, 2003: ii). Indeed, so rampant were these practices that *korupsi, kolusi dan nepostisme* (KKN), meaning corruption, collusion and nepotism, became one of the most powerful slogans in the attack on President Suharto and his New Order Regime, culminating eventually in his downfall in May 1998 (Dick, 2002: 71).

The magnitude of corruption in Indonesia can also be deduced from a May 1999 *Time Asia* report, which estimated Suharto's family fortune at 15 billion USD in cash, excluding shares, corporate assets, real estate, jewellery, and fine art. According to the magazine, the same family controls approximately 36,000 km^2 of real estate in Indonesia, including 100,000 m^2 of prime office space in Jakarta and nearly 40% of the land in East Timor.[8] These estimates have been corroborated by the findings of other organizations. For instance, with an estimated 15–30 billion USD, Suharto was placed highest on Transparency International's list of corrupt leaders (Table 8.1).

[8] More details can be found at: http://en.wikipedia.org/wiki/Suharto.

Table 8.1 Top ten corrupt leaders

S/No	Name of Leader	Amount *
1	Suharto (Indonesia, 1967–98)	$15–35bn
2	Ferdinand Marcos (Philippines, 1972–86)	$5–10bn
3	Mobutu Sese Seko (Zaire, 1965–97)	$5bn
4	Sani Abacha (Nigeria, 1993–98)	$2–5bn
5	Slobodan Milosevic (Yugoslavia, 1989–2000)	$1bn
6	J-C Duvalier (Haiti, 1971–86)	$300–800m
7	Alberto Fujimori (Peru, 1990–2000)	$600m
8	Pavlo Lazarenko (Ukraine, 1996–97)	$114–200m
9	Arnoldo Aleman (Nicaragua, 1997–2002)	$100m
10	Joseph Estrada (Philippines, 1998–2001)	$78–80m

Source: Transparency International, 2004.
* All sums are estimates of alleged embezzlement.

It was, therefore, not surprising that after his fall from power, Suharto faced multiple charges of corruption and abuse of office. On 29 May 2000, the late Suharto was placed under house arrest when Indonesian authorities began to investigate the corruption during his regime. In July 2000, it was announced that he was to be accused of embezzling 571 million USD of government donations to one of a number of foundations under his control and then using the money to finance family investments. But in September 2000, court-appointed doctors announced that he could not stand trial because of his declining health. State prosecutors tried again in 2002, but doctors then cited an unspecified brain disease. On 26 March 2008, a civil court judge acquitted Suharto of corruption but ordered his charitable foundation, Supersemar, to pay 110 million USD.[9] Thus, even though President Suharto was never personally convicted of corruption before his death, his record in corruption was never in doubt.

Nigeria's own record in corruption is in many ways comparable to that of Indonesia under Suharto (Tables 8.2 and 8.3). As noted earlier, Nigeria was ruled by a succession of military dictators, whose only common interest was to rape the country's resources and run. When the Nigerian military first came to power, via a coup in January 1966, its major reason was the need to check the excessive corruption of the civilian politicians. However, in the long run, the military ended up subjecting the country to even more systemic corruption (Olowu, 2001: 110). The advent of oil exports

9 Details can be found at: http://en.wikipedia.org/wiki/Suharto.

in the early 1970s brought out the worst in these soldiers, who went out of their way to promote corruption as a national institution (Apter, 2005). So severe was the problem that, in 1985 a government report observed:

> Corruption has become a household word in Nigerian society from the highest levels of the political and business elites to the ordinary person in the village. Its manifestations include the inflation of government contracts in return for kick-backs, frauds and falsifications of accounts in the public service, examination malpractices in our educational institutions including universities, the taking of bribes and perversion of justice among the police, the judiciary and other organs of administering justice . . . various heinous crimes against the state in the business and industrial sectors in collusion with multinational companies such as over-invoicing of goods, foreign exchange swindling, hoarding, and smuggling. . . . (cited in Olowu, 2001: 111)

During Nigeria's three decades of military rule, the cancer of corruption swept through virtually all the sectors of the economy like a wild-fire, especially the country's most important industry and revenue earner: the oil sector. Proceeds from crude oil sales were never accounted for; instead, spurious accounts were opened to make it easier for the incumbent president to make extra-budgetary expenditures to shore up his

Table 8.2 Indonesia and Nigeria's corruption perception index: 1980–1992

S/No	Country	Score* 1988–1992	Score 1980–1985
1	Indonesia	0.57	0.20
2	Nigeria	0.63	0.99

* 10 is the maximum any country can score, indicating a country with almost zero level of corruption, while 0 is the least any country can score, indicating a country with the worst corruption record on Earth.
Source: Internet Centre for Corruption Research.[10]

Table 8.3 Indonesia and Nigeria's corruption perception index: 1995–1999

Year	Score		Position	
	NGR	INDO	NGR	INDO
1999	1.6	1.7	98/99	96/99
1998	1.9	2.0	81/85	80/85
1997	1.7	2.7	52/52	46/52
1996	0.6	2.6	54/54	45/54
1995	NA	1.9	NA	41/41

Source: Transparency International, Corruption Perception Index: 1995–1999.

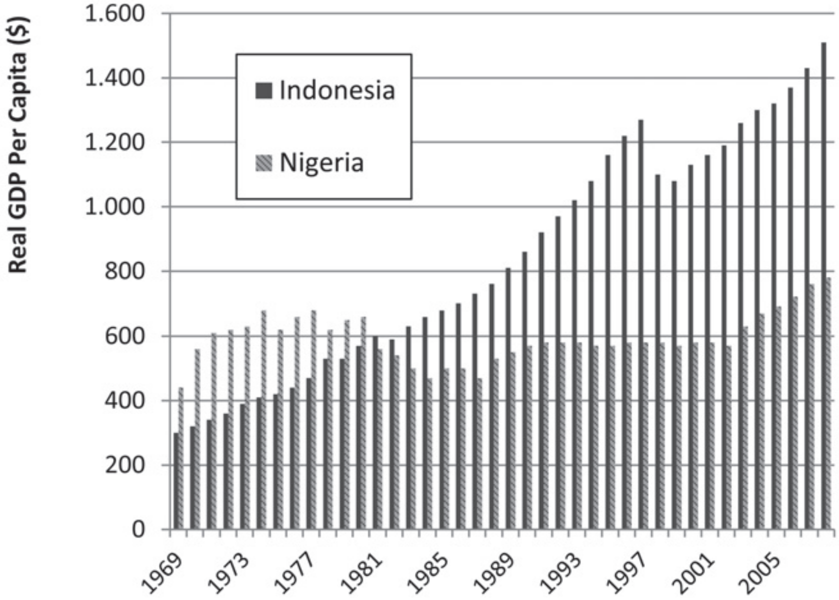
10 http://www.icgg.org/corruption.cpi_olderindices_historical.html.

regime (Olowu, 2001: 111) Routine allegations of graft and embezzlement made against senior military and political officials were ignored (Agbese, 2005); or, in the worst scenarios, accusers were 'settled' with government jobs or contracts, or even paid off with cash. This practice was particularly true of the Babangida military administration, which ruled Nigeria from 27 August 1985 to 26 August 1993. Babangida's successors in office were no less culpable in these practices. The looting of billions of dollars by General Sani Abacha, who ruled Nigeria from 1993 to 1998, is perhaps the best illustration of this fact. Upon his death in June 1998, investigations launched by Abacha's immediate successor led to the recovery of 2 billion USD from the Abacha family, while another 2 billion USD remained frozen in Western countries like Switzerland, Luxembourg, and Liechtenstein (TI, 2004: 102). Similarly, in 2000 an official inquiry, more commonly known as the Christopher Kolade Panel, set up in 1999 following return to democratic rule, also indicted the military regime of General Abdusalami Abubarkah (1998–1999) which succeeded Abacha, for "massively inflating and fragrantly awarding contracts, licences, awards, etc., usually to firms in which top members of the regime had substantial interests, often at very exorbitant prices, thereby causing a sharp drop in the country's external reserves" (Federal Republic of Nigeria, 1999).

Thus, from 1966 to 1999, when Nigeria emerged from military rule, it was obvious that corruption had become more or less a national culture (Gboyea, 1996; Smith, 2007), and deliberate conversion of public office into avenues for self-enrichment and wholesale plunder of public revenues had been firmly installed as the dominant mode of political behaviour (Joseph, 1987; Lewis, 2007). This record in corruption won the country the unenviable title of the world's most corrupt country for two straight years: 1999–2000 (TI, 2009).

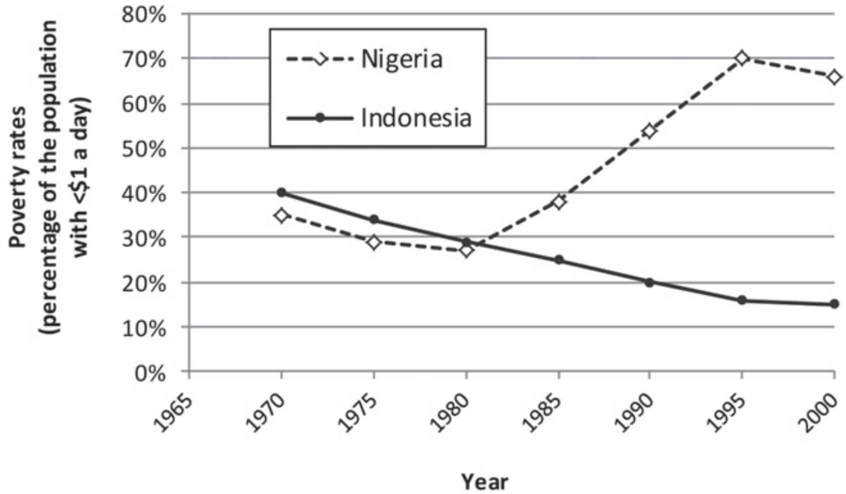
Comparing Economic Performances of Nigeria and Indonesia

From the foregoing analysis, it is clear that both Nigeria and Indonesia were deeply mired in serious levels of corruption during the period under study. This is why, throughout the 1990s, both countries regularly occupied the topmost positions in TI's CPI, as seen in Table 8.2. But notwithstanding their common experience with high levels of corruption and institutional decay, economic performance in Nigeria and Indonesia diverged very sharply. This divergence in economic performance became particularly notable beginning from the late 1970s and early 1980s (Figures 8.1 and 8.2). While Suharto's Indonesia witnessed rapid socio-economic growth, beginning from the late 1970s and early 1980s, Nigeria stagnated and,



Source: ERS International Macroeconomic Dataset: http://www.ers.usda.gov/Data/Macroeconomics/Data/HistoricalRealPerCapitaIncomeValues.xls.

Figure 8.1 Real GDP per capita (USD), Nigeria and Indonesia: 1969–2008



Source: Adapted from Sela-i-Martin Xavier & Arvind Subramanian, 2008.

Figure 8.2 Poverty trend for Nigeria and Indonesia: 1970–2000 in some instances, its economy experienced negative economic growth despite its superior endowment of natural resources, including oil and gas. To be more precise, from 1967 to 1997, in the pro-growth environment of Suharto's New Order, Indonesia's GDP grew by an average of 7% per annum. This rapid growth was accompanied by significant gains in the development of human capital and a diversification of the economy away from agriculture and oil production, which caused poverty to fall from more than 70% in the mid-1960s to a mere 11% in 1996 (Hofman *et al.*, 2004: 3). On the other hand, Nigeria's economic statistics during the same period were characterized by weak economic growth and massive decline in living standards. For instance, over the period 1960–2000, annual GDP growth averaged about 3.3% (World Bank, 2009), which was similar to its population growth rate. Similarly, national poverty rate in the country (those living on less than 1 USD a day) went from around 35% in 1970 to 70% in 1999 (Xavier & Subramanian, 2008: 62).

Corruption as Explanation for Divergent Economic Performance in Nigeria and Indonesia

A close reading of the Nigerian and Indonesian corruption and development history, as presented above, led us to pose two pertinent questions about the validity of the oft-restated thesis of a negative role of corruption in economic development. First, if indeed corruption levels are very high in Indonesia, and the country still managed to produce such an impressive rate of economic development, can corruption still be an explanatory factor for the lack of rapid economic development in Nigeria? Second, if we say corruption is not the problem, then what can explain this divergence?

As I have earlier pointed out, although a number of studies have been conducted, there is still little consensus in the literature on this issue. While most comparative studies specifically on Nigeria and Indonesia, especially those authored by foreign scholars, have tended to ignore corruption as a possible explanatory variable for economic growth and development, a number of other cross-national studies have established strong linkages between corruption and economic development (Mauro, 1995; 1997; World Bank, 2000).[11] This latter perspective agrees with the widely held view in Nigeria that corruption is largely to blame for the country's

11 The World Bank believes that it is corruption that has been "the single greatest obstacle to economic and social development" in Africa.

lack of economic development. My research assumes that the continuing debate—on why widespread corruption seems not to have been an obstacle to rapid economic growth in some countries like Indonesia, unlike the case of Nigeria—can be resolved only by further empirical research such as this. Even though this research includes data from other existing works, what I have attempted in this study is to re-engage the issue in a different way. I have chosen to focus on establishing whether both countries experienced corruption in exactly the same way and what implications this had for development. My basic assumption is that if both countries experience corruption in the same way, then it is more likely that corruption cannot be a valid explanation for Nigeria's poor development record, and vice versa. In doing this, I have isolated corruption as a key variable for close examination, using existing scholarly materials and recent primary data from Indonesia and Nigeria as a basis for comparison. In the course of my study, I sought to find answers to two principal research questions. First, was Indonesia's corruption substantially different from the Nigerian brand? If yes, can these differences be said to have contributed to both countries diverging development trajectories? My findings confirm that the Indonesian experience with corruption was significantly different from that of Nigeria in at least two different ways, and these differences had substantial consequences for economic development.

Centralized vs Decentralized Forms of Corruption

> Under Suharto, corruption was a well-managed franchise, like McDonald's or Subway.... Everybody knew how much you had to pay and to whom. Suharto didn't invent the depth and breadth of corruption. What he did was to manage it on a scale that no one had ever been able to do before. (Donald Greenlees, *The New York Times*, 28 January 2008)

The first step I took to establish whether there was any difference between Nigeria and Indonesia, as far as their experiences with corruption were concerned, was to look at what the existing theoretical literature says about differences in forms of corruption. What I found was that a number of authors have argued that *different forms of corruption exist, and these different forms of corruption can produce different consequences or economic outcomes*. This line of argument was first popularized by Shleffer and Vishny in their 1993 study, where they argued that corruption can either be 'centralized' or 'decentralized', depending on the nature of a political system. The former is considered more compatible with development. MacIntyre (2001) also put forward a similar argument but used the terms 'organized' and 'disorganized' corruption to differentiate these different forms of corruption. Along the same line, Lambsdorff (2005) has made a distinction between grand and small corruption, arguing that "investors prefer grand corruption". Similarly, other authors such as Daniel Bach have employed the terms 'regulated' and 'non-regulated' or 'predatory neo-patrimonialism' to describe the same idea. In his recent article titled 'Patrimonialism and Neo-patrimonialism: Comparative Trajectories and Readings', Bach argued, for instance, that "political systems where patrimonial practices tend to be regulated and capped should be distinguished from those where patrimonialisation of the state has become all-encompassing, with the consequent loss of any sense of public space or public policy" (Bach, 2011: 277). Finally, and in a slightly different sense, Alice Sindzingre, in a recent article comparing Sub-Saharan African and Asian states, contrasted neo-patrimonialism and cronyism. As she argues:

> In contrast to cronyism, neo-patrimonial systems rely more on the appropriation of public resources by individuals for their personal benefit (or their social networks) than on reciprocal exchanges of public and private assets, and they do not require the existence of a significant private sector. Cronyism has been therefore often been viewed as more beneficial for growth and being more 'productive' than neo-patrimonialism, as the latter includes an intrinsic dimension of 'unproductive' extraction levied on public resources and private entrepreneurship. This may explain the difference in economic performance between East Asia and Sub-Saharan Africa. (Sindzingre, 2012: 98)

After establishing that the literature specifies two forms of corruption, an 'organized or centralized neo-patrimonial or crony capitalist state', versus a 'disorganized or decentralized neo-patrimonial corrupt state', I then went ahead to examine how corruption is structured in both Nigeria and Indonesia, in order to establish to what extent the forms of corruption observed in these countries fit the two models or contrasting characterizations of corruption mentioned above. I will begin with Indonesia, and then later I will turn to Nigeria.

In Indonesia under Suharto, I found that the state was a neo-patrimonial state but at the same time a highly centralized and stable one. As a result, corruption, especially grand corruption, was largely and for a long time controlled by a central figure (i.e. Suharto himself) and a small group of favoured cronies. For this reason, it was predictable in nature. In a previous section of this paper, I have already described in some detail how President Suharto profited from grand corruption to enrich himself and his immediate family on a grand scale, while also helping key allies within and outside the government to venture into and gain commanding positions in key sectors of the economy. But even though the attention of the regime was more focused on controlling grand corruption, small-scale corruption was not beyond the control of Suharto. In this context, not all forms of small-scale corruption were permitted. While some forms of small-scale corruption were disallowed, others were tolerated—for instance, a 10–15% commission paid to officials was permitted.[12] One rule that operated under Suharto, according to economics professor Ari Kuncoro, was the idea of employing small or petition corruption as 'bonus' for development (i.e. government projects). Thus, "if corruption occurs in a project but the project meets specified targets, the corruption is allowed".[13] In other words, whether or not a particular form of small-scale corruption was allowed depended, among other factors, on its perceived effect on development. To maintain this tight control, Suharto did not rely so much on high pay for officials, as many anti-corruption campaigners would expect. Corrupt officials were simply held in check or discouraged by strict administrative checks.

In terms of their outward manifestations, both grand and small-scale corruption were less visible under Suharto than that which obtains in some other corrupt states. This, and of course the notion of centralized corruption, have led some observers to incorrectly suggest that "Suharto allowed corruption to a selected few".[14] Indeed, nothing can be further from the truth. The notion of centralized corruption does not in any way imply that under Suharto only a few people had access to corruption. Rather, what happened was that Suharto determined those who could have access to corruption, and when and how—that is, to what extent. Thus, just as Suharto used his position as head of the national government to bestow privileges on selected firms or cronies at the highest level, so he effectively awarded 'franchises' to other government officials at lower levels to act in a similar manner. This included many of his ministers, senior bureaucrats, government administrators at all levels—from provinces down to rural villages—and top executives in state enterprises and special government bodies, such as the food logistics agency Bulog and the Agency for the

[12] My interview with Dr. Djunaedi Hadisumarto took place in his Jakarta office on 23 March 2010. Dr. Hadisumarto is an economist and, at the time of this interview, was an adviser to the Indonesian National Planning Agency (BAPPENAS). He was also a member of the famed 'Berkeley Mafia', which managed economic policy under Suharto.

[13] My interview with Professor Ari Kuncoro took place in his office at the Institute for Economic and Social Research (LEPM), University of Indonesia, Jakarta on 24 March 2010.

[14] The interview with Dr. Djunaedi Hadisumarto took place in his Jakarta office on 23 March 2010.

Study and Application of Technology (McLeod, 2000: 101). In order words, in Suharto's Indonesia, the "structures of corruption were more defined".[15] Most of the officials who participated in the system did not act independently of each other, but rather where neatly organized into what could be regarded as a well-organized network of franchise. The franchise was a disciplined arrangement that was clearly governed by well-defined rules and norms. As McLeod also observes, the entire system itself was designed precisely in order to attract and recruit people who were willing and able to play the game by Suharto's rules (McLeod, 2000: 103).

But why would Suharto go out of his way to construct such an elaborate franchise? As McLeod observes again, these franchises were not awarded to these officials (the franchisees) free-of-charge; Suharto (the franchiser) also drew enormous benefits from the system. These benefits or paybacks came in several forms, including payments to a Suharto-controlled *yayasan* (one of the numerous foundations created by Suharto); the provision of loans and award of contracts on favourable terms to first family members and business cronies; a flow of information to the top regarding individuals or organizations that might threaten the existence of the system; a willingness to act against such individuals and organizations in order to protect it; and of course loyalty to the head of the franchise whenever there might be a public outcry about the way the country was being governed (McLeod, 2000).

As it turned out, Suharto's franchising system also proved highly successful in at least two ways. First, the system was relatively durable. The franchise lasted until Suharto lost control in the 1990s, when several events, including the increasing greed of his now six grown children, combined to discredit the system. Second and more importantly, the arrangements minimized, if not totally eliminated, the feeling of uncertainty that corruption usually brings to investors. This in turn explains the relatively high amounts of investments, domestic and foreign, that poured into the country, leading to rapid economic growth. The Indonesian experience confirms the argument of some authors, notably Shleifer and Vishny (1993), Easterly (2001), and Lambsdorff (2005), that investors are more likely to be deterred by petty and unpredictable corruption, whereas grand and predictable corruption may not discourage them (GTZ, 2007; 1). This is even more the case when the country in question is endowed with an

15 The interview with Firdaus Ilyas, who works with the Indonesia Corruption Watch (ICW), took place in Jakarta on 22 March 2010.

abundance of natural resources, a huge population, and a cheap labour force (McLeod, 2000: 100).

The positive impact of corruption on investments in Indonesia occurred mainly because the operations of Suharto's centralized system of patronage distribution meant that the cost usually associated with corruption—bribery and red tape, for example—could be predicted and calculated as part of transaction cost by business (Kuncoro, 2006: 13; 2010).[16] Under such arrangements, once a firm pays a bribe to the central authorities, it will be free from any further harassment from other lower officials. Indeed, Suharto himself was in the habit of collecting bribes from investors in exchange for guarantee of protection from venal local officials. In other cases, these investors will offer lucrative company positions to members of the 'First' family or their cronies, who will in return assist them to ward off any potential harassment from lower officials. In the end, the giving and taking of bribes becomes more co-coordinated. This is why this system is also referred to as 'one-stop shopping'.

When explaining why widespread corruption in Indonesia did not discourage foreign or domestic investments, it is also important to note that Suharto's administration, or the New Order Regime as it was also known, equally emphasized macroeconomic stability, using a variety of policy and institutional mechanisms that were tightly enforced throughout the tenure of the regime by a small group of very influential technocrats (Lewis, 2007). These individuals ensured that, in this system, patrimonial practices went easily along with "the implementation of macroeconomic policies that combined the distribution of patronage with a set of clearly identified public policies" (Liddle, 1991: 418, cited in Bach, 2011). The result was that corruption did not seriously affect economic growth and social development.

Turning now to Nigeria, what we found was exactly the opposite. When compared with Suharto's Indonesia, the system that was more prevalent in Nigeria throughout the era of military rule (1966–1998), and even until now, is the decentralized and non-regulated or predatory forms of corruption. This reflected the more decentralized political system in place in the country. Historically, the Nigerian state was born as a highly fragmented political system with multiple layers of semi-autonomous political authorities. In the years immediately preceding the Nigerian Civil War

16 My interview with Professor Ari Kuncoro took place in his office at the Centre for Economic Research, University of Indonesia, Jakarta, on 24 March 2010.

and rise of oil exports, this already high level of fragmentation was further deepened, as successive military dictators, weary of the need to avoid coups, and possibly national disintegration, resorted to routine state and local government creation exercises to increase access to the 'National Cake' for Nigeria's increasingly restive political elites at the regional and local levels (Suberu, 1998). Thus, within a space of only three decades (1967–1996), Nigeria passed from a four-region federation to a federal system of 36 states and over 700 local concils.

The regular resort to the creation of new states and local councils, which was accompanied with a specific formula for the distribution of federal revenue among the federating states and local councils, and the institutionalization of the 'federal character' principle,[17] together provided opportunities to spread development to previously inaccessible regions and for increased local political participation, but also for excessive corruption and rent-seeking on the part of the ruling elites and their cronies in the private sectors. This process has been termed the "boomerang effects of Nigerian federalism" (Bach, 1989). The emergence of new subnational administrative units was further complemented by the creation of hundreds of national agencies, enterprises, and commissions, which provided additional sources of patronage for loyalists of those in power, as well as potential trouble-makers. Frequent changes of government, witnessed in the country as a result of intra-elite struggles for power, encourages political leaders to be short-sighted in their calculations and to place their individual survival above the exigencies of national development. For instance, officials fearing that their stay in office could be cut-off at very short notice, were encouraged to steal what they could as fast as they could. In other words, the disorganized structure of corruption in Nigeria is informed not only by the decentralized institutional arrangements in place, but also by the country's notoriously volatile political atmosphere, punctuated by violent ethno-religious competition for power.

The cumulative effects of these arrangements described above were not difficult to see. The number of officials demanding bribes and other forms of pay-offs was limitless, resulting in a kind of free-for-all looting, or what is called "overgrazing the commons", whereby officials are unable to

17 This policy provides that public resources, including state offices, institutions, and development programmes, must be distributed in a manner that reflects the country's ethnic-regional composition, in order avoid a situation where such resources, institutions, and programmes will be monopolised by a single or a few sections of the nation.

coordinate their bribe-taking behaviours, therefore creating an environment of unpredictability for business (Kuncoro, 206: 14). In this system, there was not only an "unparalleled capacity to institutionalize kleptocracy at every level of the social pyramid" (Bach, 2011: 279), but central leaders displayed an unwillingness or incapacity to control the behaviour of their subordinates, including low-level officials who routinely demanded bribes and engaged in extortion without any fear of sanction.

To make matters worse, the Nigerians also failed to prioritize macroeconomic stability, unlike the Indonesians. Fluctuations in public expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by successive governments. Indeed, for the period 1960–2000, Nigeria's economy ranked among the most volatile in the world (World Bank, 2009). Inflation levels were generally high, averaging about 28.94% per annum over the same period (*ibid.*). Thirdly, the management of oil revenue often resulted in domestic currency appreciation, creating Dutch-disease concerns and reducing the competitiveness of the non-oil economy (Barnett & Ossowski, 2001). Very unlike their Indonesian counterparts, Nigerian leaders did not make any serious attempts to control this problem. The result was that businesses, outside the oil sector, were discouraged, leading to low levels of investment and ultimately slower economic growth. Rampant and uncontrollable bribery and extortion, especially when accompanied by macroeconomic instability, can easily discourage foreign and domestic investors, whatever may be the economic potentials of the country. It was not surprising, therefore, that outside the oil sector Nigeria could not attract a significant amount of foreign investment. Of course, this had negative consequences for economic growth and ultimately development in the country.

From the foregoing analysis, it is clear, as has been forcefully argued by other scholars, that one of the secrets of Indonesia's superior development record was that Suharto, very unlike his Nigerian counterparts, ran a centralized system of corruption and took a long-term view in his rent-seeking behaviour, reasoning that investment in infrastructure and business-friendly policies,[18] necessary for sustained economic growth, was

[18] One cannot deny the fact that successive Nigerian leaders have made significant attempts to build infrastructures (roads, railways, air- and seaports, for example) and remove impediments to business in the country. But as with foreign and domestic investment into the economy, Nigeria's disorganized or poorly regulated forms of corruption have also produced the unintended consequences of frustrating government's modest attempt to put in place functional social infrastructures and pro-business policies.

essential to the continued and uninterrupted flow of rents and, consequently, to his hold on power (McLeod, 2000: 105). On the other hand, Nigerian officials operated a disorganized system of corrupt, typically seeing any investment in development—a long-term project—as unwise in a system where their tenure was short. The different approaches of the Nigerian and Indonesian leaders may therefore be likened to Olson's (2000) idea of 'stationary bandits' and 'roving bandits'. The former are those rulers who remain or have the expectation of remaining in power for long periods and so have the incentive of investing in structures that can produce long-term benefits (rents), while the latter consist of those rulers who operate in highly unstable environments and so are guided by short-term calculations. If we borrow from Olson's postulate, we may therefore reason, as Henley has pointed out, that "the uncontested sway of President Suharto over a period of 32 years made him a 'stationary bandit', a predatory ruler with a rational interest in promoting national growth in order to maximize his own future pickings, as opposed to the many 'roving bandits' of Nigeria, whose only interest during their short spells in power has been to rape and run" (Henley, 2009: 1).

Location of and Method of Investing the Proceeds of Corruption

Another important difference observed in the experiences of Nigeria and Indonesia, as far as corruption is concerned, and that can also help us understand why corruption has been less harmful to development in Indonesia than Nigeria, lies in the way the proceeds of corruption have been largely retained within the country and used to finance productive activities more in the former country than in the latter.[19]

The causes, extent, and consequences of illicit flows[20] of money out of poor countries have, to some extent, been addressed by economists, who have also stressed the negative consequences for development (Kar & Cartwright-Smith, 2010). However, the idea that the impact of corruption will be more highly negative for economic growth in countries where the proceeds of corruption are largely exported off-shore, than in political systems where the proceeds from corruption are invested within the local

[19] I am grateful to Dr. Jan Kees van Donge of the African Studies Centre, Leiden, for drawing my attention to this very important issue.

[20] The concept of illicit money includes, but is not necessarily limited to, proceeds from corruption. However, in the case of Nigeria, most illicit funds invested abroad come from corruption.

economy, is not yet a very prominent argument in corruption research. The work of Sindzingre (1997), which tried to compare the nature and effects of corruption in Africa and East Asia, especially Nigeria and South Korea, was therefore an exception to the rule. Sindzingre concluded that one of the reasons why South Korea experienced rapid development was that, while Nigerian leaders were in the habit of exporting their loot, their Korean counterparts, who coincidentally were also leading entrepreneurs in their countries, invested their booty in their local economy. When applied to Nigeria and Indonesia, I found that Sindzingre's argument is indeed correct.

In Suharto's Indonesia, the practice of exporting the proceeds of corruption—specifically bribery and theft by government officials and their cronies—was strongly discouraged. Any violations attracted severe punishment. This had the effect, of course, of forcing corrupt state officials and businessmen to invest their loot within the domestic economy. This rule did not apply equally to everybody, however. For instance, the Chinese community within Indonesia, which has ethnic associations with China and Singapore, was an exception. However, for the rest of Indonesians, investing at home was the rule of the game. In some instances, corrupt money might be taken outside, but usually had to find its way back into the country as "disguised foreign investments", to use the language of one Indonesian anti-corruption activist.[21]

One may then pose the question: why was Suharto so successful in his policy of discouraging capital flight? According to conventional wisdom, massive flow of illicit money from developing countries is facilitated by the presence of the global shadow financial system, comprising tax havens and secrecy jurisdictions, among other facilities (Tim, 2004; Kar & Cartwright-Smith, 2010: 1). But the success of the Indonesians in preventing huge outflows of looted funds disproves this view, given that Singapore, a well-known haven for looters, was right next door. A much more plausible explanation, which is also a widely shared view among many Indonesians themselves, suggests that this could only have happened because of predictability in Indonesia's political economy. In other words, the relatively stable political and economic conditions at home did not make transfer of money abroad essential for Indonesian elites. As one very influential economist and adviser to one of the principal national think-tanks puts

21 Interview with Firdacs Ilyas, who works with Indonesia Corruption Watch (ICW), Jakarta, 22 March 2010.

it: "though Singapore is a haven for looters next door, yet people preferred to invest 'their wealth' in Indonesia because there were better investment opportunities locally and a feeling of certainty existed".[22] Clearly, therefore, the issue of "certainty", which implies both macroeconomic and political stability,[23] is a central element in understanding why Indonesians generally preferred to retain the proceeds of corruption at home.

Beyond the retention of the proceeds of corruption in the local economy, the choice and strategy of investment of the proceeds of corruption is another interesting aspect of Indonesia's experience with corruption. Not only did Indonesian political and business leaders keep their money at home, but much of these looted funds were re-invested in productive sectors of the economy. As McLeod argues, the private corporate sector provided the primary medium through which Suharto generated his family's enormous wealth and maintained his own power. Through a variety of methods, notably monopolistic practices, trade restrictions, and selective awards of licensing, family members, supporters and associates of President Suharto came to be significant shareholders in the many firms that benefited from some kind of privilege granted by the government. To reiterate, President Suharto excelled in the art of helping key allies inside and outside the government to venture into and gain commanding positions in key sectors of the economy.

In Nigeria, by comparison, the proceeds from corruption have been largely exported off-shore. Just as stability and predictability in the Indonesian political economy encouraged domestic reinvestment, Nigeria's high level of political and economic uncertainty encouraged consumption and capital flight. Many Nigerian business and political leaders are known to have multiple foreign bank accounts, especially in such places as Switzerland and the United Kingdom. Even when they keep assets within the country, a large chunk has tended to be used to finance consumption (luxurious private residential houses, state-of-the-art automobiles, private jets, etc.), or simply kept as bank deposit, rather than invested in productive activities such as farming or manufacturing, for instance. In Nigeria, a 'Big Man', is more usually judged by the possession of a foreign account

22 Interview with Dr. Djunaedi Hadisumarto took place in his Jakarta office on 23 March 2010.

23 Political stability goes beyond frequent change of government. It could also mean some form of assurance that there will not be any kind of anti-corruption drive that may lead to investigation or confiscation of such wealth kept within the country.

or the number of private mansions he owns, rather than by the number of thriving businesses he runs.

It is not certain why and at what point Nigerian officials began secreting their nation's wealth abroad. What is clear is that the practice first became very visible after the early- and mid-1970s after reformist Murtala Mohammed's military regime instituted the 'great purge', which led to the dismissal of thousands of officials for corruption, followed by the setting up of several panels of inquiry to recover illegally acquired assets. Before these events, an unexpected oil boom was accompanied by an unprecedented diversion of public funds into domestic and foreign bank accounts by top public officials and their cronies in the fledging private sectors (Apter, 2005). So rampant were these practices that framers of the 1979 constitution found reason to include clauses prohibiting the ownership of foreign accounts by all public officials.[24] Since the 'great purge' by the Murtala regime, virtually all successive regimes had attempted one anti-corruption policy or the other. But undermined by their vindictive nature, unstable politics at home, and the presence of numerous tax havens and secrecy jurisdictions, these anti-corruption projects could not curtail the crime,[25] as the well-publicized case of General Sani Abacha will show. According to investigations by Swiss authorities, Abacha alone maintained at least 19 bank accounts in Switzerland (La Commission fédérale des Banques, Berne, 2000). By the time of his death in June 1998, Abacha, who ruled Nigeria between 17 November 1993 and 8 June 1998, had an estimated $4–6 billion overseas assets. At some point in 2000, over 1.9 billion USD in bank deposits was frozen in Switzerland, Luxembourg, the United Kingdom, and Liechtenstein alone (*ThisDay* (Lagos), 10 July 2000). Similar crimes were equally attributed to many top personalities

24 According to these clauses, officials must declare all their assets and those of their spouses and children (including assets held overseas) every four years (see Constitution of the Federal Republic of Nigeria, 1979).

25 Until recently, when a combination of some unprecedented domestic and external developments made the issue of recovering Nigerian assets stashed abroad, and indeed the fight against corruption in general, more or less unavoidable, the question of recovering looted assets stashed overseas was rarely raised in official discussions in Nigeria. In 1984, a move by the Mohammadu Buhari military regime requesting the aid of the British government in recovering funds embezzled and stashed in British banks by the political-tycoon class of the Second Republic (1979–1983), the very first move of its kind, was quietly abandoned once the British Prime Minister Margaret Thatcher announced her intention to publish a list of Nigerians owning bank accounts in Britain (Graf, 1988: 177).

and government officials under past regimes, military and civilian, and have continued even until today.[26]

Several studies have confirmed the serious and persistent nature of this problem in Nigeria (United Nations, 2002; Ndikumana & Boyce, 2003, 2008; Kar & Cartwright-Smith, 2010). Nearly all of these studies have established that Nigeria is the African country most affected by the menace of capital flight. For instance, according to Kar and Cartwright-Smith, "capital flight from West and Central Africa, by far the dominant driver of illicit flows from the Sub-Saharan region, is mainly driven by Nigeria" (2010: 11). Also according to a 2002 UN study, Nigerians hold an estimated 170 billion USD in foreign bank accounts and assets (usually landed property), most of them in Western countries (United Nations, 2002). The scale of capital flight afflicting Nigeria was equally acknowledged by a 2005 report by the Commission for Africa, which noted that stolen assets equivalent to more than half of external debt are held in foreign bank accounts (Commission for Africa, 2005: 152). Kar & Cartwright-Smith (2010) have in a like manner established that Nigeria lost an estimated 165 billion USD in illicit capital flight in the period 1970–2004, an amount equivalent to 40% of oil exports from 1980–2000.

It is therefore not surprising that the flow of looted money abroad has been very costly for development in Nigeria, and indeed the rest of Africa. In general terms, the negative developmental impact of massive outflow of capital, including proceeds of corruption, occurs because

> it drains hard currency reserves, heightens inflation, reduces tax collection, cancels investment, and undermines free trade. It is also very harmful to development because it has its greatest impact on those at the bottom of income scales in a country, by removing resources that could otherwise be used for poverty alleviation and economic growth. (Kar & Cartwright-Smith, 2010: 1)

It is in this sense that one can understand the current Nigerian obsession with recovering looted assets secreted abroad by leading political and business leaders (Enweremadu, 2013). Of course, the issue of recovery of

26 For instance, in July 2010 the erstwhile Chairman of the Economic and Financial Crimes Commission, Nigeria's most feared anti-corruption agency, estimated that some of Nigeria's state governors had transferred at least 10 billion USD between the time the current democratic experiment began in May 1999 and when he left office in December 2008. See *ThisDay* (Lagos), 21 July 2010. Some of these governors have already been convicted for money laundering or illegally operating foreign accounts, while many others are currently standing trial for the same offences.

illicit funds transferred abroad has never been an important issue in Indonesia's political debate, despite the scale of corruption observed in that country.

Conclusion

The assumption that all forms or manifestations of corruption are harmful to development has led many governments and non-governmental bodies to adopt anti-corruption policies and positions that are either unrealistic or unnecessary. Even though corruption poses a significant challenge to development, not all forms of corruption produce the same effect on development. While the majority of poor countries tend to exhibit evidence of very high levels of corruption, there are still other states that witness rapid transformation despite tolerating a high incidence of corruption. The goal of this paper was therefore to show, in a very clear and precise way, how this hypothesis applied to pre-1999 Nigeria, and to Indonesia under Suharto, one of the best-known cases of highly corrupt countries with successful development outcomes.

Drawing insights from existing published materials and recently collected primary data on Nigeria and Indonesia, the experiences of the two countries with corruption has been analyzed and compared with their development outcome. In the course of the study, it was discovered that corruption has been far more damaging to Nigeria than to Indonesia for the simple reason that the two countries experienced corruption in different ways. While Indonesia experienced a relatively centralized or organized form of corruption and did not witness any massive transfer abroad of the proceeds of corruption, the reverse was the case in Nigeria. These differences explain, to some extent, the different economic performances of the two countries. In other words, a combination of disorganized or decentralized corruption and a tendency to export the proceeds of corruption overseas, arising from an unstable political environment, has obviously rendered corruption incompatible with development in Nigeria.

It could be said that, in recent times, Nigeria has experienced stronger economic growth than in the past, despite its ineffective anti-corruption programmes, and Indonesia continues to witness strong growth despite evidence that the country has, in the words of Professor Prijono Tjipto Herijanto, "shifted from a centralized corrupt system under Suharto to a more decentralized and disorganized corrupt state",[27] following the

[27] Interview with Professor Prijono Tjipto Herijanto of the Department of Economics, University of Indonesia, took place in Jakarta on 19 March 2010.

introduction of electoral competition and administrative decentralization through creation of new regions and local authorities by the parliament (Rinaldi *et al.*, 2007; Enweremadu, 2010). Yet, I will hasten to add that the growth seen in contemporary Nigeria has not been accompanied by any meaningful reduction in poverty across the country, unlike the situation we have seen in Suharto's Indonesia. According to data recently released by Nigeria's National Bureau of Statistics (NBS), while 51.6% of Nigerians were living on less than 1 USD per day in 2004, this had increased to 61.2% in 2010 (NBS, 2012: 5). We may also add, as some Nigerians have often argued, that the growth rate would perhaps have been much higher with a more benign form of corruption (for instance, the type that avoids massive capital flight or short-term calculations). Economic growth in Indonesia, on the other hand, may look very rapid on the surface; however, the fact remains that the country has actually seen a lower growth rate in recent years, from 6–7% during the Suharto era now down to 5% or less.[28] Indeed, when compared with the Suharto era, some Indonesians I met during my fieldwork complained that local officials today have tended to divert budgets meant for infrastructure like roads, schools, and hospitals, leading to a deterioration in the quality of these facilities and hence lower development in local areas.

The lesson from this Nigeria—Indonesia comparison is that while corruption is harmful for economic development and therefore should be discouraged, its effects can be mitigated by reducing political and business uncertainty and inducing public officials and local businessmen to begin to invest most of their loot locally, especially in growth-generating ventures.[29] Despite the value of these findings, our hypothesis does not in any way suggest that there were not other factors that contributed to Nigeria's poor development record.

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28 Interview with Professor Kuncoro.

29 A semblance of this idea is already being floated in Nigeria's business and political circles. For instance, some members of the Nigerian Economic Summit Group, Nigeria's foremost economic think-thank, have been considering whether to support an 'amnesty' for Nigerian political and business leaders who have looted and transferred public funds abroad. The idea is to exempt them from prosecution, and in exchange they will bring their loot home to invest in the domestic economy. Proponents of this option argue that it will be more realistic and helpful to the economy.

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PART THREE

COMPARING MALAYSIA AND KENYA

9

Agricultural and Rural Development in Malaysia and Kenya and the Politics of Policy

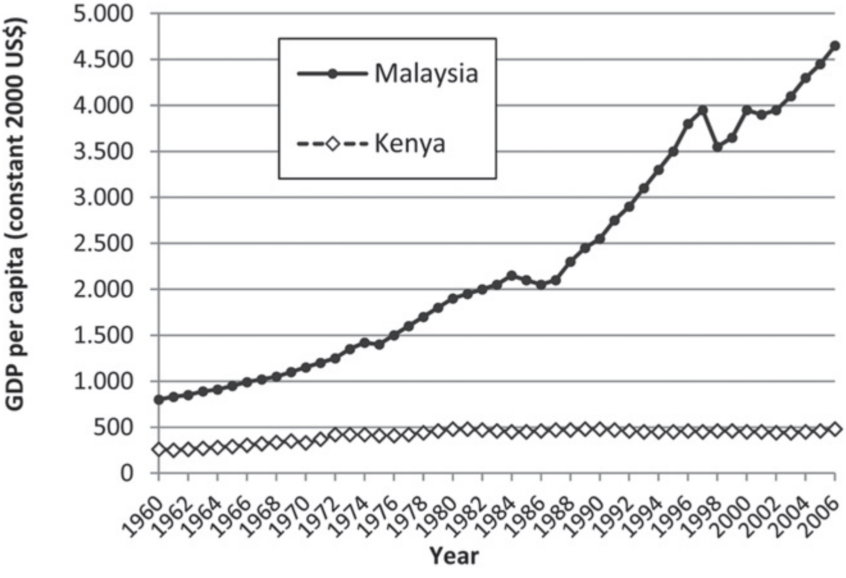
Joseph M. Fernando

Introduction

The linkage between governance and economic growth is an increasingly important focus of scholars studying the political economy of developing countries. Analysing how and why government elites took certain economic policy choices has drawn the attention of many recent studies to help explain policy outcomes and impact. The politics underlying policy often indicate a vital symbiotic relationship with economic performance. Leadership choices and management of intense competition by political groups for limited economic resources have a critical impact on the selection and effectiveness of the implementation of development policies. According to the neoclassical political-economy tradition, any interest the political elite may have in promoting long-term growth is conditioned by its own interest in accumulation and its obligation to adjudicate competing demands for economic resources (O'Connell, 2008: 6). Examining the policy environment as such is imperative in a consideration of the allocation of resources, as they determine policy choices and outcomes and, invariably, economic growth. Resource allocation is particularly complex in many developing countries, where political decisions can have a critical impact on the realization of the full potential of development policies.

Malaysia and Kenya offer interesting case studies for an examination of the impact of the politics of policy on agricultural and rural development programmes. By the end of the 1960s, the World Bank economic reports commented positively about Kenya's "remarkable achievements" and held it up as a model for African nations (Brass & Jolly, 1993: 11).[1] In the immediate post-independence period, the economic growth rates achieved by both states were much closer, but from the mid-1970s onwards there is a clear divergence in development trajectory and economic growth. Malaysia moved ahead more rapidly to achieve significantly higher and sustained growth rates, while Kenya fell behind. In the period 1961–1980, Malaysia's economic growth averaged 7.2% and Kenya's was 6.4% (Van Donge, 2011). In the period 1981–2000, however, Malaysia's economic growth rate averaged 6.7% compared with Kenya's 3.0% (Van Donge, 2011). The divergence is more evident in the income per capita of both countries (Figure 9.1).

To what extent did the politics of policy—that is, leadership choices on resource allocation and effectiveness of implementation—have an impact on these varying outcomes in these two states? This chapter examines the politics of policy in agricultural and rural development in Malaysia



Source: David Henley, 'A rare case of rural bias in Africa? Kenyan development strategy in the Malaysian mirror', paper presented at Tracking Development Plenary Conference, Kuala Lumpur, 11–15 May, 2010.

Figure 9.1 GDP per capita (constant 2000 USD), 1960–2006

1 The real growth rate in Gross National Product (GNP) between 1965 and 1970 was 8.2% per annum, and the government budget showed a surplus of receipts over expenditures.

and Kenya in a comparative context to assess their impact on policy outcomes. Examining some of the policy choices and the politics underlying these choices may shed some light on policy outcomes and, in the case of Malaysia and Kenya, may help explain the divergence in economic growth between the two countries. This chapter will first provide a general overview of the economic trajectories of Malaysia and Kenya, with emphasis on agricultural and rural development. This will be followed by an examination of the politics of policy and the inherent issues related to agricultural and rural development in both countries in a comparative context to discern their impact on outcomes.

Rural and Agricultural Development in Malaysia

In Malaysia, rural and agricultural development has always been given priority and received a significant proportion of the national development expenditure budget (Lim, 1975: 3–6). In the First Malaya Plan (1956–1960) during the colonial period, for example, the agricultural sector received 27% of the total allocation (First Malaysia Plan: 30). Similarly, in the post-independence period, the government continued to give considerable attention to the agricultural sector and rural development programmes (Rudner, 1975: 80–85). The Alliance government strategy for rural development recognized that the balance of electoral power[2] was located among the rural Malays, and this provided a new urgency to agricultural development (Rudner, 1975: 80). In the early 1960s, a National Rural Development Council and Rural Development Executive Committee were set up under the Deputy Prime Minister Tun Abdul Razak, to coordinate all the activities of all government department and agencies engaged in rural development (Rudner, 1975: 81). A Ministry of Rural Development under Razak was also created. Between a quarter and one-fifth of the total expenditure in the five-year development programmes was allocated to agriculture and rural development. Poverty alleviation and reducing the income gap between the urban and rural areas were key national priorities (Table 9.1). Formulating suitable policies invariably required political decisions and the political will to carry them out. The Alliance government placed much emphasis on poverty alleviation in its economic development programmes (Lim, 1975: 3–5).

2 According to the 1970 census for Malaysia, from a total population of 10.8 million, 46.8% were Malays, 34.1% Chinese, 9% Indians, 3.7% Dayak, 1.8% Kadazan, 3.2% other natives, and 1.4% others (see Milne & Mauzy, 1977: 3). Milne & Mauzy note that the racial composition dictates the pattern of the economy.

Table 9.1 Proportion of national development budget allocated to agriculture: Malaysia and Kenya, 1950–1990

Malaysia	%	Kenya	%
Development Plan 1950–55	17.0	Development Programme 1954–57	10.6
First Malaya Plan 1956–60	23.1	Development Programme 1957–60	36.3
Second Malaya Plan 1961–65	25.4	Development Programme 1960–63	27.5
First Malaysia Plan 1966–70	23.9	First Development Plan 1964–70	48.3 (28.8*)
Second Malaysia Plan 1971–75	26.5	Second Development Plan, 1970–74	20.6 (12.8*)
Third Malaysia Plan 1976–80	25.5	Third Development Plan 1974–78	22.3 (15.3*)
Fourth Malaysia Plan 1980–85	21.3	Fourth Development Plan 1979–83	18.7
Fifth Malaysia Plan 1986–90	17.1	Fifth Development Plan 1984–88	11.5

* Excluding costs of land and settlement, transfer, and adjudication.
Source: David Henley, 'A rare case of rural bias in Africa? Kenyan development strategy in the Malaysian mirror', paper delivered at Tracking Development Plenary Conference, Kuala Lumpur, 2010.

In the subsequent development plans, there was a gradual decrease in expenditure for agricultural and rural development, in terms of the proportion of the total allocation for development expenditure, as a result of structural changes and as the Malaysian economy diversified further (and as the manufacturing and services sectors became more important), although the grants allocated in real terms were substantially higher than in previous plans (Poon, 2004: 32). This can be attributed to the 'highly developed' nature of the agricultural sector in the later periods, which did not require further heavy investment on basic facilities such as irrigation, seed subsidies, and infrastructural and marketing services.

The emphasis on agriculture and rural development is also discernible in special programmes introduced in Malaysia in the 1960s and 1970s to assist the agricultural sector, such as encouraging double-cropping of rice with special varieties and fertilizer subsidies, assistance to smallholders of rubber, and assistance in marketing crops. In addition, the government under the first Prime Minister Tunku Abdul Rahman (1957–1970) and, later, Tun Abdul Razak (1970–1976) introduced pioneering land schemes, which assisted considerably in reducing poverty levels and in raising the incomes of the rural population. These land schemes, entailing the opening up of largely virgin forests with land schemes developed by the state-funded Federal Land Development Authority (FELDA), grew in importance from the early 1960s. Through these schemes the government sought to provide for self-sustaining agricultural communities in various regional land settlement schemes through the planting of rubber, oil palm, and cocoa. These land settlement schemes and large commercial plantations under the authority of government agencies such as FELDA and FELCRA (Federal Land Consolidation and Rehabilitation Authority) have been a central element of national economic planning in Malaysia (MacAndrews, 1979: 140–152). The schemes served three key purposes: firstly to provide for a more equitable distribution of wealth, which has benefited the largely rural Malay inhabitants who had been marginalized from the mainstream economy; secondly, to reduce the level of poverty in the rural areas (largely populated by Malays); and thirdly, to increase the acreage of commercial crops such as rubber, oil palm, and cocoa, which contributed much revenue to the national economy.

The introduction of the New Economic Policy (NEP),[3] an affirmative policy aimed at reducing poverty and restructuring society, during the Razak administration in 1971 following the racial riots after the general election of May 1969, provided further momentum and justification for the emphasis on rural development, particularly aimed at narrowing the income gap between the Malay and non-Malay population and eradicating poverty (Cho, 1993: 233). The Malays made up the bulk of the rural population at the time. According to Prime Minister Tun Abdul Razak—when revealing the NEP during the announcement of the Second Malaysia Plan, a plan that provided the vehicle for the implementation of the new economic policy:

> The Second Malaysia Plan will mark a major shift in emphasis in our approach to development. Its keynote will be improved economic balance especially among the races, but also among social groups and regions of the country such as Sabah and Sarawak and the relatively under-developed States in West Malaysia. (Morais, 1971: 5)

Thus, agricultural and rural development received a considerable proportion of the total government expenditure in the five-year plans in the post-independence period, ranging from 15% to 27% of the total expenditure budget.

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[3] The twin objectives of the New Economic Policy were to reduce poverty and restructure society.

By 1985, some 360,000 hectares of new land had been developed by public-sector agencies, and FELDA land schemes made up 45% (161,000 ha) of this total. About 68% of FELDA schemes were planted with oil palm, while rubber made up 23% and cocoa 4%, and village settlement made up the balance of 5%. These schemes also entailed a considerable population resettlement. Nearly half a million people were resettled into these self-sustaining schemes (with schools, clinics, shops, recreation facilities, etc.), which were coordinated by the Ministry of Rural Development with the assistance of several state-owned agencies by the mid-1980s (MacAndrews, 1979: 140–152).[4] The settlers were given assistance and subsidies to work the land and harvest the crops, as well as in marketing their produce; and, equally importantly, they were stakeholders in the broader development of the FELDA schemes and entitled to dividends declared annually by the agencies.

Cho has argued that the rationale for rural development in Malaysia was to create a surplus of food and raw material for an urban industrial force; an export surplus to generate foreign exchange; a labour surplus to give rise to an industrial labour force; and an investment surplus for urban, industrial, and welfare development (Cho, 1990: 86). It was felt that these strategies would enhance export promotion, whereby landless farmers would be given land, which would enable them to get out of the poverty cycle. In addition, large-scale infrastructural development that included irrigation projects in the rice-growing areas contributed to increasing the farm productivity. The strategy also included improving access to marketing, credit, fertilizers, and farm subsidies. Each of the five-year Malaysia plans gradually strengthened rural and agricultural development.

Nevertheless, there have been some criticisms of the integrated rural development programmes developed in Malaysia. Fredericks argues that the integrated rural development programmes introduced by the Malaysian government, while making tangible gains for the rural sector and addressing rural poverty, raised serious concerns over distributional issues, and he views them as "massively bureaucratic". Others raise concerns over the continued viability of the small-scale, settler-based approach to rural development and poverty eradication in the longer term (Fredericks, 2012: 58).

The state economic development corporations (SEDCs), set up in each state, and government investment arms such as Perbadanan Nasional

[4] FELDA land schemes range from 3,000 acres and above.

Berhad (Pernas) and Permodalan Nasional Berhad (PNB) also played an important role in the implementation of national objectives (Gomez, 1993: 3). These agencies were generally effective in implementation of national programmes and were less troubled by malpractice and corruption compared with some African countries. Rural and agricultural development was clearly a central pillar in the development policies of the Alliance and Barisan Nasional government in the post-independence period, and a rural bias, influenced by political (the importance of the rural electoral vote) and economic factors (narrowing the income gap between urban and rural areas and between non-Malays and poorer Malays), was strongly evident.

The Alliance government under the first two prime ministers headed a strong and stable coalition led by UMNO, and they were able to implement economic growth and poverty alleviation programmes consistently with little opposition, as the coalition held a two-thirds' majority in parliament. Thus, for example, the government had little difficulty pushing through the controversial affirmative policy, the New Economic Policy (1971–1990), in 1971 in Parliament. This was clearly a leadership choice based on a political commitment to improve the living standards of the rural peasantry, largely Malay, following the 1969 racial disturbances and to reduce the income gap between the urban and rural areas and between the Malays and non-Malays, as well as to raise the Malay equity in the economy, an equity which stood at 2.4% in 1970 but which by 2005 had increased to 18.9% (Faaland, 1991). This multi-pronged pro-poor and 'growth with equity' approach was able to address effectively the issues of income redistribution and poverty alleviation, in addition to creating a broader Malay middle class, which were major political targets in the early post-independence era. The leadership of the UMNO-led Barisan Nasional government was unchallenged in the implementation of the economic strategies, which were incorporated in the five-year development plans from 1971 onwards, and its two-thirds' majority in parliament ensured the smooth passage of the relevant bills. But more than merely legislating development bills, the state was now more greatly involved directly in the economy, through the creation of various development instruments or agencies: government-owned investment corporations (Pernas, Permodalan Nasional Berhad [PNB], Majlis Amanah Rakyat [MARA], and Federal Agriculture Marketing Authority [FAMA]); SEDCs; and financial institutions. These policy choices by the government to create a *Bumiputera* (Malay indigenous) commercial and entrepreneurial class through various state-created instruments considerably enhanced the Malay equity share of the economy by 1990. Considerable proportions of the development budgets under the five-year development plans, beginning with the Second Malaysia Plan (1971–1975), were channelled into these affirmative programmes aimed at rural development and poverty alleviation.

Rural and Agricultural Development in Kenya

In Kenya, considerable emphasis was also placed on agricultural and rural development. In the pre-independence Kenya Development Plan (1954–1957), for example, 20% of the allocation, amounting to K£4.4 million pounds, was allocated to the Agricultural Ministry, the largest allocation from the total figure of K£22.8 million pounds (Sessional Paper No. 97, 1955). The Swynnerton Plan (Swynnerton, 1955) in 1955 provided an additional framework for the development of indigenous African agriculture by providing for small plots of land to be cultivated by Kenyan farmers with a £5 million loan from the United Kingdom government (Smith, 1976: 126).[5] The British colonial administrations, however, were very conservative in their economic development programmes, took minimal risks, and did not attempt to radically alter the traditional pattern of the prevailing economic structure.

The Kenyan economy in the pre-independence period 1956–1963 was dominated by agriculture, averaging about 40% of the GDP, as manufacturing was not given priority by the colonial administration (Maitha, 1976: 35).[6] The growth of the economy was relatively high, and for the period 1954–1964 grew at 6% per annum. In the post-independence period (1964–1974), the agricultural sector accounted for 35–40% of the GDP (Senga, 1976: 69). A range of programmes targeting agricultural and rural development were introduced in the post-independence period. The contribution of the manufacturing sector to the GDP was 10.1% in 1964, and this rose to 13.3% by 1980 (Ogonda, 2002: 297). In the 1980s, the agricultural

[5] The Swynnerton Plan's basic philosophy was that sound agricultural development was dependent on a system of land tenure which would make available to the African farmer "a unit of land and a system of farming whose production will support his family at a level, taking into account prerequisites derived from the farm, comparable with other occupations". In the high-potential farming areas, the aim was to provide for 600,000 economic farming units and to raise the productivity of each unit.

[6] At independence in 1963, the population of Kenya was 10 million. According to the Kenya National Bureau of Statistics, the top five ethnic groups in the most recent estimate in 2007, when the population stood at 36.1 million, are Kikuyu 22%, Luhya 14%, Luo 13%, Kalenjin 12%, and Kamba 11%. See http://www.kenya-information-guide.com/kenya-population.html [accessed 19 August 2012].

sector's contribution fell to about 30%. Between 1996 and 2000 agriculture's contribution declined to 24.5%, and this further dropped in 2005 to 23.7%. The agricultural sector in 2005 employed about 51% of the workforce (African Development Bank Report, 2005).[7] In the post-independence period, significant allocations were made from the national budgets for these sectors. The official data shows that between 12% and 28% of the expenditure budget was reserved for the agricultural and rural sectors (Table 9.2). The proportion spent on agriculture, however, declined in the post-independence period as Kenya embarked on a process of diversification of its economy. In 1963/4, agriculture received K£13.5 million; this was reduced to K£10.5 million in 1966/7; and in 1970/1 it dropped further to K£11.4 million. Agriculture's share of the GDP also declined from a high of 37% in the period 1963–1975 to 31% in 1981–1990 and 28% in 1991–1995 (Ndiritu, 2004: 27).

It must be noted at the same time that only a small part Kenya's land area is suitable for agriculture or animal husbandry. According to one estimate, 46 million hectares of Kenya's 56.9 million hectares were unsuitable for agriculture (Hazelwood, 1976: 29).[8] The quality of agricultural lands varied vastly between the provinces. Nearly 75% of the land is arid or semi-arid (Arap Moi, 1986: 2).[9] Only 17% of all land in Kenya is considered

Table 9.2 Kenya: Recurrent and development expenditure on selected government services (K£ m.)

	1964/5	1966/7	1968/9	1970/1	1974/5	1976/7
Agriculture	12.7	10.5	13.5	11.4	28.5	(37.5)
Transport	3.4	6.4	9.2	18.7	39.7	47.4
Education	6.8	7.9	11.9	27.6	63.8	80.8
Defence	3.0	5.3	5.6	6.5	19.1	42.9
Debt Service	6.4	8.3	8.9	17.7	23.7	36.3
All Services	70.5	84.9	105.0	156.8	301.6	409.8

Source: Hazelwood (1976: 138).

[7] African Development Bank Report, 7 October 2005. Gem Argwings-Kodhek, 'Contemporary Issues Determining the Future of Kenyan Agriculture: An Agenda for Policy and Research'. Available at: http://www.tegemeo.org/documents/conference/cont.pdf [accessed 19 August 2012].

[8] Kenya is a moderate-size country with a land area of approximately 582,000 square miles. Aridity and semi-aridity, says Moi, form the most important single set of natural factors that limit the potential and actual productivity (Arap Moi, 1986: 2).

[9] Areas which receive less than 769 mm of rainfall per year are semi-arid, and those with less than 500 mm are arid.

to have high or medium potential for agricultural use (Hazelwood, 1976: 30). These geographical conditions contrast considerably with Malaysia, where rainfall is in abundance and cultivable soil for crops and animal husbandry is vast. Nevertheless, land reform has been a key element in Kenya in the post-independence period (Arap Moi, 1986: 7).[10] Two main types of land reforms were undertaken. The first was the transfer of land from European owners to African ownership. About one and a quarter million hectares of land from an estimated total of 3.1 million hectares were transferred to Africans by 1976 (Hazelwood, 1976: 32). The second type of land reform entailed the adjudication and registration of land held under communal tenure to individual tenure (Hazelwood, 1976: 34).

The 'Million Acre Scheme' introduced in 1961 and completed in 1971, which entailed the resettlement of 35,000 families on 470,000 hectares of land costing £30 million, is an example of the emphasis on the agricultural and rural sector (Maitha, 1976: 57–58). Under this scheme, land was bought from white farmers and redistributed to the "landless, unemployed and progressive farmers" to address a residual colonial-era land problem wherein a few white farmers owned most of fertile lands. This scheme, however, did not make much headway in reducing poverty and landlessness (Maxon, 2002). Maitha has observed that the land transfer programme involved no fundamental changes, and the problem of land redistribution persisted (Maitha, 1976: 58). While the land resettlement programmes had given land to thousands of landless peasants, they also led to accumulation of land among some opportunists. Hazelwood has noted that while some land acquisition had been "perfectly proper" under the rules, some had been a good deal less so (Hazelwood, 1976: 35). In September 1978, President Moi suspended the allocation of plots because "there were too many people with too much land trying to get more when most Kenyans had none" (Hazelwood, 1976: 35).

Kenya's first four-year development programme, according to Obudho, did not present any regional planning strategy that was different from the colonial development strategies of the 1950s and 1960s (Obudho, 1998: 248). Kenya's Second Development Plan (1970–1974) provided for an interesting development programme, which included specific programmes for rural areas—as, for example, the Special Rural Development

[10] The underlying philosophy of Kenyan nationalism and development is the philosophy of *Nyayo*, which "incorporates, articulates and revitalizes what is traditional and endemic to the African thought patterns and ways of life" (Arap Moi, 1986: 7).

Programme (SRDP) introduced in 1971. This plan provided for "selective concentration" as opposed to the concentrated development adopted by the government previously (*ibid.*). This approach was continued in the Third Development Plan (1974–1978) but clearly lacked the impact that rural development schemes in Malaysia had produced. Kenya's third and fourth (1979–1983) development programmes also intended to eradicate poverty and inequality, but the achievement of the goals was far less successful. The Fifth Development Plan (1984–1988) emphasized the need to strengthen the link between rural development and urban markets. The land policies in Kenya, however, as Henley has noted, were more distributive in nature and did not target poverty alleviation—and unlike in Malaysia, the state's role in development of land was considerably limited. The agriculture sector showed a decline in growth from the late 1970s well into the early 1990s, with lower budget allocations, and this had considerable impact on poverty alleviation (Hazelwood, 1976: 138; Henley, 2010).

In the post-independence period, Jomo Kenyatta's 'African Socialism' also had a significant influence on economic planning and the nature of development policies adopted by the state. This policy emphasized the principles of political equality, social justice, human dignity, and equal opportunities (Wasike, 2001). In 1964, Kenyatta said that Kenya intended to develop the nation with its own independent policies and did not want the country to become a "commercial protégé" of any foreign country: "we are determined to accelerate economic growth within the context of African Socialism, meaning that both the Government and private enterprise will have a contribution to make".[11] His successor Moi, too, continued the practice of this brand of socialism (Arap Moi, 1986: 21).[12] But the implementation of this programme was hindered by the dialectics of ethnic politics and political patronage.

In Kenya, both the Jomo Kenyatta (1963–1978) and Daniel arap Moi (1978–2002) administrations were not able to implement the various rural

11 Prime Minister Jomo Kenyatta also spoke about the practical philosophy of *Harambee* or self-help, which he officially launched on 1 June 1963. See Daniel Arap Moi (1986: 35). See also *Harambee: The Prime Minister of Kenya's speeches*, 1963–1964, London: Oxford University Press, p. 77.

12 Moi noted that African socialism was a Kenyan ideology as propounded in the *Sessional Paper No. 10* of 1965 and encouraged a cooperative spirit: "This African socialism is based on collective responsibility and on being mindful of the welfare of others. It practises a philosophy of unity of action, co-operative existence and sharing. In all that it proposes, supports and lives for, African socialism is an embodiment of peace, love and unity. As an African, I have absorbed and lived by this philosophy and these principles all my childhood and adult life" (Arap Moi, 1986: 21).

development schemes effectively (Monke, 1995). While in some cases policy choices may be questioned, in others poor implementation was the root cause of the problem. The complex web of land issues compounded these problems further. While considerable planning had gone into the various programmes, the implementation of the policies had been ineffective in part owing to a lack of national consensus between the various ethnic groups (Mutiso, 1975: 46–54; Heyer, 1976: 5–6; Nyangira, 1976: 29–30) on economic redistribution and political power. The country had been ruled since independence in December 1963 by the Kenya African National Union (KANU) and was virtually a one-party system until the elections of December 1992 (Throup & Hornsby, 1998: 8–12). The political stability, albeit under authoritarian regimes, enjoyed by Kenya for long periods does not seem to have enabled greater consensus between the main ethnic groups (Mutiso, 1975: 46–54),[13] and even now there is considerable underlying ethnic tension as evident in the violence that has flared up in recent years. While the various development plans placed considerable emphasis on agricultural and rural development, Kenyan policies have been less effective in addressing poverty levels or economic growth. This raises serious questions as to the reasons for the different levels of success in Malaysia and Kenya vis-à-vis agricultural and rural development policies, questions which we will now examine.

The Politics of Policy in Malaysia and Kenya

The discussion above indicates that both Malaysia and Kenya placed much emphasis on rural and agricultural development in their long-term development plans. Yet, there has been much divergence in terms of economic growth and outcomes between the two nations. Malaysia achieved steady economic growth in the post-independence period, with notable increase in its income per capita, and by the early 1990s was seen as a growth model for developing economies by the World Bank. Kenya, on the other hand, which was almost on a par with Malaysia in the 1960s and seen as a model for Africa by the World Bank in the 1960s, had lagged far behind in terms of economic growth. Malaysia's emphasis on rural and agricultural development has made significant progress in terms of poverty alleviation and reduction of the income disparity between urban and rural

[13] Mutiso describes the political system as being basically tribal and not the assumed 'national' system. See also Mutiso, *ibid.*, 'The political sociology of Kenyan bureaucracy', pp. 59–74.

areas. Kenya, on the other hand, while formulating pragmatic economic policies for rural and agricultural development, has not made equivalent advances. Growth rates have been low and poverty remains a serious problem. To what extent have the politics underlying policy formulation and implementation influenced the outcomes of fairly sound economic policies? Politics in Malaysia and Kenya has invariably influenced the pattern of agricultural and rural development policies. Elements of nationalism, sub-nationalism, leadership choices, and other factors have had a significant impact on policy choices and implementation—and inevitably on outcomes. While there are similarities between Malaysia and Kenya, there are also differences in these areas, which have contributed to the different levels of success.

In Malaysia, the Rural Development and Agricultural ministries and the Economic Planning Unit in the Prime Minister's Department played key roles in overseeing the formulation and implementation of development policies. A core group of elites visualized, formulated, and implemented the development plans, including poverty alleviation programmes (Economic Planning Unit, 2007). Razak was mainly responsible for drawing up poverty alleviation and rural development programmes from the time he was the Deputy Prime Minister in 1957 until he died in 1976 (Nair & Muniandy, 2010: 33–66). He gave personal attention to the success of the poverty alleviation programmes. The implementation of the New Economic Policy under his leadership in 1971 was aggressively pursued despite some objections from the non-Malay communities, who had preferred a means-based affirmative programme which they felt would be more inclusive of all the ethnic groups selected to receive economic assistance (*ibid.*: 36–57).

Several bureaucrats in the Economic Planning Unit in the Prime Minister's Department and the Ministry of Rural and Agricultural Development contributed enormously to the successful implementation of the development programmes. The head of the Federal Land Development Authority (FELDA) Tan Sri Taib Andak, for example, was a close friend of Razak (Kalsom Taib, 2009: 20). Taib Andak was hand-picked to develop the land schemes and to take over other existing group settlement projects initiated by the state authorities. Scholars see the appointment of Taib Andak as a major turning point in the history of FELDA, an agency that reflected the land development policies in Malaysia (Kalsom Taib, 2009: 20). Tengku Razaleigh Hamzah was another key figure in the Razak administration and headed Pernas (the national investment corporation) and Petronas (the national oil company) in 1974 (Jamaie Hamil, 2005: 114–118). Razaleigh became the Finance Minister in 1976 under the Hussein Onn administration. These were the men on the spot who ensured that the funds were distributed efficiently and that there was regular monitoring and review of the development programmes. These programmes were carried out with nationalist fervour. The importance of this small group of bureaucrats was that they were beyond party politics and were able to plan and implement policies with little interference from politicians and party politics. They were ably supported by the state machineries. This enabled them to focus their efforts on the achievement of their targets and obtain results.

In Kenya, there were also some key figures, including ministers and top bureaucrats, who influenced considerably the economic policies. But the politics of resource allocation and weaknesses in implementation undermined good policies. One study has identified four senior African public servants who had a great impact on Kenyan rural development (Leonard, 1991: 10). These were Harris Mule of the Planning Department and permanent secretary to the finance ministry (1980–1986); Simeon Nyachae, who in 1964 became one of Kenya's powerful commissioners and who advised the president on regional political development (including supervising change in land ownership) and in 1984 became chief of the president's policy staff; Charles Kiba Karanja, who was general manager of the Kenya Tea Development Authority (KTDA) (1970–1981); and Ishmael Muriithi, Kenya's director of veterinary services (1966–1984) (Leonard, 1991: 106–117). These men, all born in the 1930s, were tenured public servants, with the exception of Karanja. Both Kenyatta and Moi enabled these leading civil servants to have a "highly visible and powerful role", although their role cannot be overstated as they required political support (particularly from the president) to advance their allocational agenda (pp. 113–116).

Mule had a great influence in shaping Kenya's rural development efforts and economic policies. Mule, together with Nyachae, had considerable influence on the decentralization of powers and on agricultural policies. Decentralization enabled the districts to exercise greater powers and make more meaningful decisions with the introduction of the 'district focus strategy' in 1982 (pp. 204–205). Mule initiated various policies to increase agricultural production in the 1970s. These included the use of new hybrid seeds, fertilizers, and better credit facilities and infrastructure (pp. 209–210). He was also greatly involved in the regulating of producer prices for internal consumption for maize, milk, beef, wheat, sugar, cotton, and other products (p. 110). Nyachae was recalled from England in 1964 and thrown into the midst of land reforms, first as district commissioner and in 1970 as provincial commissioner. He became deeply involved in mediation of politically sensitive disputes but soon learned to be cautious and tactful (p. 110). In 1964 Nyachae became one of Kenya's most powerful political commissioners, instrumental in shaping regional political developments and supervising land ownership from British to African hands (pp. 202–219). In 1979, he became chief of the president's policy team and in 1984 chief secretary. He was considered the president's closest adviser on matters of public policy. Karanja, on the other hand, guided the KTDA through its period of greatest growth and one of the success stories of Kenya's rural development (pp. 125–144). He had a hand in the increase in the area under smallholder tea and sought to keep taxes low for the growers (pp. 135–136). Karanja was well connected politically; and although at times he was said to present Kikuyu interests (p. 136), he was able to prevent political interference in KTDA. Although Karanja was removed under President Moi after KTDA suffered some reverses, the KTDA continued to do reasonably well as a result of his planning (p. 142). Muriithi's management of veterinary services, it is said, transformed smallholder dairy production and achieved growth that was similar to the tea agency KTDA (pp. 145–165). Muriithi was greatly involved in the spectacular growth achieved by the smallholder dairy production between 1966 and 1978. Between 1963 and 1980, dairy production increased four-fold, in part through the genetic improvement of the herd through artificial insemination and raising the standards of veterinary care (p. 145).

We will examine four areas in terms of the politics of policy which had considerable impact on the outcome of development policies. These are the impact of politics on access to credit facilities among farmers; policy implementation and outreach; efficacy of statutory regulating and marketing agencies; and the influence of the politics of ethnicity in policy choices.

Access to Credit Facilities

One of the major differences in policy orientation and outcomes between Malaysia and Kenya is the farmers' access to credit facilities provided by the state. In Malaysia, the rural development and agricultural agencies were able to distribute credit facilities allocated in the national budget to the rural farmers effectively through a variety of agencies, which included the state governments and federal agencies, such as Malaysian Agricultural Development Institute (MARDI), MARA, FELDA, and SEDCs. In the rice sector, for example, the government-owned Malaysian Agricultural Bank (Bank Pertanian Malaysia), which was established in 1969, provided farmers with finance for double-cropping as well as purchase of improved seeds, fertilizers, and other essentials (Ishak Shaari, 1994: 44). In addition, state and federal agencies provided much assistance to develop irrigation schemes and marketing of the produce to ensure that the farmers received reasonable income. The case of rice farmers, rubber smallholders, and FELDA settlers provides the strongest evidence of the efficacy of implementation of the development objectives. Under the Second Five-Year Plan (1961–1965), for example, a National Rural Development Plan was included. Under this plan, public expenditure increased three-fold to M$150 million (Rudner, 1975: 81). Deputy Prime Minister Tun Abdul Razak headed the Ministry of Rural Development and supervised directly its implementation (*ibid.:* 81). Funds were readily made available for extension of economic infrastructure, such as roads and irrigation, and community development. By 1963, for example, an additional 300,000 acres of paddy were irrigated, and the acreage under double-cropping increased five-fold to 57,000 acres (22,800 ha). In the subsequent First Malaysia Plan (1966–1970), an additional half a million acres (200,000 ha) were targeted for irrigation. Rice production increased from 152,000 thousand gantangs in 1951/2 to 560,000 thousand gantangs in 1969/70 (Lim, 1975: 4).[14]

While the presence of monopolistic and monopsonistic operators are said to have reduced the increase in farmers' income, it is generally agreed that farmers' income increased considerably (Lim, 1975: 4). In spite of the inter-communal competition for limited economic resources, the inter-communal Alliance government was able to overcome political opposition from the non-Malays and some trade unions and opposition political parties to implement effectively the government's long-term objectives of achieving a more equitable distribution of wealth among the races and alleviating poverty.

In comparison, in Kenya, farmers faced many obstacles in gaining access to funds despite significant allocations in government expenditure budgets for rural and agricultural development under the development plans. Despite the leadership's commitment to the reduction of inequality and the improvement of the welfare of the 'working poor', the policies arguably have been directed to help those "who have already helped themselves" (Hazelwood, 1976: 200). Hazelwood notes, for example, that agricultural extension and other assistance have been directed towards "progressive farmers", in the high potential areas (*ibid.*). Weaknesses in

14 A gantang is equivalent to a gallon or 4.5 litres.

government agencies tasked to oversee the financing and implementation of agricultural and rural development policies, undermined often by politics, contributed to poor access to credit facilities for farmers.

Government agencies, which had been set up to facilitate the implementation of the various economic plans reflected this dilemma of policy choices and biases. The Agricultural Finance Corporation (AFC), which had been established in 1963 and concerned primarily with providing credit for large farms, is a clear example. In 1972, its loans to 2,500 large-scale farmers and ranchers amounted to K£12 million, whereas the loans to 14,500 small-scale farmers totalled only K£2.5 million (Hazelwood, 1976: 165). Its coverage of the large farms was virtually universal, whereas it provided credit for little more than 1% of smallholders. It was argued by some policy-makers that large loans to large farmers were easier to administer and easier to charge with the full administrative costs of lending (*ibid.:* 164). Elite policy choices compounded these problems. About 85% of the loans, for example, were made in the Rift Valley compared with only 15% in the Central Highlands (Ndiritu & Lynam, 2004: 26). Invariably the unequal distribution of development funds led to uneven development geographically in Kenya. Some areas received much development funds while others, such as Nyanza and Western Provinces, were starved of such funds (Mwega & Ndung, 2008: 358). Weaknesses in staffing in some of these development agencies scuttled further reasonable programmes. Smith, for example, notes that the main problems were a shortage of competent staff to prepare farm budgets, inability of the AFC to obtain adequate security for loans where land title deeds had not been issued, and organizing the collection of loan repayments from a considerable number of small-scale farmers (1976: 132).

Political rivalry sometimes affected the effectiveness of these development agencies. The land purchasing organization, Ngwataniro Mutukanio Farmers Company in Nakuru, for example, was used to accumulate capital for the purpose of subsequently serving short-term political interests (Hyden, 1987: 126). Hyden notes that a greater share of the total resource flow was politicized and used to balance various political clans (*ibid.:* 132). A Kenyan Human Rights Commission report notes corruption was rife in land-buying companies and government resettlement schemes, the perpetrators being senior civil servants and politically-connected individuals. The report stated that land resettlement schemes failed partly because “they were monopolized by administering civil servants” who worked in tandem with elites to dispossess peasants during land adjudication, consolidation, and registration (Kenya Human Rights Commission Report, 2000: 14–15). The commission argued that Kenyatta and Moi patronized land-grabbing (*ibid.*; Kanyinga, 2000: 64–122). The Industrial and Commercial Development Corporation (ICDC) is another example. Financed by the government and bank loans, it was intended to assist small businesses which were unable to obtain commercial bank credit. One analysis of ICDC assistance to small businesses concluded that it had primarily helped successful businessmen to consolidate their success rather than playing an initiating and creative role. Hazelwood notes that there were long delays in the processing of applications for assistance; and the ICDC issued loans for equipment, whereas often the greater need was for working capital (1976: 159).

Policy Implementation and Outreach

The implementation of policies and projects formulated by the government to address objectives in rural development and poverty alleviation evidently achieved different levels of success in Malaysia and Kenya. In Malaysia, the UMNO-led Alliance government had been able to approve legislation on rural and agricultural development without much resistance and, more importantly, implement the legislation with considerable success as it almost always had a two-thirds' majority in parliament (Nair & Muniandy, 2010: 37–40). The inter-communal power-sharing system inherited at independence in 1957 and the dominance of UMNO in the inter-communal coalition after the 1969 crisis enabled the government to pursue its objectives with little resistance (Hoon, 1975: 399–407). Largely under the leadership of the Deputy Prime Minister Razak and supported by a small group of politicians and professional bureaucrats, the Alliance government had been able to formulate and implement effectively most of their national development plans and achieve a high success rate. This is most evident in the increase in the acreage of rice and output, and the higher incomes for the rice farmers who were largely Malay; in the resettlement of tens of thousands of families in land resettlement schemes which helped address the problem of rural poverty; and in the increased income of rubber smallholders as a result of government subsidies. All of these were targeted at the rural poor and enhanced poverty alleviation considerably. The Muda irrigation scheme, for example, was designed to double-crop 260,000 acres of paddy lands in Kedah and Perlis (Huang, 1975: 89–95).[15] The FELDA land resettlement scheme, which involved

[15] Other areas where successful double-cropping were carried out were Tanjong Karang in Selangor, Krian district in Perak, and Province Wellesley in Penang.

850,000 hectares, transformed radically the rural poverty landscape and benefited approximately 500,000 people. While leakages and failures of some of the schemes were inevitable, by and large the Malaysian planners have with nationalistic zeal been able to implement their long-term policies, despite the inter-communal politics that may have surrounded some of these initiatives. The Alliance absolute majority in the federal parliament has enabled them to implement their programmes without much hindrance. The politics underlying the policy formulation, implementation, and outreach have evidently not been a major obstacle in the case of Malaysia.

In contrast, while the Kenyan government has been able to implement a range of policies to assist the agricultural sector and develop the rural areas, the rates of success have been considerably lower compared with Malaysia. Studies in the implementation of government projects in Kenya, for example, have indicated serious failures for a variety of reasons, including the element of politics. One of the more discernible shortcomings in Kenya has been the lack of effectiveness of the implementation of the various rural development policies. Killick and Kinyua have shown from a study of development plan implementation related to agricultural policy execution from a total of 94 projects (1974–78) that while on the policy side there were real achievements, the general record on implementation was poor. They summed up the main causes for poor implementation as, firstly, shortages of key personnel and, secondly, weaknesses in the machinery of planning (Killick & Kinyua, 1981: 109–116).[16] They also found evidence that exogenous factors such as deteriorating security situation and sudden modifications by the policy-makers contributed to undermining plan implementation (*ibid.*: 115).

Despite the leadership's commitment to the reduction of inequality and the improvement of the welfare of the 'working poor', the policies have arguably been directed to help those who have previously benefited. Hazelwood (1976: 200) notes, for example: "Agricultural extension and other assistance have been directed towards 'progressive farmers' in the high potential areas. In other words, the benefits have gone to those it has been easiest to benefit, and those, including pastoralists, less able to help themselves and more difficult to help, because of the quality of their location or for other reasons, have been left behind". Government agencies, which had been set up to facilitate the implementation of the various

[16] This study also examined transport policy execution in the same period, involving 75 road projects.

economic plans reflected this dilemma of policy choices. Barkan notes, for example, that "megacorruption" and "irrational state policies" had a deleterious effect on the production of coffee, tea, cereals, sugar and other foodstuffs, and invariably on national income (Barkan, 1993: 90; Throup, 1987: 34–73). Official pillaging of state funds has been regularly reported by the auditor-general. Funds unaccounted for by national ministries increased from KShs9.6 million in 1963/64 to KShs 435 million in 1974/75 and KShs1.5 billion in 1979/80 (Himbara, 1994: 121). Donor nations, in addition, have had to write off billions as a result of state ineptitude—France wrote off Kenyan debts of KShs5 billion in 1989, and Germany wrote off KShs2.8 billion in 1990 (*ibid.*).

The Ndegwa Commission set up in 1971 considerably undermined fiscal discipline instead of transforming the public service into an instrument of development management. The Commission endorsed civil servants' participation in private enterprises. Himbara notes that what the Commission's recommendation did was "to spread this addiction to the entire Kenyan civil service" (*ibid.*: 122). Corruption at the Ministry of Commerce and Industry undermined home industries. Even the Minister and Parliamentary Secretary owned commercial firms which came under the jurisdiction of the ministry. In the 1980s, it required as many as thirty approvals within and outside the ministry offices to start an enterprise and took almost three years (*ibid.*: 123). In the 1970s and 1980s, the finance ministry was also guilty of poor implementation of development strategies, which on paper were reasonable plans. There was clearly a weak link between policy formulation and implementation in Kenya. Michella Wrong perhaps rightly reflects this endemic corruption culture in the title of her book *It's Our Turn To Eat* (2010). Development policies tended to favour the ethnic group of the ruling elites, and when there was a change in governance the new elites in turn patronised their own ethnic groups. Strong leadership for an extended period of time worked favourably towards poverty alleviation and economic development in Malaysia, but was less effective and successful in Kenya.

The Role of Statutory Regulating and Marketing Agencies

One unique problem in Kenya is the traditionally high degree of organization and control of the agricultural marketing system through centrally organized marketing bodies. Malaysia, on the other hand, chose not to set up such regulatory bodies for the agricultural sector. Price regulation was a central feature of Kenya's agricultural policy. Some scholars argue that the controls are often excessive and reduce efficiency. The government fixes the prices of major foodstuffs, such as maize, wheat, pyrethrum, dairy products, and beef, at all points in the marketing chain. These marketing boards, numbering well over one hundred, include the Wheat Board, the Kenya Meat Commission, the Maize Board, and the Kenya Dairy Board. Heyer argues that these controls are excessive and contributed to operational inefficiency and higher costs, arising from inadequate competition (1976: 314). The official pricing policy also creates problems when producer groups tend to dominate pricing decisions (*ibid.*: 315). Statutory authorities also regulate export produce such as coffee, tea, pyrethrum, and horticultural crops. While there are fewer problems associated with the exports of these products, Heyer feels that there is room for reducing costs and improving smallholder marketing cooperatives to increase efficiency and to secure better prices for Kenya's export commodities vis-à-vis international commodity agreements (Heyer, 1976). Mwega and Ndung'u argue that "price distortions" in the 1970s and 1980s reduced farmers' share in the GDP and estimate that in 1980 this amounted to 2.4% (Mwega & Ndung'u, 2008: 349). They contend that price distortions inhibited the growth of smallholder agriculture. As evidence, they point to the fact that coffee smallholders in Kenya produced almost two-thirds of the coffee output in the mid-1980s, much more than coffee estates, in response to a price boom (*ibid.*: 350).

In Malaysia, this policy of setting up marketing bodies to regulate marketing and monitoring of prices is less evident, and there is more open competition for local produce. Despite farmers' complaints of manipulation of rice prices by middlemen, the government has intervened only to ensure a guaranteed minimum price for the farmers and has left the market mechanism to determine the purchase and sale of the produce. This is in the form of the Lembaga Padi Negara (National Paddy and Rice Marketing Board), which was originally established as a marketing regulator but which since the early 1970s was entrusted with implementing the rice price-subsidy scheme (in addition to managing the country's rice stockpile), which ensures rice farmers a guaranteed minimum price (Ishak Shaari, 1994: 45). The LPN is now the sole paddy/rice enforcement agency and is much involved in paddy purchasing and rice milling (*ibid.*). There are no equivalents to Kenya's marketing and regulatory bodies in Malaysia for her major cash crops such as palm oil and rubber. Further, the marketing agencies in Malaysia have tended to facilitate rather than to regulate the marketing of produce from the agricultural sector.

The Politics of Ethnicity and Policy Choices

In Malaysia, the political leadership's commitment to achieve the economic targets was driven by an underlying urgency and commitment to reduce the income gap between the rural and urban areas and to alleviate rural poverty, which had strong political undertones with electoral implications for the ruling coalition (Ishak Shaari, 1994: 25). The rural electoral constituency, comprising mainly the dominant Malay ethnic group, was crucial to the political survival of the UMNO-dominated Alliance Party and later, from 1974, its successor, the Barisan Nasional (Hoon, 1975: 403).[17] These affirmative policies were legitimated by constitutional provisions such as Article 153 which enabled the government to provide special economic assistance to the Malay community from 1957, and later by the implementation of the 20–year New Economic Policy (NEP) in 1971 (following the racial disturbances after the general election in May 1969) under the Second Malaysia Plan (1971–1975), which allocated considerable development funds for specific targeting of the rural peasantry (which was largely ethnic Malay). Thus, the politics underlying policy formulation in Malaysia was in a sense peculiar to the nation's historical development (Milne, 1978: Faaland, 2003; Fernando, 2002). There was invariably a nationalist fervour and passion in the formulation of, commitment to, and implementation of the development policies. Rural development and poverty alleviation policies were almost inscribed in gold and prioritized at every level of planning. Each subsequent administration showed a strong commitment to the principles of the New Economic Policy and the other agricultural and rural programmes.

In Kenya, two distinct periods under the leadership of Jomo Kenyatta (1960s and 1970s) and Daniel arap Moi (1980s and 1990s), respectively, produced different development policy emphases with varying impacts. While the resources for rural development under Kenyatta were distributed on the basis of interest group competition (the Kikuyus benefiting considerably), it was deemed largely meritocratic (Mwega & Ndung'u, 2008: 357). The Kenyan economy is said to have performed relatively well under Kenyatta, averaging 6% growth per annum between 1964 and 1973 (*ibid.*: 329). Under Moi's leadership from 1978, there was a shift in this approach (benefiting groups marginalized during the Kenyatta era, such

17 Hoon notes that the allocation of seats favoured the rural areas, where 66 of the rural constituencies from the total of 104 seats had Malay majorities in the first two general elections in 1959 and 1964.

as the Kalenjin), which contributed to the decline of economic growth and consequently poverty alleviation targets. Under Moi, the emphasis shifted from growth to regional and economic redistribution (*ibid.:* 361). The emphasis on the allocation of resources shifted from the Central Provinces to the Rift Valley. If the Kikuyu benefited during the Kenyatta era, the Kalenjin and several other groups benefited under the Moi era. The policy environment in the two periods mentioned reflected the policy choices of the elites and represented the "interests they served and the forces acting upon them" (*ibid.*: 329).

These different emphases also had a geographical impact in terms of development. Moi sought to restructure the Kenyan state to advance Kalenjin interests and their Luhya allies (Throup & Hornsby, 1998: 35). He sought to undermine the political base of the Kikuyu capitalists by securing the support of groups that did not benefit under the Kenyatta administration, including creating a Kalenjin bourgeoisie (*ibid.*). Throup and Hornsby note that this attempt to redistribute economic opportunities provided by control of the state produced major factional realignments among the representatives of Kikuyu capitalism and their opponents, the sub-nationalist capitalists led by the Kalenjin, and their respective relationships with the peasantry and urban masses (*ibid.*: 36). Moi, on succeeding Kenyatta, shifted public expenditure for roads, health, water, and education from the Central Province to other regions, with the Rift Valley benefiting considerably (Barkan, 1993: 88; Throup & Hornsby, 1998: 36). The creation of the National Cereal and Produce Board in 1979, for example, benefited mainly the Rift Valley, which was the political base of the Moi administration. The creation of this board, which merged the Wheat Board and Maize and Produce Board and which had a monopoly on inter-district and international trade in maize, was said to have contributed to macroeconomic instability in the 1980s. The board, however, had to be bailed out by the government when it accumulated debts amounting to 5% of GDP in the late 1980s. Equally important, the leadership's commitment to an equitable distribution of resources was lacking in the case of Kenya. As Mueller has observed, Moi had to take away before he could give. This entailed undermining the economic foundations of the Kenyatta state, to enhance the Kalenjin position within the structures of the state (Mueller, 2008: 188).

Hyden terms this practice of biased resource allocation the "economy of affection" (1987: 117–136) and argues that understanding this practice is significant to understanding the economy of Kenya. According to Hyden, the economy of affection denotes networks of support, communication, and interaction among structurally defined groups connected by blood, kin, community, or other affinities such as religion (p. 119). The fate of the Rural and Urban Finance Company in Kenya, which went bankrupt because the money accumulated for developmental purposes was used for "political purposes" (that is, "affective") by the owner and his closest supporters, is another case in point (p. 126). Nevertheless, not all of these forms of self-help activity have been failures. The Institutes of Technology, set up in the 1970s on the basis of such self-help or *Harambee*, are a case in point (p. 130). Invariably, the ethnic competition and elite preferences in resource allocations distorted the distribution of resources considerably.

Conclusion

The politics of policy related to rural and agricultural development has had a significant and varied impact on policy choices and outcomes in both Malaysia and Kenya. Policy choices influenced by the politics of a certain period considerably shaped economic development plans and programmes in both countries. In this context, the varied access to credit facilities for rural farmers has possibly made a major difference. In Malaysia, the rural farmers had easier access to credit, assisted largely through the state's direct intervention. In Kenya, access to credit for rural farmers has been more difficult, in part because of selective preference by financial institutions. The easier access to credit in Malaysia has helped to bridge the gulf in income between the urban and the rural areas and also between the Malays and non-Malays. It has also contributed to increased productivity. This, it can be said, has contributed significantly to the divergence in the level of successes achieved in the rural and agricultural development programmes in both countries. Equally important, the ability of the Malaysian planners to effectively implement the rural and agricultural development plans, enabled by a strong majority in parliament, contrasts markedly with project implementations in Kenya. The success of the irrigation schemes for paddy cultivation and the FELDA land development schemes are two clear examples in Malaysia. In Kenya, despite strong governments for long periods of time, corruption and inefficiency in the implementation of development programmes have contributed to undermining economic growth and poverty alleviation efforts.

The influence of ethnicity in policy formulation is evident in both countries but with varied results. In Malaysia, the ethnic dimension in economic policies, such as the affirmative New Economic Policy, has helped address poverty among an important segment of the population that was economically backward (the Malays) and reduced the income gap between the urban and rural dwellers. In Kenya, the ethnic competition, however, has led to some groups being marginalized—as a result of political patronage of others by the leadership of Kenyatta and Moi—and uneven development in geographical terms, and this has invariably had some negative impact on economic development. On another level, the excessive control of the marketing and regulatory bodies over agricultural produce has inhibited open competition and the fuller development of the agricultural sector. In contrast, in Malaysia, the state avoided the creation of such bodies, and this has enabled the market mechanisms to operate more freely and benefited the farmers. Together, these elements inherent in the politics of policy have had a significant impact in agricultural and rural development in Malaysia and Kenya and have contributed considerably to the divergence in economic growth.

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10

The Politics of Policy for Poverty Reduction: Comparing Malaysia with Kenya

Othieno Nyanjom

Introduction

While sustained economic growth is necessary for national development, it is neither an imperative nor an adequate condition for the latter. It is possible for an unplanned exogenous event to generate substantial national economic growth: domestic exporters can benefit from an expanded market due to adversities in competitor economies.[1] Conversely, (economic) development requires conscious policies leading to the planning of an integrated set of initiatives that enable a delicate, sustained balance among diverse variables, including the capacity to internalize (economic) adversity. A country might be argued to have attained such sustainability when it achieves its 'turning point', which Tracking Development contends explains the different development trajectories of the four Sub-Saharan Africa (SSA) and Southeast Asian countries that have been the focus of its five-year research.[2] A comparative review of trends in the economic growth data for Malaysia and Kenya since the early 1960s shows the former country to have performed much better than the latter in acquiring sustained economic growth that has enabled (economic) development. The objective of this chapter is to evaluate the role played by the politics of policy-making in these relative country outcomes. While strategies

[1] For example, Kenya's 1976–1978 coffee boom arose when frost constrained Brazilian production.

[2] The Tracking Development study has focused on the paired countries: Kenya/Malaysia; Nigeria/Indonesia; Tanzania/Vietnam; and Uganda/Cambodia. For details, see http://www.trackingdevelopment.net/home.html

for economic growth and development are well known, politics plays a critical role in determining which priorities enter policy documents *and*, importantly, which policies are actually implemented—because often, "policy is as policy does".

Development is often assumed to be about reducing poverty by increasing opportunities that elevate the quality of life of a country's people. For colonies transitioning into independence, poverty reduction had been the preponderant rhetoric of the nationalist struggles. Since strategies for poverty reduction and welfare improvement are well known, could the failure of some independence governments in these endeavours be explained by their implicit or explicit desire NOT to succeed? This thesis can be tested by looking at the policy processes and the contexts in which policy outcomes have been implemented in such countries. Since politics is partisan, it is possible that policy prescriptions, outputs, and outcomes could be similarly partisan in ways that perpetuate selective poverty and poor welfare, thereby undermining initiatives against nationwide poverty. This thesis is given some credence by the divergent political influences on policy in Malaysia and Kenya from British colonialism into independence. The two countries' experiences suggest that poverty reduction is not necessarily altruistic, but rather a matter of whether it is an imperative for the survival of the political class.

In the rest of this introduction, we outline the comparative development performances of the two countries since the early 1960s. The second section, 'Reviewing policy-making frameworks', reviews some constructs surrounding policy-making, moving from pertinent theory to a critique of the New Political Economy. The third section, 'Policy-making in Malaysia and Kenya', presents the salient historical issues and perspectives in policy-making in the two countries, while a comparative perspective of the same material is undertaken in the fourth section, 'Comparison'. Some conclusions arising are presented in the final section.

Economic Growth and Development in Malaysia and Kenya

The distinction between economic growth and development is important from a human development perspective. Too often, commentary focuses on successful economic growth as if it invariably improves human welfare; yet, the very reverse could be true, in that economic growth can be attained at the expense of human welfare.[3] Good policies are necessary

[3] For instance, Kenya is already paying a heavy price because deforestation for agriculture and timber has undermined the sustainability of its water towers with devastating

for economic growth to positively transform human welfare—which is why the UN system's various development assessments, such as the World Bank's World Development Indicators and the United Nations Development Programme's (UNDP) Human Development Indicators, moved away from exclusive money-based measures of development. Instead, various composite indices have been adopted, which gauge economic outcomes alongside other key human welfare indicators—as is, for instance, reflected in the Millennium Development Goals' (MDG) eight multi-sectoral indicators.

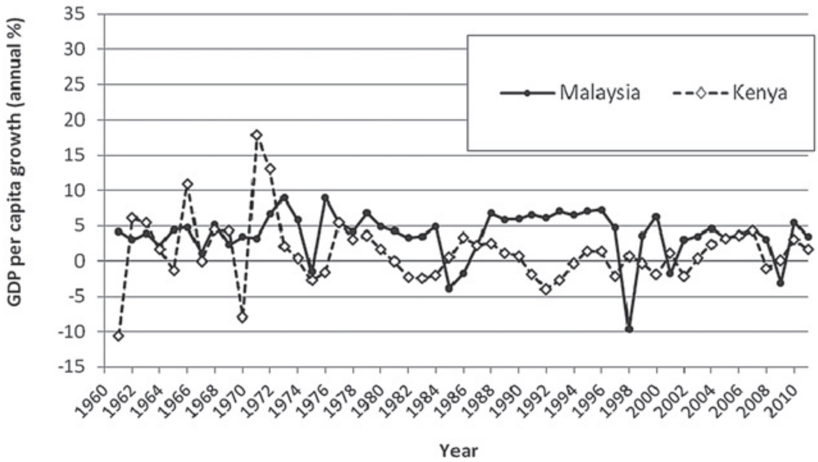
Various factors determine the size of an economy—estimated as its Gross Domestic Product (GDP)—such as its population size and its employment rate, its natural and infrastructural resources' base, and the national and international legal and institutional contexts within which these factors interact. In comparing GDP sizes, it is likely that countries with greater physical assets have larger economies than those with lesser assets. Yet, the experiences of small island economies like Singapore and the Seychelles show large assets not to be imperative for advancement.

Notwithstanding differences in Malaysia's and Kenya's respective stocks of national assets, their GDP sizes were comparable in the early 1960s, with Malaysia marginally ahead. By the time of Malaysia's racial crisis of 1969, its GDP was roughly twice the size of Kenya's, which was nonetheless performing well as a result of the new socio-economic freedoms for indigenous Africans, freedoms that came with Kenya's accession to independence in 1963.[4] The Malaysian riots of 1969 triggered the launch of the New Economic Policy (NEP) in 1970, which continued into the decade of the twin global oil crises of 1973 and 1979. For Kenya, the oil crises compounded the fact that the economy had attained the limits to its primarily agriculture-led growth, with the consequence that economic expansion was curtailed.[5] Thus, by the time of Malaysia's 1990 substitution of NEP with the National Development Policy (NDP), its GDP was already four times that of Kenya. The mid-1980s saw Kenya grudgingly espouse the World Bank and IMF-championed structural adjustment programmes (SAP); yet, by the time of the East Asian crisis of 1997, Kenya's

consequences for access to water for humans, domestic animals, and wildlife (with effects for tourism).

4 For example, independence expanded the space for indigenous smallholders to engage in cash-crop farming.

5 More accurately, Kenya's failure to undertake land reforms has meant that extensive tracts of fertile land remain fallow.



Source: World Bank indicators.

Figure 10.1 Comparing GDP per capita growth rates: Malaysia and Kenya

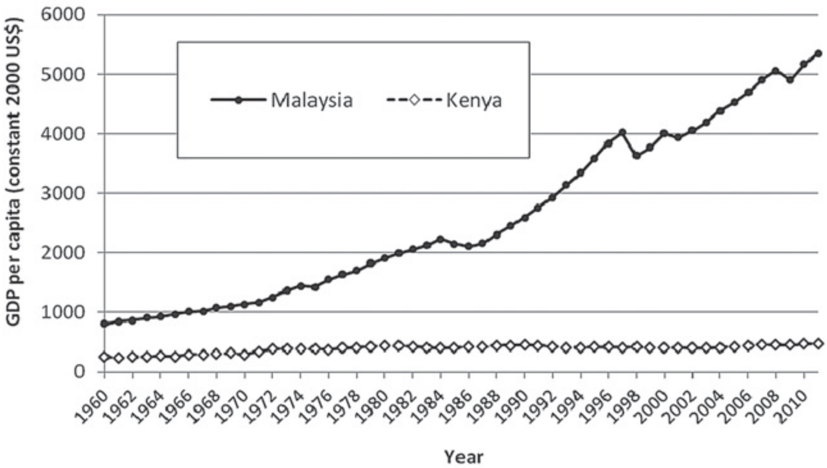
GDP stood at a mere one-eighth of Malaysia's, an inferiority maintained into the new millennium.

However, country comparisons often adjust GDP for populations, to arrive at respective GDP per capita. As noted above, an important way of comparing countries' GDP performances is to evaluate the rates of growth over time. Thus, Figure 10.1 compares the trends in the Malaysian and Kenyan growth rates of GDP per capita. The figure shows the indicator to be comparatively stable for Malaysia, largely oscillating around 5% from the 1960s to the 1980s in spite of the mid-1970s' and late-1980s' blips. Into the 1990s, Malaysia's performance rose above 5% until the post-1997 crash into the new millennium. By contrast, Kenya's GDP per capita growth rate was especially erratic in the first independence decade, oscillating in a range of about 30 percentage points. While Kenya's rate became less volatile into the 1980s, it still oscillated in a range of 10 percentage points. The other significant aspect of the income per capita growth rate figures was the fact that while Malaysia's rates were negative for only four years in the 50-year period, Kenya had 14 negative years and another 6 years of zero growth. Thus, while Kenya's per capita GDP growth did not grow at all in three-quarters of the years covered in the figure, Malaysia's per head growth was not only positive for nearly 90% of the years, but was generally around at least 4% for over 70% of the period.

The effects of the growth rates of Figure 10.1 on per capita incomes are shown in Figure 10.2. The figure offers *real* per capita incomes adjusted for inflation, using year 2000 prices, which 'equalizes' prices across the entire 50-year period covered in the figure. While the two countries' GDP sizes were largely comparable in the 1960s, Malaysia's GDP per capita was nearly four times the size of Kenya's, partly as a result of the fact that Kenya's population had become much larger than Malaysia's, the product of a population growth rate that peaked at just under 4% per annum at the cross-over into the 1970s' decade. The figure also suggests that Malaysia experienced a development turning point around about the time that it also experienced its 1969 race riots. After that point, and the introduction of the NEP, real income per capita grew in a sustained manner into the new millennium, except for the one-year glitch in 1997, which was followed by a quick recovery. Significant also is evidence that the rate of growth increased into the NDP era starting in 1990, when various state corporations were privatized. In the Kenyan case, change in the real GDP per capita was much more modest in absolute terms, as well as relative to the Malaysian experience. Indeed, Kenya's real GDP per capita oscillated around 500 USD for the whole period under discussion, meaning that various policy changes to be discussed later (in the third section) did not have the kind of impact anticipated in Malaysia's 1990 launch of NDP. Thus, while the disparity in GDP per capita was five-fold in the 1970s, by the 1997 East Asian financial crisis, the factor was eight-fold in favour of Malaysia, rising to nine-fold by 2007.

Besides the foregoing money-based measures of development, Table 10.1 provides some general indicators of human welfare across the two countries. Malaysia's income dominance over Kenya is confirmed by the table, both its 2010 Gross National Income per capita (purchasing power parity) and its population surviving on less than 1.25 USD per day being better by a factor of ten. With respect to other aspects of development, however, the difference is neither always in favour of Malaysia, nor always as great as the income differential. Malaysia's human development index (HDI)[6] and its position compared with other countries globally are far superior to Kenya's performances, and its child survival rate is 20 times that of Kenya. But Malaysian women's circumstances (in terms of reproductive health, empowerment, and labour market participation) seem decidedly worse than those of Kenyan women. In many instances, the problem for development planners is quite obvious; for example, Kenya's

[6] HDI is a composite index averaging (i) life expectancy; (ii) education attainment; and (iii) income.



Source: World Bank indicators.

Figure 10.2 Comparing trends in GDP per capita: Malaysia and Kenya

average population growth for 2010–2015 is the same as Malaysia's average for 1990–1995, a factor related to the fact that Kenya's average total fertility rate for 2010–2015 will be nearly 30% higher than Malaysia's average for the 1990–1995 period. Resolving such development concern requires synergistic policies across sectors that enable simultaneous improvement in indicators and, consequently, welfare. This holistic concern of development is what distinguishes it from the narrowly-focused drive for economic growth.

Reviewing Policy-making Frameworks

Hill (2005: 7) defines policy as, amongst other considerations, "a course of action or inaction rather than specific decisions or actions . . . a set of interrelated decisions . . . concerning the selection of goals, and the means of achieving them within a specified situation". However, the concept has 'definitional problems' undermining its specificity or concreteness, whether as a single decision or group of decisions, or orientation. Consequently, Hill finds it difficult "to identify [the] particular occasions when policy is made". While recognizing the policy-making role of the state, Hill (*ibid.:* 12) distinguishes the hierarchic, elitist, concentrated, unitary Weberian government from post-modernist governance, which is hetero-archic, pluralist, diffuse, and decentralized. In the context, rational decision-making—by an individual or an organization—distinguishes

Table 10.1 Human welfare indicators: Malaysia and Kenya

Millennium Development Goals	Indicator	Malaysia	Kenya
	Human Development Index 2010 (global position; value)	57 0.744	128 0.470
	Average population growth rate [1990–1995; 2010–2015]	2.6 1.5	3.2 2.6
MDG 1	Gross National Income per head (purchasing power parity 2008 USD) [2010]	13,927	1,628
	Population on less than 1.25 USD per day [2000–2008]	<2%	19.7%
MDG 2	Primary enrolment ratio (net) [2001–2009]	97.5%	81.5%
	Average years of schooling [2010]	9.5	7.0
	Access to affordable quality education [2010]	89%	44%
MDG 3	Gender Inequality Index [2008]	413	738
MDG 4	Under-Five Mortality (1,000 live births) [2008]	6	128
	Prevalence of under-nourishment (% of total population) [1990–1992; 2004–2006]	<5 <5	33 30
MDG 5	Total Fertility Rate (births per woman) [1990–1995; 2010–2015]	3.5 2.4	5.6 4.5
	Professionally Attended Births [2000–2008]	100%	42%
	Maternal Mortality Rate (per 100,000 live births) [2003–2008]	62	560
MDG 6	Age standardized deaths from non-communicable diseases (per 100,000 people) [2004]	623	729
MDG 7	Access to water [2008]	100%	59%
	Access to sanitation [2008]	96%	31%
	Road density (km of roads/country area) [2004–2007]	28	11
	Internet users (per 100 people) [2008]	55.8%	8.7%

Source: UNDP Human Development Report 2010.

prescriptive from pragmatic incrementalism, which allows for 'good enough'—satisficing (Mosley, 1984)—rather than the 'best' set of policies, given a set of objectives. Invoking Prof. Thomas R. Dye's argument,[7] Ng'ethe (1998) wonders whether policy must have been declared as such, or simply amounts to whatever it is the government chooses to do or not to do.

7 The conclusion that 'policy is as policy does' is attributed to T.R. Dye (2009) *Understanding Public Policy Making*, Longmans.

Of the Kenyan experience, Ikiara (2002: 302) asserts that "[p]overty is the ultimate concern of economics and economists", which makes poverty trends an astute basis for evaluating national policies. Yet, such an exclusive association of outcomes with objectives ignores the varied nature of the state, which Meier (1991) characterizes as being, at a given point in time, either protective, or productive, or exploitative. This disabuses the notion of the state as a welfare-maximizing agency, which always sets out to choose the best options, and recognizes the distinction between the 'benign' as opposed to the 'negative'—rentier, corrupt, self-seeking, and self-serving—state (Grindle, 1991). In effect, the economics of an exploitative or negative state focuses on the aggrandizement of a minority rather than on poverty (of the masses), often based on policies and practices that are unlikely to promote national growth. Thus, if poverty (reduction) is the objective, then it is imperative that states get policies right rather than the neo-liberal focus on getting prices right (Meier, 1991).

Policy-making is an agenda-setting exercise by a 'garbage can of policy entrepreneurs', including politicians, civil/public servants (bureaucrats and technocrats), and pressure groups (Hill, 2005: 153). The policy process has previously been seen to be a linear movement from problem identification, through policy choice, to implementation. However, an iterative conceptualization of policy-making characterizes it by a series of interdependent dialectical cycles incorporating elements of monitoring and evaluation that feed succeeding interventions. The new perceptions of the policy process recognize, *inter alia*, the moderating influences of exogenous factors such as self-interests, but also shocks, as well as the effects of contemporaneous policy interventions.

Writing about the 'new political economy' (NPE), Findlay (1991) argued that the states of less developed countries (LDC) are characteristically dominant, the product of a weak democracy under a single party, or under a military regime. The dominant state is the consequence of, or indeed, creates, a weak and fragmented civil society, allowing for the existence of traditional monarchies or dictatorships, or authoritarian right- or left-wing states. Such 'predatory' states champion statutory boards over free markets to maximize rent. Findlay notes that while some such states may have charismatic leaders, the tendency is to have neo-patrimonial leaders whose largesse is drawn from public resources.[8] Such 'personal rule'

[8] For an extensive study of Kenyan neo-patrimonialism, see Widner (2002).

suggests that African politics lacks the 'impersonal bureaucracy' necessary for objective policy-making (Mosley, 1984). In the context, public policy increasingly reflects the product of the work of a society's 'distributional coalitions', with LDC policy-making being "more closed, less visible, and more centred in the political executive" (Grindle, 1991: 52). Thus, policies are a revealed phenomenon: weak interest groups participate only marginally, at best; policy elites have little knowledge of public preferences; and bureaucrats merely implement. Indeed, the strength of urban interests in policy-making means that even core poverty-alleviation (or even 'socialist') objectives, such as the welfare of peasants, are subverted by setting low producer prices that support low food prices and wages (Bates, 2008).

Yet, Grindle (1991) also recognized various mediating factors in policy-making, such as personal attributes (including private goals and professional orientation), ideological predisposition, and the stock of resources. Other analysts include other factors, like political and institutional commitments, previous experiences with similar policies, and the nature/urgency of the problem at hand and related need for change. For African states, the lack of autonomy in policy-making due to extensive mediation by domestic and international stakeholders results in a context where 'official' policy must be distinguished from 'real' policy (Odhiambo-Mbai, 2004). Thus, notwithstanding a stated objective of policy—such as poverty reduction—it can be in the interest of the political class, for self-preservation, to do the exact opposite.

Policy-making in Malaysia and Kenya

The comparison of the place of politics in the policy experiences of Malaysia and Kenya is pertinent, as the two countries were British colonies through the early years of the twentieth century, with economies in which plantation agriculture was significant in contexts that were originally racially homogenous, but would soon become racially heterogeneous. But the colonies also had significant distinctions. Firstly, unlike Malaysia, Kenya was a settler colony, meaning that its British investments had a longer-term perspective than was the case in non-settler contexts. Secondly, Malaysia's mining industry provided a significant alternative economic base that was not available to Kenya. Further, Malaysia's agro-ecological, rainforest heritage has provided an agriculture potential unavailable for Kenya's dominant heritage of an exogenously driven, southward expansion of the African desert. Finally, Malaysia's (largely) peninsular status distinguishes its opportunities and costs from those of a coastal Kenya with a dependent and politically tumultuous hinterland. A review of the poverty management experiences of the two countries suggests an interesting divergence. The politics of Malaysian policy-making has consistently been driven by the need to bridge the socio-economic divide between the underprivileged indigenous Malays and the immigrant Chinese and Indian communities. This agenda was agreed on across the racial divide as an imperative for peaceful co-existence after the 1969 riots. Conversely, the politics of Kenyan policy-making has been underlain by the desire—even if only implicit—to perpetuate and, indeed, widen the inequality gap between the privileged—for historical reasons, primarily the Kikuyu ethnic group—and the rest of Kenyans, especially those in the arid and semi-arid lands. In effect, poverty reduction has never been an imperative for the Kenyan political class's survival.

Malaysia: Bridging Socio-Economic Divides

Democratic law in Malaysia dates back to the sixteenth century, when the *Minangkaban* of Negri Sembilan gave the vote to women in a system based on unanimity rather than the majority vote (Moten & Mokhtar, 2008). The British originally colonized the territory that became Malaya Peninsular in 1909. As an ethnic category, the Malays did not exist during the inaugural census in 1911, meaning the endearing reference to the group as *Bumiputera*—'sons of the soil'—represents a constructed identity (Mohamad, 2009: 118). However, the Malays were able to make the issue of ethnic and racial identity occupy an important place in politics during the first half of that century, during which a labour shortage had caused an influx of Chinese and Indian workers into the tin mines and rubber plantations respectively (Rock & Sheridan, 2007). Initiatives (such as the Malay Union to integrate the Chinese and Indians into Malaysia) caused tensions between the indigenous Malays and a collaboration of the British and non-Malays, causing the former to retreat into the United Malay National Organisation (UMNO) party, which sought to protect Malay—rather than Malaysian—nationalism (Omar, 2009).

While the British had tried to revoke the 'special rights' prerogatives of the *Bumiputera*, these successfully resisted the move, managing to get this embedded in the constitution at Article 153, leading to the 1970 national ideology, *Rukunegara*, which underscores respect for rulers, Islam, the Malay *basa* language, land, and the special position of the Malays in the population. After many disputations over issues such as citizenship versus nationality, and the British insistence on inter-ethnic cooperation against the threat of communism, the British supervised the first elections in the Federation of Malaya in 1951, which ushered in a consociational democracy of the Alliance between UMNO and the Malaysian Chinese Association (MCA). After the 1956–1957 constitutional negotiations, the Alliance was joined at independence in 1957 by the Malaysian Indian Congress. The elections provided a prime minister who, together with (his) cabinet, would be appointed by the rotational king, the *Agong*, elected for a five-year term from among the nine Malay 'seniority list of rulers'. While the Chinese had dominated the population in 1950, high growth rates among the Malays meant that by independence in 1957, the latter constituted 58% of the national total. Thus, the tiered system of coalition leadership meant that the president and prime minister would invariably come from the Malay community.

During colonialism, the British had sidelined the Malays, but appreciated that they could pose a threat to peace in reaction to their 'internal colonization' by the Chinese (Rock & Sheridan, 2007). This state of affairs persisted into independence with the Malays remaining at the periphery of the mainstream economy based on tin and rubber, which remained in the hands of the immigrant Chinese and Indian groups. Predominantly based in rural areas, the Malays survived on growing their staple food, paddy rice, marketed through Chinese and Indian middlemen. Meanwhile, a budding Malay entrepreneurial class remained unable to break into the domain of the Chinese and Indian entrepreneurs. The presence of Singapore in the Malaysian federation had tilted the population balance in favour of the Chinese. Fearing Chinese political domination on top of their existing economic domination (Faaland *et al.*, 2003), Malaysia expelled the predominantly Chinese Singapore from Malaysia in 1965, and the subsequent accession of Sabah and Sarawak (of Borneo) restored Malayan domination of the federation (Mohamad, 2007: 119).

Malaysian poverty was endemic to areas using traditional technology amidst low levels of investment and modernization, areas whose conservative communities were exploited by middlemen (Pramanik, 2008). Such predominantly Malay subsistence communities invested little in inputs to their uneconomically sized land holdings, against the backdrop of weak government interventions, including the absence of investment in projects to diversify into industrialization. Pramanik notes that during the independence years to 1969—covering Malaysia's first to third National Development Plans under Prime Minister Abdul Rahman—the poverty among paddy farmers stood at 88%, which is why the development plans emphasized improving rural living through attention to social services, infrastructure, and agriculture. Yet, Pramanik estimates that the Chinese benefited 23 times more than the indigenous Malays from the post-war economic boom, while the Indians benefited nearly twice as much as the Malays.

The plans had pursued Keynesian full employment and economic growth amidst macroeconomic stability, but paid scant attention to the plight of the Malays and to the need for societal restructuring (Leong, 1992). Indeed, while the plans had especially focused on agriculture and rural development, smallholder rice, rubber, and oil palm, they had ignored initial racial inequalities. While the 1970 national poverty rate was a high 42.4%, the level for the *Bumiputera* was 56.4%, compared with 19.2% and 28.5% among the Chinese and Indians respectively. Meanwhile, poverty in rural areas predominantly populated by the very same 'sons of the soil' stood at 50.9% compared with an urban poverty level of 18.7%.

These national plan failures in relation to societal restructuring had seen the government convene the First and Second *Bumiputera* Economic Congress (of 1965 and 1968), which advocated overt attention to the circumstances of the Malays, resulting in the establishment of a bank focused on the *Bumiputera* and the *Majlis Amanha Rakyat* (People's Trust Council) (*ibid.*). MCA's joining the Alliance (with UMNO) and its concession over Malay rights had been motivated by its capitalist community's self-interest in both shutting out communism and maintaining an internal peace that would allow sustainable enterprise. Yet, the Chinese harboured a desire for some political control, manifest in their DAP/Gerakan political party's electoral victories in the 1969 elections, which gave them control over key areas of the national capital. Their celebration of this outcome in Malayan neighbourhoods aggravated dissatisfaction over the government's failure to conclude several outstanding issues—implementation of the National Language Act (1967), Islamic education, university entry quotas for Malays, and the establishment of a Chinese university—and prompted the unexpected 1969 riots (Mohamad, 2009: 115). Criticism against the government also came from within, including from Deputy Prime Minister Abdul Razak.

These factors prompted the development of the New Economic Policy (NEP), which came into being in 1971, replacing previous trickle-down strategies with an interventionist one to promote national unity, reduce poverty, raise employment and income levels, and correct economic imbalances to racially integrate socio-economic classes. Whereas the national plans up to 1970 had focused on growth alone, NEP also emphasized redistribution through specific interventions to fight absolute rather than just relative poverty, Pramanik (2008) arguing that the latter would have been complicated under the constitutional monarchy. An underlying NEP objective was that 30% of the economy should be in Malay hands by the plan's 1990 close, which effectively was the duration of the first Outline Perspective Plan (OPP). The 1969 crisis led to the suspension of the constitution in favour of rule by decree, and the introduction of 'soft instruments of repression' against the opposition, communists, and civil society which might have questioned the affirmative action provisions of NEP (Rock & Sheridan, 2007: 184).[9] Through further coalition-building, the UMNO party was replaced by the Barisan Nasional in 1972.

NEP's launch coincided with Abdul Razak replacing Tunku Rahman as prime minster. The plan was designed to create a Malayan bourgeoisie, an aspiration to which the Chinese Chamber of Commerce willingly contributed in light of the continuing threat posed to national stability by simmering ethnic tensions. Razak would preside over NEP's most effective implementation years during its first five-year plan to 1975. The emphasis on getting the 'sons of the soil' both out of poverty and into the capitalist class persisted. For example, the Industrial Coordination Act (1975) provided that companies with a turnover of RM 2.5 million or with more than 75 employees had to invite *Bumiputera* to acquire 30% of the stake and maintain a similar level of *Bumiputera* as full-time staff (Kinuthia & Dietz, 2011). During the following plan period (1976–1980), however, implementation was relaxed; but the roots of social restructuring had been sown.

In 1981, Mohamed Mahathir acceded to power and changed Malaysia's development strategy by instituting the 'Look East' approach. Instead of the communist East, Mahathir emphasized the need for his country to look to the development models of Japan and South Korea. In his drive to transform the country into an industrial one, Mahathir re-emphasized high value-added growth, shifting the focus from ultra-Malay to Malaysian nationalism (Rock & Sheridan, 2007: 202). Consequently, the First Industrial Master Plan was published in 1986, during a period in which policy required consensus, but the support of the prime minister and the ruling party was also mandatory. The late 1980s saw the establishment of the all-inclusive, 150-member National Economic Consultative Council (NECC), which DAP/Gerakan initially declined to join since its leaders

[9] The repressive instruments employed included the Internal Security Act, Sedition Act, Official Secrets Act, and the Societies Act.

were in preventive detention. NECC commenced the process of developing the successor strategy to NEP.

However, since the gap between the Chinese and the emergent *Bumiputera* capitalists was not narrowing, Mahathir espoused selective policies favouring the *Bumiputera*. For example, he decided to offload state corporations to the latter group to speed up the development of its bourgeoisie and to enhance their support for his leadership. Besides an objective of controlling natural resources, Mahathir also strived for export diversification with higher value addition while also attracting selective foreign direct investment, especially focusing on the electronics sector.

NEP's success in poverty reduction is reflected in national poverty standing at 15% in 1990, compared with 49% in 1970. Maternal mortality had fallen to 20 per 1,000, compared with 240 in 1960; and home deliveries were down from 80% to 24% over the same period. However, NEP's focus on *Bumiputera* poverty ignored many other inequalities in the society. Its affirmative action was not always efficient, with a mere 12% of the education scholarships going to the genuinely poor (Mohamad, 2009: 127). And it opened the doors to extensive corruption and patronage as state-sponsored Malay capitalists tried to keep abreast of their Chinese counterparts. On the whole, while NEP has been considered weak on inequality reduction, it was certainly successful in reducing Malayan marginalization. NECC's final report was accepted by the cabinet in 1991, and became the second OPP to run from 1991 to 2000. It was launched in July 1991as the new National Development Plan. The success of Mahathir's industrialization strategy is reflected in manufactures accounting for 80% of Malaysian exports by the mid-1990s, when the country launched its second Industrial Master Plan. Since 2001, Malaysia has been implementing its Vision 2020, incorporating the third OPP. The focus is now on consolidating the gains made against poverty and deprivation.

The conclusion of this discussion on Malaysia highlights the experiences of a high poverty area (padi agriculture) and a high potential poverty area (the small and medium industries (SMI) sector). The 1970s NEP focus on export-oriented industrialization (EOI) provided another opportunity of getting the *Bumiputera* out of poverty, by facilitating their involvement in supplying inputs to export-oriented trans-national corporations (TNC) (Jomo, 2007). Amongst other factors, this objective's viability was based on the high enrolment rates in all levels of education in the 1990s, which would ensure a supply of trainable SMI operators (*ibid.* 28). Previously, the government had established the Standards and Industrial Institute of Malaysia (SIRIM) to champion ISO9000 quality assurance certification systems across the country. Meanwhile, the government ensured lively links between the research and development sectors taking place in public technology institutes and universities and the private sector.

Thus, by 1995, among the six agencies the Ministry of International Trade and Industrialization had established, the Small and Medium-Scale Industries Development Corporation (SMIDEC) was to act as a one-stop shop assisting SMIs to upgrade their management and operational systems to enable them acquire TNC sub-contracts (Felker & Jomo, 2009: 74–6). This built on the mid-1960s' initiatives, which had seen the Malaysian Industrial Development Finance Bank lend money to manufacturing SMIs. By 2001, an SMI Development Master Plan was launched, and SMIDEC provided financial assistance to some 5,171 grantees and loanees, worth RM 293.8 million, with a further 1,127 SMIs being trained in supply logistics management. The government was consequently able to broker SMI contracts with TNCs. By 2003, the extent of mutual confidence between SMIs and TNCs was reflected in the SMIDEC partnership with the Federation of Malaysian Manufacturers in promoting an e-commerce and supply chain management software, RosettaNet.

In agriculture, the UMNO government was quite conscious of its need to ensure the vote of the majority rural-based Malay voters and decided as early as 1959 to intensify rice production as a poverty-reducing measure (Rock & Sheridan, 2007: 189). This was in the context of the Federal Land Development Authority (FELDA) launched in the mid-1950s, which oversaw an integrated Rural Economic Development programme targeting land expansion through deforestation, and infrastructure development, as strategies to also curb rural-to-urban migration (Faaland *et al.*, 2003: 50). The Alliance government especially targeted the production of rice, the staple food, but soon also focused on palm oil, which had previously been the exclusive domain of British companies. For rice, the government subsidized irrigation, fertilizer, and credit, and domesticated fast-breeding, high-yielding rice varieties, which enabled double cropping per year. The land expansion programme meant that by 1970/71, nearly 40% of all production was on new land. By 1967, the government had established the Padi and Rice Marketing Board, with the National Padi and Rice Authority following in 1971 to oversee price interventions favouring the Malay smallholders.

FELDA's land expansion had initially targeted enabling *Bumiputera* smallholders to enter the highly lucrative palm oil industry controlled by British plantation companies. Consequent to that intent, the government used the *Permodalan Nasional Berhad*, a trust established to look after *Bumiputera* interests, to buy shares on the local stock exchange in which the plantations companies had been forced to deal (Rock & Sheridan, 2007: 191). FELDA's resettlement programme saw the palm oil area grow 24-fold to 1.3 million hectares in the quarter century to 1984. Further, where the foreign companies had previously exported crude palm oil, a graduated export tax was used to induce them to process the commodity locally, thereby providing employment and technology diffusion.

Kenya: Deepening Socio-Economic Divides

The absence of political space in Kenya up to about 2003 meant that while policy analyses—especially by Kenyans at home—had tried to be objective, the approaches adopted often avoided 'sensitive' issues, such as ethnicity. Yet, the place of ethnicity in Kenyan policy-making and implementation is critical to understanding the development outcomes in the country, most notably the vast divide between the comparatively developed former 'White Highlands' (of British settlers), a struggling 'middle', and the extensively marginalized arid and semi-arid lands (ASAL) of the expansive northern, eastern, and southern areas in Kenya.[10] The ethnic lens through which successive Kenyan regimes have generated and implemented their parochial development priorities has undermined the micro-attention necessary for attention to the important question of *nationwide* poverty.

Originally the 'property' of the Imperial British East Africa Company since 1888, Kenya became the British East Africa Protectorate in 1895 before becoming a full colony in 1925. Beginning in 1897, land was expropriated for the Kenya-Uganda railway line, whose costs would be underwritten through white settlement facilitated through various pieces of legislation (ordinances) (Syagga, 2006). By 1915, all Kenyan land belonged to the Crown (of Britain), the indigenous Africans being 'tenants at (the) will' of the state. By 1962, nearly half of Kenya's six million hectares of arable land had been expropriated, primarily from the ancestral claims of the Kikuyu, Maasai, and Nandi ethnic groups.[11] The expropriated land comprising the highest agricultural potential areas became the White Highlands of

10 The ASALs stretch from Kenya's north-western border with Uganda and Sudan to its north-eastern borders with Ethiopia and Somali, and to the northern, rain-shadow reaches of Mt Kenya. They also run along Kenya's border with Tanzania, from the Indian Ocean to Lake Victoria.

11 The Nandi join another 10-odd ethnic groups to form the constructed Kalenjin ethnic group.

exclusive European settlement. The ethnic land boundaries introduced by the 1932 Carter Commission meant that internal population expansion led to a deterioration of land quality, such as through fragmentation for the traditional sub-division among male heirs.

The emerging land scarcity led to demands for a return of stolen lands, resulting for example, in the early 1950s *Mau Mau* uprising, which prompted the colonial government to imprison *Mau Mau* fighters and alleged supporters. These people would return years later to find that land registration had produced irrevocable land titles, meaning the former detainees had lost their ancestral heritages, becoming a pool of landless individuals with no formal skills. To counter growing land demands, the colonial government launched the 1950s' Swynnerton Plan, designed to create an African land aristocracy that would act as a buffer against growing resentment to European land ownership. Fortuitously for the settlers, the 1962 eve of independence saw in-coming prime minister Jomo Kenyatta declare there would be no redress of colonial land injustices, as all land transactions would be based on the willing-seller/willing-buyer principle on the land market. To the discerning, this was a hint of Kenyatta's admiration of the very land-based inequalities that he had falsely been accused of organizing the *Mau Mau* to fight against.[12]

Kenya's diverse agro-ecological zones (AEZ) influenced expropriation for colonial settlement, the focus being on the AEZs II, III and IV, which account for more or less equal shares amounting to about 27% of the country's total area.[13] These zones abutting the railway line from the slopes of Mt Kenya to the Uganda border absorbed the bulk of the colonial government's spending, notably on physical infrastructure. In the social sector, too, spending focused on the settler population, the Christian missionaries devising ingenious ways to fill the provisioning gap for the neglected 'natives' (Chaiken, 1998). The discriminative expenditure produced a relatively highly developed White Highlands alongside African areas straddling a spectrum from modestly developed areas on the fringes of the White Highlands to the ASAL AEZs, which received little or no exposure to modernity.[14]

12 Kenyatta was imprisoned from 1953 to 1961.

13 Kenya's eight AEZs include: I–Agro-Alpine; II–High Potential; III–Medium Potential; IV–Semi-Arid; V–Arid; VI–Very Arid; VII–Deserts; VIII–Rest (waters, etc.).

14 While Kenya is a multi-racial country, 'African' is used here to refer to the indigenous people, as opposed to the European, Arab, and Asian citizens.

The consequent extents of African deprivation led the independence government to declare its key policy objective to be the eradication of poverty, disease, and ignorance, as stated in its early development blueprint, *Sessional Paper No. 10* of 1965 (GoK, 1965). While evoking equitable development, the paper declared summarily that scarce development investment would be focused on areas which "will yield the largest increase in net output . . . having abundant natural resources, good land and rainfall, transport, and power facilities, and people receptive to and active in development" (*ibid.*: 46). In the event, the anticipated trickle down to the areas with less "absorptive capacity" would be paltry and erratic for various political reasons—see, for example, Bigsten (1980). This independence-era approach had the effect of widening welfare inequalities in favour of those Africans who moved into the former White Highlands, notably the Kikuyu, but with a smattering of members of other ethnic groups. While the government implemented a policy of free or heavily subsidized social services, the adverse effects of the two oil shocks (1973 and 1979) soon undermined economic performance and the government's ability to continue such services. In any case, the palliative structural adjustment programmes (SAP) launched in the mid-1980s soon subjected such services to cost-sharing and cost-recovery, further undermining access for the poor.

The largest five of Kenya's 42 ethnic groups—the Kikuyu, Luhya, Luo, Kamba and Kalenjin—constitute about 70% of the population. The Kikuyu's dominant 21% share is enhanced when their Mt Kenya 'cousins' are included, the Embu, Meru, Tharaka, and Mbeere, who together occupy the geographical centre of the country.[15] However, colonial expropriation shunted many Kikuyus off their ancestral lands to become squatters largely on the European farms of the Rift Valley and to constitute a disproportionate share of the urban African population. After independence, founding President Jomo Kenyatta presided over a further out-migration of his own Kikuyu people, to make room for expanded holdings for the new Kikuyu political elite.[16] The new emigrants resettled in the ancestral lands of various other ethnic groups, notably the Kalenjin. The enduring

[15] During the Kenyatta presidency, these ethnics groups were united in the very powerful social and commercial platform named the Gikuyu, Embu and Meru Association (GEMA).

[16] By 1966, the Kenyatta family reportedly owned nearly 4,000 acres of land in and around Nairobi. In an article in the *East African Standard* newspaper (1 October 2004), entitled 'Who Owns Kenya', Otisieno Namwaya reports Ministry of Lands' records to show that the Kenyatta family owned 500,000 acres of land. See http://blog.marsgroupkenya.org/?p=92 [accessed 25 September 2012].

resentment of this independence-era ‘expropriation’ would be a major trigger of Kenya’s ethnic violence after the contested 2007 presidential election results (Kanyinga & Okello, 2008).

The colonial government had mastered the (ethnic) divide-and-rule policy, with Africans requiring authorization—*kipande*—to travel outside their home districts. Within Nairobi, Africans lived in ethnic estates designed to deter nationalist organization, organization which would, however, be actualized partially through the trade union movement. After many ethnically based political initiatives, 1960 saw the birth of the centralist Kenyan African National Union (KANU) party, a union primarily between the larger Kikuyu and Luo ethnic groups. In response, the regionalist Kenya African Democratic Union (KADU) party was formed to champion the interests of the numerically smaller ethnic groups.[17] The two parties were the main Kenyan delegates to the Lancaster House constitutional talks with the British government, which provided for a bi-cameral independence Parliament and KADU’s desired regional governments. In 1963, KANU won the general elections, making Kenyatta the founding prime minister under the British head of state. By 1964, however, he had transformed Kenya into a constitutional republic with himself as president. The following year, KADU disbanded itself, transforming the country into a *de facto* single-party state, with control of service delivery returning to the central government from the regional ones.

With a mere technical college as the highest institution of learning, Kenya had acceded to independence with a modest stock of educated personnel at the helm. Most of the founding cabinet members had little formal education, with only a handful of graduates and a single doctorate. Kenyatta’s reported awe at seeing much freshly minted money in the Central Bank vaults (Ndegwa, 2006) reflects a weak awareness of the very issues his cabinet needed to grasp quickly if it was to manage the economy of a new, relatively poor state. Yet, Kenya benefited from much aid incorporating extensive technical assistance: O’Brien & Ryan (2001) report that aid per capita more than doubled to 40 USD between the 1970s and 1990s, 47% of it being in the form of technical assistance. Thus, for example, contrary to popular perceptions that it was the brain-child of the Planning minister, *Sessional Paper No. 10* of 1965 contained significant

[17] KADU’s formation was also encouraged by the settler community, which was apprehensive of the dominant KANU’s nationalistic rhetoric *vis-à-vis* the settlers’ privileged land ownership.

contributions from Canadian economic advisers. Over the years, however, Kenya acquired "a core of competent [indigenous] technocrats who could analyse the country's economic problems and propose solutions" (O'Brien & Ryan, 2001: 506).

After 1965, Kenyatta undertook further constitutional changes that usurped parliamentary and judicial powers, which were consequently concentrated in himself (rather than the Executive). Thus, for example, while the Cabinet Economic Sub-Committee met to discuss national policy, and preliminary policy debates occurred through fora—such as working groups and task forces—the ultimate decisions over critical issues were made at the president's office. Indeed, Kenyatta acquired a 'kitchen cabinet' of ministers from his Kiambu district homeland, which was a law unto itself (Leys, 1975). Dissent against Kenyatta's imperial presidential tendencies that betrayed the nationalist cause, such as in relation to land reforms, led to Vice-President Odinga's resignation (Odinga, 1965). Odinga's three-year old left-leaning opposition Kenya People's Union party was proscribed in 1969, with its entire leadership being sent to political detention. However, the ruling KANU party also remained such only in name, becoming increasingly by-passed in favour of governance through the ubiquitous Provincial Administration of regimented civil servants in the president's office (Branch & Cheeseman, 2006).[18] Kenyatta had ruled with a firm hand; however, the final years up to his 1978 death saw a 'policy drift' occasioned by a weakened cabinet (O'Brien & Ryan, 2001).

A key underlying policy into independence was Africanization of opportunities that were denied to the indigenes under colonialism.[19] In cash-crop agriculture, for example, the entry of smallholders drove the high national economic growth rates to the early 1970s, a boom that primarily benefited the coffee and tea farmers in the former White Highlands. The Africanization policy further illustrated Kenyatta's ethnic parochialism: besides the key public offices being held largely by his Kikuyu people, the various state agencies overseeing the Africanization initiative also focused their attention disproportionately on the Kikuyu and allied groups at the expense of the country's other 40-odd ethnic groups (O'Brien & Ryan,

[18] Kenyatta's apparent admiration for colonial authoritarianism saw him perpetuate the Provincial Administration into independence, operating at all tiers down to the chief at the village level.

[19] More accurately, this was a racialized Kenyanization that offered no preferences to ethnic Asian and European citizens.

2001; Mwega & Ndung'u, 2008).[20] A similarly disproportionate focus was also evident in the government's regional spending, which favoured the Kikuyu backyard of Central Province and other former White Highlands (Bigsten, 1980), presumably in keeping with *Sessional Paper No. 10*'s discriminatory prescription. Kenyatta's attempts at land reform were predictably half-hearted, the failure to provide logistics for the genuinely landless beneficiaries causing the latter to sell off to political elites and senior civil servants (Hunt, 1984).[21]

However, Kenyatta attempted to appease the Kikuyus disenfranchised by colonial expropriation by transferring them into a diaspora, stretching from the Kenyan coast to the ancestral Kalenjin lands of the northwest Rift Valley (Kanyinga, 2000). This opened up agricultural opportunities the Kikuyus would not have had in their overcrowded homeland Central Province; but it would soon undermine opportunities for the indigenes of the receiving areas, generating the grievances aired during the post-2007 general election violence (Kanyinga & Okello, 2010). Given Kenyatta's neo-patrimonialism (Widner, 2002), it is significant that he never once visited the expansive ASALs: amongst other things, these generally had no motorable roads for a president whose heart condition reportedly did not allow air travel.

At his 1978 accession, Moi's impoverished, pastoralist background caused great anticipation of a re-focusing on nationwide poverty. He initially flattered only to deceive, leading to the attempted coup of 1982. The hope that persisted with his mid-1980s launch of the grassroots-based rural development framework, the District Focus for Rural Development (see below), soon died out through ineffective implementation. Centralized governance deepened with the constitutionalization of the one-party state after the failed 1982 coup attempt, which prompted authoritarian excesses. His *Nyayo* philosophy—following in Kenyatta's footsteps[22]—

[20] Such agencies included the Industrial and Commercial Development Agency, Industrial Development Bank, Agriculture Finance Corporation, Agriculture Development Corporation, Kenya National Trading Corporation, and state-owned Kenya Commercial Bank and National Bank of Kenya. Transactions often required collaterals such as land titles, whose issuance stuttered after the process of land titling in Central Province was completed.

[21] On Kenyatta's attitude to land reforms, Ndegwa (2006: 343–4) reports: "At the end of a tiring day [of allocating plots to the landless, Kenyatta] could not resist sequestering one [unit] surrounded by a beautiful orchard for himself... for the hard [day's] work".

[22] An insecure successor, Moi sought to appease the Kenyatta elite by promising to uphold his late predecessor's values, such as private accumulation even if irregularly acquired.

punished his predecessor's Kikuyu orphans: ethno-centric privilege shifted sharply from the largely agrarian Kikuyus to Moi's essentially pastoralist Kalenjin peoples (Mwega & Ndung'u, 2008).[23] While the Kenyatta-era rapacity allowed some economic growth, that of the Moi era vandalized the loci of potential growth, resulting in erratic growth and no redistribution through the 1990s. Consequently, his tenure witnessed an expansion in poverty to an unprecedented 57% rate within his two decades in power.[24] Ironically, the marginalized ASAL districts voted solidly for Moi even into the multi-party era (Throup & Hornsby, 1998), despite persisting inattention to their poverty.

International pressure buttressed home-grown opposition to Moi's dictatorship, forcing a re-introduction of multi-party politics alongside the imposition of presidential term limits. Ethnically divisive opposition politics perpetuated an unpopular Moi's tenure until the 2002 opposition unity under the ethnically broad-based National Alliance Rainbow Coalition (NARC) party. Then, NARC's Mwai Kibaki frustrated Moi's attempt to hoist Kenyatta's greenhorn son into the presidency, a choice seemingly designed to protect the indiscretions of the two previous regimes. Yet, Moi should hardly have bothered, as Kibaki proved an astute defender of old corruption: his refocusing of privilege on the Kikuyu elite created orphans of the Moi-era Kalenjin elite, who however retained their ill-gotten wealth.

NARC's *Economic Recovery Strategy 2003–07* (ERS) revived economic growth to a period average of 4% by opening up opportunities previously constrained under Moi's despondency.[25] National poverty fell to 46% by 2007; but regional inequalities persisted. However, schisms developed early in NARC over Kibaki's ethnically exclusive 'kitchen cabinet' and its impunity (Wrong, 2009). Kibaki's revision of a popularly drafted constitution to protect his ethnic interests was roundly rejected at a 2005 national referendum. This caused Kibaki to employ even more ethnically divisive measures ahead of the ill-fated 2007 general elections—see various chapters in Kanyinga and Okello (2010). As Kenya approaches its first election under a new constitution eventually promulgated in 2010, the ethnic card

[23] Neo-patrimonialism privileges the elite, but opportunities subsequently trickle into their communities, such as through these elites' enhanced capacities for social infrastructure development (Miguel, 2000).

[24] National poverty would be even higher if the government's 1997 Household Welfare Survey had included North-Eastern Province (AEZs V to VII).

[25] For example, NARC restored tourist confidence after years of government-instigated ethnic violence.

is at play again, hampering the constitution's smooth implementation. A key concern among the elites of Kenya's three presidencies to date is how to contain the extensive opportunities offered by the new dispensation to address historical and contemporary impunity and injustices.

Notwithstanding the pervasive parochialism described above, some *national* politics has influenced policy choices since independence. The early attempts to deliver *Sessional Paper No. 10 of 1965*'s poverty reduction promises benefited from the positive economic performance resulting especially from the smallholder agriculture boom of the first independence decade. Meanwhile, an increasingly emasculated parliament abandoned its oversight of public revenue generation and spending, service delivery stagnating alongside a collapsed public audit function. In the context, Kenyatta invoked the traditional African self-help spirit: *Harambee* fund-raising became the key source of social sector infrastructure investment (Mbithi & Rasmussen, 1977; Miguel, 2000), a strategy that widened the provisioning divide between Central Province and similarly privileged areas, and the rest of the country.[26] Against the backdrop of the dual 1970s' oil crises, Kenya led SSA countries in adopting structural adjustment programmes (SAP), over which, however, it proved a reluctant reformer precisely because rent-seeking interests detested the retreat of the state (O'Brien & Ryan, 2001; Mwega & Ndung'u, 2008).

Selective donor manipulation of aid flows eventually did induce some reforms. However, politics continued to significantly influence the sustainability and impacts of the same: for example, macroeconomic stability was hostage to political patronage (Nyanjom, 2012). While the 2002 ouster of the KANU regime restored sound economic management through ERS, the ethnic factor returned to instigate the 2007/08 violence, which would cost 1,500 lives and the displacement of more than 600,000 people. On the eve of the 2013 general elections, the ethnic factor appears to be clawing back at the many gains enabled by the internationally brokered National Accord of 2008, which resolved the post-2007 election violence by creating a national coalition government. The final part of this discussion considers the government's weak attention to two key poverty areas, namely rural/agriculture development and the informal sector.

[26] Miguel (2000) illustrates how the presence of a member of the national elite in the community enhances the scope for education provisioning through *Harambee* fund-raising.

To date, Kenya relies only marginally on its mineral deposits,[27] and manufacturing accounts for a modest share of GDP—an average 10% during the great economic growth recovery since the 2002 ouster of the KANU regime (Osano, 2008: 6). Thus, Kenya remains largely an agriculture-based economy, its exports dominated by coffee, tea, and horticulture. Furthermore, the livelihoods of 70% of Kenyan households are based on agriculture and pastoralism. It is therefore no coincidence that the greatest poverty is found among the agriculture-based households, notably among the ASAL pastoralists and the self-provisioning (peasant) communities.

The agriculture share of public spending has declined substantially to an average 3% in the 1990s. The tiered nature of the sector means this spending is unlikely to be pro-poor, even if it has been rural. For example, the non-poor coffee sector was among the beneficiaries of the country's earliest SAP loans in 1986. But there have been other initiatives, which have been rural and potentially pro-poor, including the Kenyatta-era Special Rural Development Programme (SRDP), Rural Development Fund (RDF), and Rural Access Roads Programme (RARP), and Moi's District Focus for Rural Development (DFRD) and his regional development authorities.[28] Launched in 1971, the short-lived SRDP was a model integrated development scheme for ASAL districts, implemented in only five out of the targeted 15 districts, collapsing prematurely owing to excessive donor-dependence, followed by low-keyed, donor-specific ASAL programmes in the 1980s and 1990s. Also launched in the 1970s, the RDF funded small rural-based development initiatives, while the Dutch-funded RARP of the late 1970s paid farmers to use labour-intensive methods to maintain earth roads adjacent to their holdings. Both initiatives collapsed primarily for becoming district-level cash cows.

On paper, the DFRD presented the most substantive integrated rural development framework based on grassroots planning and implementation. However, the continued reliance on sector ministry funding led to erratic, untimely, and inadequate resource flows, which undermined implementation of district priorities. The regional development authorities were erratically funded and were too heavily politicized for the rationalization of their roles against those of local sector development officers. Finally, if DFRD had represented 'planning-without-money', then the 2003,

27 Soda ash has been the main commercial mineral. Oil deposits have been discovered to the north-west, but exploitation is many years away.
28 For a discussion of these failed experiments in decentralization, see Nyanjom (2011).

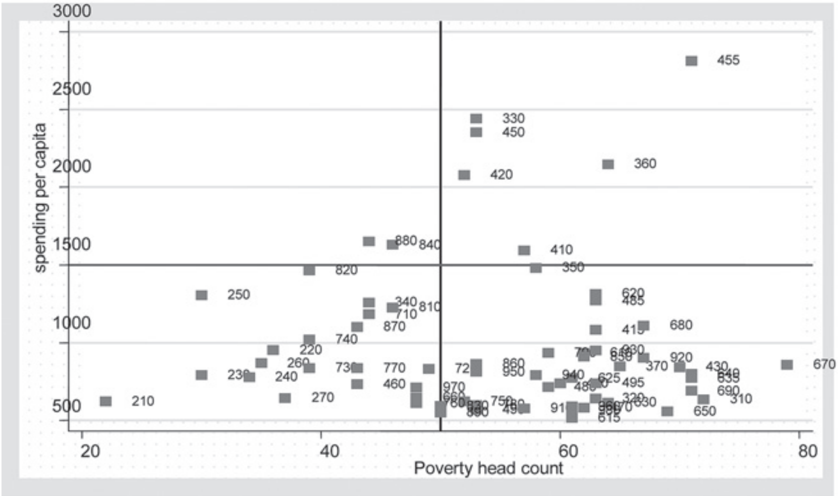
grassroots-based Constituency Development Fund (CDF) provided money without plans, to local committees patronized by the sitting parliamentarian in an era of excessive fiscal impunity.

Bigsten (2000) had early flagged the inequity in public spending, whose unequal outcomes were confirmed by sector studies reported by the Society for International Development (2006). The regional public spending picture had not changed into the new millennium, as illustrated in Figure 10.3 (Kiringai, 2006). The near-exclusively Kikuyu, former White Highland districts with the lowest poverty rates (bottom left-hand quadrant) received similar per head public spending—aggregate sectoral and decentralized funds—to the highest-poverty districts of the bottom right-hand quadrant. The higher per head spending of the ASAL districts of the top right-hand quadrant probably reflect allocations for travel over their vast expanses: each of North-Eastern Province's three districts is larger than the eight Central Province districts together.[29] The structural and operational inadequacies behind this picture have been addressed extensively—arguably for the first time since independence—by devolution provisions in Kenya's new constitution (Nyanjom, 2011).

The final area of consideration is Kenya's burgeoning informal sector, whose employment absorption potential was brought to the fore by a 1972 International Labour Organisation (ILO) report (ILO, 1972). Employment expansion under Kenya's import substitution industrialization policy had reached its limits against the backdrop of an annual population growth rate above 4%. Consequently, the ILO mission recommended recognition of the employment potential of the sector. Thus, from a colonial context in which rural to urban migration was highly restricted, recognition of informal activities opened the floodgates for the movement of unemployed rural youths to the main urban centres. This has had two impoverishing consequences: it has deprived the rural areas of able-bodied labour, while driving urban underemployment, unemployment, dependence, and social delinquency.

The importance of the informal sector is illustrated by the fact that its share of total employment has grown from 40% in 1991 to 80% in 2008, during which year it accounted for 90% of the 493,000 jobs created (KIPPRA, 2010: 26). This rapid growth in the sector has been attributed to the

29 Presidents Kenyatta, Moi, and Kibaki's home districts are numbers 210 (Kiambu), 810 (Baringo), and 250 (Nyeri) respectively. The rebellious founding Vice-President Odinga's district is 630 (Siaya).



Source: Kiringai (2006).

Figure 10.3 Comparing Kenyan public spending against poverty (1999/00–2003/04)

high costs of formal enterprises and the constrained growth of the formal sector. Against the backdrop of the 1972 ILO report, the government originally declared an informal sector policy intent in *Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya*. The paper identified areas of policy intervention to include market access, development of linkages between small and large enterprises, provision of export opportunities, and facilitation of their entry into the services sector. However, little had been done for the sector one and a half decades later when the government issued *Sessional Paper No. 2 of 2005, on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction*.

Many initiatives in support of the informal sector have been ad hoc, such as the granting of work spaces and instructions to local authorities to refrain from harassing these informal operators. *Sessional Paper No. 2* of 2005 undertook to reserve 25% of all public procurement contracts to medium and small enterprises, an unsustainable intention given the formal requirements of public procurement legislation, such as prequalification and a large capital base (Njiraini and Moyi, 2006). The inattention to the sector is most poignantly captured in KIPPRA's (2010: 123) observation that a 1999 baseline survey remains the most authoritative one on a sector that is obviously so critical to employment and poverty reduction in the country. Yet, evidence of very low productivity in the sector suggests that its growth in employment must be accompanied by declining average earnings, likely pushing some of its practitioners below the poverty line. For example, while the sector accounted for 42.5% of employment and 18.4% of GDP in 1999, its share of manufacturing value added was a mere 12.2% in 2008. The government attitude to the sector is reflected in the fact that it was only in 2009 that a Draft Medium and Small Enterprise Bill was published.

Comparison

Analyses of governments in newly independent states often suppose that a key objective is the *universal* reduction of poverty, disease, and ignorance. Yet, sub-national interests can be at play that militate differentiated interventions, which result in uneven development. The case studies of Malaysia and Kenya provide divergent experiences that test assumptions about government motivations for development in general and poverty reduction in particular.

At their respective accession to independence from the British, 1957 for Malaysia and 1963 for Kenya, the former was arguably more 'advanced' than the latter. Malaysia's first census was conducted in 1911 compared with Kenya's first in 1948. While the University of Malaya was established in 1905, Kenya's Royal Technical College of 1956 became a university college only in 1961. Significantly, democratization in Malaysia preceded its colonization by five centuries (Moten & Mokhtar, 2008). These factors might be partially significant in explaining the disparities evident in the priorities assumed by the independence-era leaders in the two countries.

Like the Kenyan president hitherto,[30] the Malaysian prime minister is elected on the basis of the first-past-the-post principle. However, the Malaysian system provides that the elected prime minister be nonetheless appointed by a king selected from among nine traditional dynasties. This is likely to have a restraining effect on a prime minister's conduct. The Kenyan system has lacked such restraint, the president transforming himself into a virtual emperor in the four initial decades to 2002. Further, while Malaysian electoral outcomes have been pre-determined by the

[30] Kenya's current power-sharing between the president and prime minister was a 2008 arrangement to resolve the impasse arising from the contested results of the 2007 presidential elections.

Malay numerical majority, there is competition among the Malay candidates, which induces accountability to the electorate. In any case, the consociational basis of the Alliance government means that the leading party (UMNO) must consider its partners' concerns. In the Kenyan context, the sacrifice of party politics at the altar of *de facto* one-partyism into the first decade, and into a *de jure* one from 1982, meant that elections did not even have party manifestoes against which to hold an incumbent to account. Thus, the Malaysian deputy prime minister was able to indict government failure for the 1969 riots, causing the prime minister to lose his tenure against the backdrop of an improved affirmative action contained in the NEP. In Kenya, the mid-1960s criticism of similar government failure caused the dissenting vice-president to be shunted out of office and into preventive detention by the end of that decade. In effect, while Malaysian incumbents have employed 'soft repression', their Kenyan counterparts to 2002 employed draconian human rights violations to deter or punish criticism, including the assassination of four national political figures.

In both countries, the poor constituted the majority on the eve of independence, from one poor ethnic group in Malaysia compared with 42 widely unequal poor groups in Kenya. It is worthwhile emphasizing at this early stage that the use of an ethnic label does not belie the existence of within-group inequalities. The Malay elite consorted with the British, Chinese, and Indians; but, in the Kenyan context, the British kept the mainstream African political class at a distance. A significant difference in the drive for poverty reduction, however, was that members of the Malay political class had to espouse the *Bumiputera* majority's cause for its electoral survival; moreover reduction of *Bumiputera* poverty was an imperative that even the Chinese and Indian capitalists agreed on because it would secure an enabling environment for their enterprises. In contrast, Kenya's was a rather complex context in which the dominant Kikuyu elite early used their superior agro-ecological and colonial heritages to distinguish their development agenda from that of the rest of the Kenyans. Thus, while the Malayan political class waged an eternal battle to uplift the 'sons of the soil', the Kikuyu political class has strived—both during the Kenyatta and Kibaki presidencies—to widen the socioeconomic gap between their people and the struggling Kenyan middle along with the totally disenfranchised pastoral peoples of ASALs. So strong has this intent been that its stranglehold was barely disturbed by the Kalenjin Moi's 24-year interregnum, during which opportunities visibly shifted to the Kalenjin elite, without expropriation of the former Kikuyu elite. For all three regimes, poverty reduction has never been an imperative for political survival.

The Kikuyus dominated public appointments, as well as access to the facilities established for Africanization during the Kenyatta years. While the Moi years saw a switch to a Kalenjin domination, the two elites' disparities in exposure meant the Kalenjin never really established themselves in the way the Kikuyu had done up to 1978, and since their 2003 return. While the Kikuyu in general have been seen as 'go-getters', their progress has been facilitated in no small measure by the superior infrastructure investment during the colonial, Kenyatta, and Kibaki years. This advantage is one which even the Moi era could not undermine since all national systems run through the national capital, Nairobi, on the periphery of 'ancestral' Kikuyu territory. To their higher agriculture incomes from their fertile former White Highlands, the Kikuyu have added prime business and private and public employment incomes. These enabled extensive social infrastructure investment, especially when this depended on *Harambee* fund-raising. Consequently, Central Province extensively out-performs others in human welfare indicators.[31]

While Moi's tenure was longer than Kenyatta's, his poverty-reducing impact even among his own Kalenjin people was negligible. Moi's appointment to the vice-presidency by Kenyatta seems to have been designed to appease the Kalenjin even as more Kikuyus were shipped into their ancestral lands from Central Province (Nyangira, 1987). By the time of his accession to the presidency, Moi's own extensive land holdings meant he would not countenance his own Kalenjin people's land injustice claims. Thus, while successive Kenyan governments have blocked land reforms 50 years into independence, this was not the case in Malaysia. Her land reforms date back to FELDA's 1956 launch, which opened up opportunities for the Malays to expand their agriculture and food security, with extensive subsidies from the government. In Kenya, a radical Land Policy was completed in 2006, but has yet to be implemented owing to the political class being extensive beneficiaries of failed land reforms.

In Malaysia, public appointments remained largely in *Bumiputera* hands, their performance imbued by their perpetual desire to close the gap on the Chinese and Indians, who initially controlled the manufacturing and cash-crop industries. Persistent government policies based on land reforms were able to bring the Malays into the lucrative palm oil industry. In the Kenyan case, an incestuous duplication of functions has allowed pervasive inefficiency, the political class also being the main industrialists,

[31] In Figure 10.3 none of the Central Province districts (numbered 2XX) are outside the bottom left-hand quadrant.

commercial farmers, and large land-owners. While encouraging rural—urban migration of youths, the slow growth of the formal sector has led to an over-subscribed informal sector, largely ignored by the government, and consequently breeding poverty and delinquency. Thus, Malaysia early appreciated the need to raise the SMI sector, integrating its operations through cooption into the Ministry of International Trade and Industry, which became a bridge to TNCs and international markets. In the Kenyan context, there seems to be an apparent conspiracy in which the political/agriculture/industrial elite has persisted in restricting the burgeoning informal sector to the production of low value-added consumer goods. Indeed, where the Malaysian government strove to formalize SMIs, successive Kenyan governments have actually encouraged the informalization of business, lowering standards and reducing the domestic capacity for international competitiveness.

Conclusions

In conclusion, this paper has traced the development trajectories of Malaysia and Kenya. It has found parallel initial starting conditions, even if Malaysia did have a substantive head-start on Kenya in key areas. The critical factor explaining the difference in development outcomes, it seems, was in the objectives of the founding fathers and their successors: whereas Malaysian leaders' perceptions of the objective conditions underlain by Malay deprivation shaped policies and actions that addressed this scourge, Kenyan leaders have been content to emulate colonial class distinctions, providing privileges in a parochial manner designed to perpetuate the political class in power. Thus, the Malaysian model has been able to reduce poverty to below 5%, while nearly half the Kenyan population persists in poverty. This paper emphasizes the need to be discerning about policy objectives and to not assume that all national leaders wish to reduce national poverty at all times.

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A Comparison of the Industrial Policies and Outcomes in Kenya and Malaysia

Bethuel K. Kinuthia & Ton Dietz

Introduction

This chapter presents a historical overview of industrial policies and their outcomes in Kenya and Malaysia. These two countries fifty years ago had similar economic structures that were largely dependent on traditional sectors. They both followed similar development strategies centred on the construction of national economies and industrialization. However, today Malaysia has become an export-driven economy spurred by high technology and knowledge-based and capital-intensive industries, while Kenya, though prosperous by East African standards, experienced slow growth during the same period and is still largely dependent on its traditional sectors. This reversal of fortunes is not confined only to these two countries but is replicated by other neighbouring countries within their respective regions.

In an attempt to interpret the recent economic success of countries in Southeast Asia, Malaysia included, the literature has presented various viewpoints. First, the neoclassical school argues that industrialization is largely a natural outcome of market forces and free trade within countries. Hence, markets are considered virtuous institutions of social efficiency and the key drivers of inventions, innovation, and risk-taking. This view assigns the state a limited role in resource allocation (Balassa, 1990; World Bank, 1993). The structural view, on the other hand, asserts that there exist structural rigidities within the economies of developing countries, which prevent the realization of the benefits associated with free trade. In such economies, market outcomes are not always optimal, and the state has an important role in correcting market failures (Wade, 1990; Lall, 1995). In recent times, there has been a new rethinking of the neoclassical view, where markets are believed to work well with good institutions, among other things. The state in this case is a passive actor setting the tone via property rights and contract enforcement for markets (North, 1989; Acemoglu & Robinson, 2000).

Given these contending views, this chapter seeks to re-examine this debate by investigating the role of industrial policies in explaining the reversal of fortunes observed in Sub-Saharan Africa and Southeast Asia by comparing the industrialization experiences in Kenya and Malaysia. The remarkable success in industrial development in Malaysia in the last few decades has been accompanied by a dramatic reduction in poverty. The poverty incidence fell from 49.3% in 1970 to below 5% in 2007 (Kinuthia, 2010). In addition, per capita incomes increased by a factor of more than twenty in the period 1960–2009. This is in contrast to Kenya, where close to about 50% of the population remain poor[1] and the per capita income increased marginally by a factor of approximately seven during the same period (Table 11.1).

Table 11.1 shows that the per capita GDP suggests that Malaysia was approximately four times better off than Kenya, implying that the initial conditions at independence were not the same.[2] Though there is truth in this observation, it is also quite clear that the major difference between the two countries lies in the development of the manufacturing and industry sectors, which began in 1970[3] (UNDP, 2007; Kinuthia, 2010; 2011). While in Kenya these sectors increased marginally and others failed to become an engine of growth, in Malaysia they played a pivotal role in its economic success.

[1] Kenya National Bureau of Statistics (2011).

[2] Although it may be argued that comparisons are valid methodologically only when the two units being compared share all the characteristics at the initial stage, with the exception of the variable being tested—in this case manufacturing growth—it is also fair to acknowledge that this is a difficult criterion to meet in comparing countries' development trajectories since similar countries do not exist. In this case, although Kenya and Malaysia may differ in initial conditions, they have much in common.

[3] The industrial sector generally includes four divisions of the United Nations International Standard Industrial Classification: mining, manufacturing, construction, and public utilities. Although this paper sometimes refers to industry as a whole, it is mainly concerned with the manufacturing industry.

Table 11.1 Selected economic indicators for some years*

Economic Indicators	1960/61 M	1960/61 K	1970 M	1970 K	1980 M	1980 K	1990 M	1990 K	2009 M	2009 K
Agriculture value added (% of GDP)	34	38	29	33	23	33	15	30	9.5	28
Industry value added (% of GDP)	19	18	27	20	41	21	42	19	44	20
Manufacturing value added (% of GDP)	8	9	12	12	22	13	24	12	25	13
Services value added (% of GDP)	46	44	43	47	36	47	43	52	46	52
Gross capital formation (% of GDP)	14	20	20	24	27	25	32	24	14	21
Gross domestic savings (% of GDP)	26	17	24	24	30	18	34	19	36	8
Per capita GDP (current USD)	300	98	394	143	1,812	447	2,432	367	7,029	738
Economic growth rates	8	−11	6	−5	7	6	9	4	−1.7	2

* M: Malaysia; K: Kenya.
Source: World Bank: World Development Indicators, 2010.

In the next section, the industrialization experiences of Kenya and Malaysia are compared and contrasted. This discussion is based on the industrial strategy adopted in each of the four phases of the industrialization process identified. The final section presents a discussion of the possible reasons for the observed reversal of fortunes in the two countries.

The Process of Industrialization in Kenya and Malaysia

Four phases can be identified in the industrialization process in Kenya. The first phase occurred during the period 1955–1969, when Kenya officially introduced the import substitution strategy (ISI) accompanied by a substantial development within the agricultural sector. The second phase began occurred in 1970–1979, when Kenya embarked on another round of ISI with devastating effects (unlike in the previous phase), while the third phase covers the period 1980–2002, when Kenya implemented the structural adjustment programme (SAP) aimed at outward reorientation of the economy, with mixed results. The fourth phase began in 2003, when a newly elected government in Kenya implemented an economic recovery strategy programme and subsequently introduced Vision 2030, with impressive growth rates compared with the preceding two periods.

Similarly, Malaysia's industrialization process can be divided into four phases. The first phase is based on the ISI strategy adopted during the period 1955–1970. The second phase began in 1970, when it adopted the export-oriented strategy (EOI) without entirely abandoning the ISI strategy, and continued until the early 1980s. The third phase began in 1981, when Malaysia embarked on a second round of ISI based on heavy industries; but this was soon abandoned after 1986, when the government reverted to the EOI strategy until the Asian financial crisis in 1997. The fourth phase began after the crisis in 1998, when the government—with continued EOI—introduced a cluster-based approach to industrial dynamism, with a greater emphasis on the development of the services sector.

Industrialization in the Period 1955–1970

At independence, both Kenya and Malaysia were faced with the challenge of nation building, while dealing with existing economic problems. In Kenya, the ruling party Kenya African National Union (KANU), under the leadership of President Mzee Jomo Kenyatta, needed to address existing high inequalities, unemployment, limited social amenities, and landlessness among many Africans, attributed to the duality which existed in the colonial era in favour of the non-Africans settlers (Leys, 1975: 52). However, there were different ideologies within KANU regarding how the existing problems should be addressed, with some advocating for socialist ideas, and conservatives—although acknowledging the need to improve the plight of Africans—favouring the maintenance of relations with the non-African settlers for the sake of stability in the country, in addition to preventing capital flight due to the fear of nationalization.

To appease both parties, KANU adopted the *Sessional Paper* No. 10 of 1965, entitled 'African Socialism and Its application to Planning in Kenya', which outlined Kenya's development plan while accommodating the existing ideologies. Within this plan, the government opted for a mixed economy and pledged to work with the private sector, in the pursuit of the ISI strategy. In addition, foreign capital was welcome, but investors were to accept the spirit of mutual responsibility, incorporating Africans' interests in their businesses. A wide range of incentives, such as introduction of subsidies, tax concessions, and monopolistic privileges, were offered and aimed at attracting foreign capital (Langdon, 1978: 163; Nyong'o, 1988; Ochieng, 1995). In addition, the government invested in the development of social overheads, financed mainly through external funding. The government also established various institutions such as the Industrial Commercial Development Corporation (ICDI) and Development Finance Company of Kenya (DFCK) to effectively manage industrial development and attract foreign capital.

The government further established the Foreign Investment Protection Act in 1964 to safeguard the interests of investors and to restore investor confidence arising from the fear of nationalization.[4] In 1968, the New Projects Committee (NPC) was also established, to serve as a bargaining forum between the government and multinational corporations (MNCs) on all investment aspects. It was susceptible to political intervention, which skewed its effective functioning, a problem further compounded by its incapacity to evaluate effectively some highly technical projects (Zwanenberg & King, 1975: 132; Swainson, 1980: 123, 211). Other than the exchange control, taxation, and inter-ministerial committees formed to control foreign investment, the government supported the expansion of the manufacturing sector by reducing the cost of borrowing, which encouraged private-sector growth (Table 11.2). Apart from banks, ICDC and DFCK also offered loans to investors both foreign and local at affordable rates.

In Peninsular Malaysia after its independence in 1957, on the other hand, the new government, which comprised an alliance of three parties, under the leadership of UMNO's president Prime Minister Abdul Rahman (Tunku), had to contend with a communism threat, which had resulted in the declaration of a state of emergency after independence until 1960.[5] In addition, there existed high inequalities, unemployment, and a need for economic diversification from the existing over-reliance of revenues from tin and rubber, the main export-earners (Crouch, 1996: 20; Milne & Mauzy, 1999: 19). Apart from developing social overheads, using the revenues obtained from export revenues as well as domestic and to a limited extent external borrowing, the government was heavily involved in the primary sector. However, the small manufacturing sector was left to the private sector and emerged naturally under laissez-faire conditions.[6]

4 Through this Act foreign-owned firms were issued with a 'Certificate of Approval Enterprise', which guaranteed the right to repatriate profits, loans, interest on their loans, and the "approved proportion of the net proceeds of sale of all or part of the approved enterprise".

5 The alliance parties were United Malays National Organization (UMNO), The Malayan Chinese Association (MCA), and the Malaysian Indian Congress (MIC). The alliance was formed in 1952, with the latter joining in 1954, and was a culmination of negotiations between the Chinese, Indians, and the Malays aimed at the creation of a cohesive society.

6 Jomo (1993: 18) observes that the colonial government was reluctant because it could have resulted in a reduction of import duty revenues. It was also intended to maintain the low wages of plantation workers in the British rubber estates.

Table 11.2 Selected macroeconomic management indicators in Kenya and Malaysia

	1960s		1970s		1990s		2000s	
	Kenya	Malaysia	Kenya	Malaysia	Kenya	Malaysia	Kenya	Malaysia
Official exchange rate	7.0	3.0	7.3	2.4	49.4	3.2	75.4	3.7
Domestic credit to private sector (% of GDP)	13.2	11.5	21.3	29.3	30.6	119.9	27.9	115.8
Inflation (consumer prices), annual (%)	1.9	0.9	10.9	5.6	17.5	3.7	11.3	2.3

Source: World Bank: World Development Indicators (2010).

With dwindling revenues from the primary commodities, the government passed the Pioneer Industry (Relief from Income Tax) Ordinance (PIO) in 1958, which sparked off state intervention in the manufacturing sector under the ISI strategy. It was replaced in 1965 by the Pioneer Industries Act, just before Singapore's secession in 1965 from the Malaysian Federation formed in 1963. In addition, the Tariff Advisory Board, the Federal Industrial Development Authority (FIDA)—later renamed Malaysia Industrial Development Authority (MIDA)—and the Malaysia Industrial Development Finance Bank (MIDF) were formed in the first half of the 1960s to spearhead the promotion and development of the manufacturing sector (Drabble, 2000: 169). The government also established the Action Committee on Tariff and Industrial Development (ACTID), meant to consider urgent applications for protection, which saw the increased use of both tariff- and non-tariff-barrier protection measures. In 1967, Malaysia and other Southeast Asian countries established the Association of Southeast Asian Nations (ASEAN), whose aim was to foster cooperation in economic and social spheres, among others, and to promote regional peace and stability. This was followed by the enactment of the Investment Incentives Act (IIA) in 1968, intended to gradually orient the economy towards exporting.

The ISI approach undertaken by both countries and aimed at providing an initial impetus to the manufacturing sector was largely a success. In Kenya, land reforms were initiated; and a vigorous policy of food production and food surplus for export, accompanied by a large proportion of public expenditure, saw agriculture increase to a near revolution in the 1960s.[7] In addition, many Africans who were landless were re-settled,

[7] Public expenditure in agriculture was mainly devoted to land transfer and adjudication, research, veterinary services, training, livestock marketing, crop development, machinery, and soil conservation services.

Table 11.3 The structure of the manufacturing sector in Kenya and Malaysia (% of output)

	Kenya				Malaysia				
Sectors	1963	1977	1994	2008	1968	1973	1985	1990	2011
Food, beverage and tobacco	45	44	46	33	27	22	30	19	7
Textiles and apparel	5	8	3	3	3	9	4	6	1
Leather and footwear	2	1	1	2	0	0	0	0	0
Wood & wood products	3	4	2	1	7	11	5	6	3
Paper and printing	8	8	3	8	0	0	0	0	3
Chemicals, petroleum & plastic products	14	4	26	20	6	5	10	7	35
Rubber products	1	5	3	2	18	15	6	6	4
Non-metallic & glass products	4	6	4	8	3	3	4	3	4
Basic & fabricated metals and products	7	10	4	3	26	23	9	7	8
General machinery	2	4	4	1	2	3	2	5	4
Electric/electronics/precision equipment	0	0	0	0	2	5	13	25	28
Transport equipment	7	5	4	3	2	3	3	5	5
Other manufactured goods	2	1	0	16	5	3	15	13	0
Total	100	100	100	100	100	100	100	100	100

Source: Kenya: Statistical Abstract 1964, 1979, 1995, and 2009; Malaysia: Rasiah & Shari (2001, Table 5), and the Ministry of Finance.

although much more work remained to be done in this regard (Zwanenberg & King, 1975: 52; Swainson, 1980: 112). The manufacturing sector also registered impressive growth rates during this period, creating employment second only to agriculture and facilitated by cheap credit. For the period 1954–1963, manufacturing output grew by 8.47% annually, and for the period 1964–1970 this sector grew much faster than the whole of the economy, a growth that was among the highest in Sub-Saharan Africa (Zwanenberg & King, 1975: 133). Table 11.3 presents the structure of the manufacturing sector at independence in 1963. Light industries accounted for more than 65% of the gross production, while intermediate industries accounted for 28%, capital goods accounting for the remainder.

Much of the increase in the manufacturing sector was as a result of foreign capital. Some of the firms were already exporting internationally, owing not only to free entry in the East African common market but also to MNCs' existing ties in the home country. In support of African traders, the government in 1967 enacted the Trading Licensing Act, where non-Africans were barred from trading in non-urban areas. Through this strategy, the state was able to forge alliances with MNCs, initially through the creation of an 'African business class', who prior to independence had been used to creating outlets for buying and selling their products. This class later fused this economic position with their political brokerage role as the local ruling class, becoming thereby useful allies to MNCs (Nyong'o, 1988). Similarly, in Malaysia, the ISI strategy was considered successful in that it helped diversify the economy, reduced excessive dependence on imported goods, utilized some domestic natural resources, created employment opportunities, and contributed to economic growth. As a result, the manufacturing sector registered the highest growth during this period. The Malaysian economic structure by 1968 reflected its resource base, which was dominated by rubber and tin production, and to some extent timber, together accounting for approximately 51% of manufactured output (Table 11.3).

The ISI strategy, however, had several weaknesses. First, it failed to create much employment owing to its capital-intensive nature. Second was the potential problem of the balance of payments (BOP), because of the high import content requirement of ISI, especially in Kenya. In addition, the frontiers of the domestic market were reached and consumer prices became unduly high. Furthermore, rent-seeking behaviour became widespread, as politicians were offered lucrative directorships in the boards of firms that were protected by high trade barriers. ISI also had limited linkages with the rest of the economy, did not promote exports through anticipated surplus production, and was poorly planned (Alavi, 1995: 35; Kanapathy, 2000; Kinuthia, 2011). Moreover, Kind and Ismail (2001) noted that the tax incentives were largely unnecessary and merely made the Malaysian market more profitable to exploit. Finally, ISI contributed to worsening of income inequalities between rural and urban dwellers.

In Malaysia, this social inequality had created racial tension over the years, which escalated during this period, resulting in a race riot after elections in 1969.[8] A state of emergency was declared and parliament was suspended until February 1971 (Jomo, 1990). In addition to the 1969 election campaign and its aftermath, there were deeper criticisms of the status quo from major ethnic groups. Malays' criticism, which the government took more seriously, was voiced by Deputy Prime Minister Razak and others, who believed that their economic grievances had not been sufficiently addressed (Milne & Mauzy, 1999: 20–23).

[8] The alliance secured only 48% of the votes and 66% of the seats, and the drop in seats was mainly higher in the case of non-Malays losing to the opposition. This did not include Sabah and Sarawak, whose elections had been postponed because of the riots in Kuala Lumpur on 13 May 1969.

Industrialization in the Period 1970–1980

The early 1970s in Kenya began with the KANU government failing to heed warnings by economists, which were also contained in the International Labour Organization's report of 1972, on the need to abandon the ISI strategy. This failure was deeply rooted in the existing ideological war between the conservatives and the socialists within KANU. This, as well as a political succession debate, had towards the end of the 1960s caused a sharp split within KANU—resulting in defections by socialists to the new Kenya People's Union Party (KPU), political assassinations of some leaders, and the eventual banning of the new party, with some of its leaders sent to detention, paving the way for a smooth continuation of President's Kenyatta's rule (Ochieng, 1995).

The government resolved to increase its involvement in the manufacturing sector under the ISI. It established the Industrial Survey and Promotion Centre in 1970 to initiate, stimulate, and promote industrial development systematically (Fahnbulleh, 2006). It then set up the single most important instrument of nationalization, the Capital Issues Committee (CIC) within the Treasury in 1971, to vet all issues of capital stock with a view to cutting down capital outflows from Kenya due to the threat of nationalization (Swainson, 1980: 209). Further, the Industrial Development Bank was established in 1973 to finance mainly joint ventures between foreign and domestic capital mainly involved in ISI rather than exports.[9] To support the export of manufactured goods, the government in 1974 established the Export Compensation Manufacturers Act, whose aim was to promote the export of non-traditional products under the ISI strategy.[10]

In Malaysia, the story was completely different. The ethnic tensions in the late 1960s resulted in a change in its industrial policy towards the EOI strategy, which was contained in the New Economic Policy (NEP). In addition, there was a change of leadership with Prime Minister Razak replacing Tunku and a maintenance of law and order, while clacking down the dissidents. The NEP took an economic shape, but its declared objective was political—that is, to produce national unity (Crouch, 1996: 23). The NEP had two major goals. The first goal was to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. The second goal

9 *Ibid.*: 224.
10 Kenya Government Development Plan, 1984–1988.

aimed at accelerating the process of restructuring Malaysian society to correct economic imbalances so as to reduce and eventually eliminate the identification of race with economic function. To supplement the NEP, new policies were devised, principally aimed at remodelling the party system so as to co-opt other parties into an enlarged Alliance, thus removing some sources of opposition and enhancing national unity. This led to the formation of Barisan National (National Front), first mentioned in public in August 1972 and formed officially in 1974 (Jomo, 1990; Milne & Mauzy, 1999: 24–25).

The implementation of the NEP began with a switch towards export orientation of the manufacturing sector, which was expected to play a central role as a growth driver for the next twenty years through various incentives. First, the government enacted the Free Trade Zone (FTZ) Act in 1971, which contained generous incentives related to pioneer status and labour absorption. This led to the establishment of FTZs to facilitate and encourage manufacturing production for export, primarily using imported equipment and materials. Second, licensed manufacturing warehouses (LMWs) were established to allow firms to assemble or manufacture for export under customs bond. Third, the Employment Act of 1955 was amended in 1969 to allow for three work shifts, mainly to suit foreign firms. Moreover, a labour utilization relief was introduced in 1971, which granted tax relief to companies based on the number of workers employed, in addition to the abolition of the 2% payroll tax, so as to encourage labour-intensive industries. Fifth, MIDA began establishing offices overseas targeting MNCs and worked in conjunction with MIDF to finance manufacturing activities (Sivalingam, 1994; Rasiah, 1995: 79).

Furthermore, the government enacted both the Industrial Coordination Act (ICA) and the Petroleum Development Act in 1975, whereby the former required all local and foreign manufacturing companies with more than RM 2.5 million in shareholders' funds and more than 75 employees to invite the *Bumiputera* (indigenous Malays) to acquire 30% stakes in their companies and to ensure that at least 30% of their fulltime staff were Malay. The ICA was further amended in 1977, to appease MNCs who complained of this new requirement. Finally, the government also established state enterprises which were later transferred to Malay private ownership, to foster local supply industries and create new industrial skills (Lall, 1995).

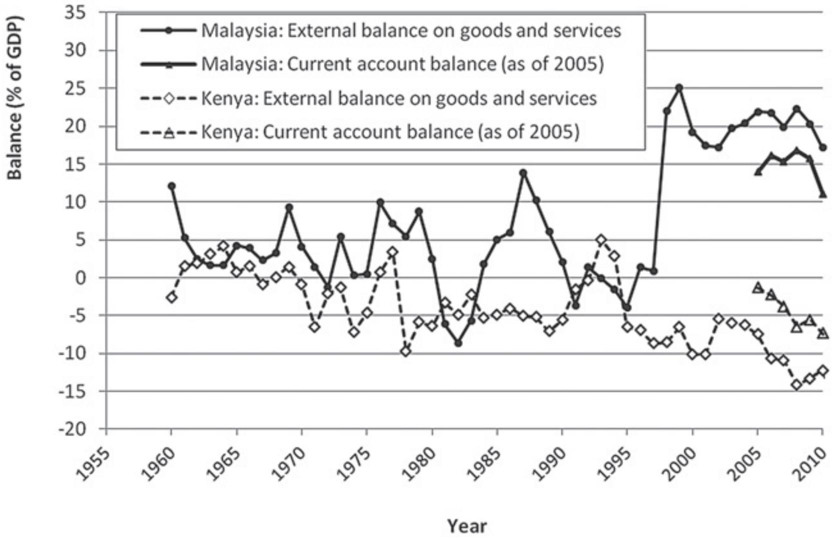
The industrial policies pursued by these countries in the 1970s had very different outcomes compared with the previous period. In Kenya, the ISI-led policies, apart from increasing output in the manufacturing sector, also increased the economy's vulnerability to external shocks, resulting in severe balance-of-payment (BOP) problems, as show in Figure 11.1. The first shock was experienced in 1971, leading to deterioration in the terms of trade.[11] This resulted in the introduction of import restrictions through import licensing and tightening of exchange controls by the Central Bank.[12] The second major crisis occurred in 1974, owing to a rise in petroleum prices. This caused the import bill to grow by 68%, with the value of oil rising 3.5-fold and that of non-oil imports increasing nearly 50%. This also coincided with a harsh drought in 1973. These shocks had negative effects on the BOP position, forcing the government to adopt austerity measures in addition to increasing external borrowing (Fahnbulleh, 2006), as shown in Figure 11.2.

In 1976–1977 there was a temporary relief in the BOP problem, due to a coffee and tea boom (Bevan *et al.*, 1993: 22), resulting in uncontrolled government expenditure. The consequences were later felt following the collapse of the East African community in 1977, affecting Kenya's manufactured exports main market. The situation was further worsened by the heavy rains in 1978, which caused a substantial drop in coffee production, in addition to a reduction in world commodity prices—leading to major reversals in the BOP. This was later followed by a severe drought and a second global oil crisis in 1979, further worsening Kenya's BOP position (Figure 11.1). By the end of the 1970s, some bans on imports had been introduced as part of a crisis management strategy (Nyongo, 1988).

Within the manufacturing sector, an informal sector emerged, which, according to King (1975), lay between subsistence or small-scale cash-crop agriculture, on the one hand, and the arena of government and those employed in the corporate sector on the other. This sector had been created to address the high unemployment prevailing in the 1970s. However, it was poorly implemented, resulting in a dual economy within the manufacturing sector. Although there was an increase in manufactured goods, the highly protected industries produced high-cost goods for the domestic market and reaped unquestionably high profits under conditions of

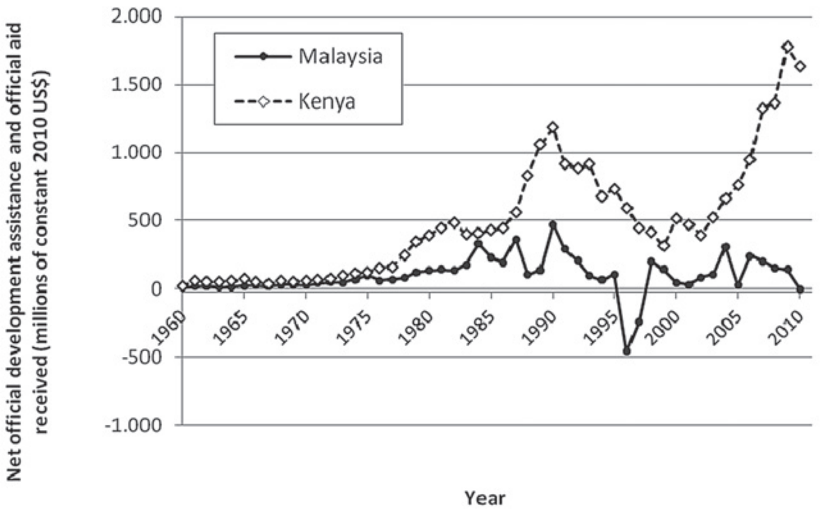
11 According to Leys (1980), based on J.R. King's argument, this was due to a combination of restocking of inventories which had run down during the previous three years, especially in 1968 (by Asian companies anticipating being served notice to sell out to Africans), and a government decision in 1970 to undertake a record level of deficit-financed expenditure.

12 Foreign-based companies were required to pay a 47.5% tax on their repatriated profits. In addition to curbing transfer pricing, the government introduced a withholding tax on fee payments between subsidiaries and their headquarters (Bradshaw, 1988).



Source: World Bank: World Development Indicators Database (2010).

Figure 11.1 Kenya and Malaysia's external and current account balance



Source: World Bank: World Development Indicators Database (2010).

Figure 11.2 Net official development assistance and official aid received in Kenya and Malaysia market monopoly and production inefficiency. They also tended to be content with preserving what they had and thus discouraged further industrial expansion. Further, ISI penalized agriculture heavily owing to high input costs (Nyong'o, 1988).

The situation was worsened by the political environment at the time, in which vocal members of KANU who were discontented with the party's development policies and actions were assassinated. Others were imprisoned and detained on criminal charges. The public sector had grown much faster than the private sector owing to government involvement in economic life. As a result, some of the leaders within KANU had taken advantage of these policies to enrich themselves through rent-seeking and created a breeding ground for corruption, which was now accepted as a reality in Kenya. This group of people was filled with anxiety following President Kenyatta's succession by his vice-president Daniel Arap Moi after his death in 1978, (Nyongo, 1988; Ochieng, 1995).

Unlike in Kenya, this period saw rapid expansion of the manufacturing sector in Malaysia, as the policies put in place there saw a rapid increase in manufactured output and exports, employment, foreign direct investment (FDI) inflows, and per capita GDP (Table 11.1). The non-resource-based foreign-owned industries played a critical role in driving growth and employment creation. A second type of export-oriented industries also emerged based on the resource base, which involved processing of older (tin and rubber) and newer (palm oil and timber) primary commodities. Unlike the non-resourced-based industries which thrived well under EOI, the resource-based industries thrived under the ISI policy.[13] However, although the ISI and EOI coexisted alongside each other, the ISI sector fell in significance as tariffs on several ISI industries also gradually fell, thereby reducing the distortion of rents enjoyed by these industries.[14] Hence, while the EOI firms continued to enjoy generous financial incentives, most ISI firms gradually lost tariff protection. It is important to note, however, that not only did the Malaysian government develop the manufacturing sector but also substantial expenditure went to the development of other sectors (Lall, 1995; Rasiah & Shari, 2001).

13 The average effective rate of protection of this industry was 31% (Jomo & Edwards, 1993: 26).

14 For example, between 1969 and 1987 the effective rate of protection (ERP) of basic industrial chemicals fell from 160% to 16%, tobacco from 125% to 26%, fertilizers and insecticides from 300% to 8%, and structural metal products from 35% to 1% (Rasiah & Shari, 2001).

However, the EOI strategy had not created sufficient linkages with the economy, and only a narrow range of manufactured goods were being exported. In addition, there was little evidence of net foreign savings, and wages within the free-trade zones were very low. Finally, on the political front, the Barisan National, as anticipated, held together and proved electorally successful. It not only won every national election after its formation, but also was able to retain the two-thirds parliamentary majority that enabled it to alter the constitution at will. Further, it was able to hold power continuously at the state level in almost all the states throughout the 1970s. This resulted in stability of the country, and the NEP policies were implemented with ease. However, owing to its dominance, money politics increased as politicians sought favours. In addition, state intervention in the 1970s was also widely associated with greater opportunities for corruption and other forms of abuse, with which the predominantly Malay bureaucrats, politicians, and politically influential business people were associated (Milne & Mauzy, 1999: 26; Jomo & Gomez, 2000).

Industrialization Period to 1997 in Malaysia and 2002 in Kenya

To deal with the persistent BOP problems caused by the external shocks towards the end of the 1970s, the Kenya government sought external assistance from the World Bank. The financial assistance was released in 1980 on condition that Kenya would restructure its economy. As a result, a planned industrial-sector loan was converted into a structural adjustment loan, marking the beginning of SAPs in Kenya (Swamy, 1994). SAPs consisted of a set of policies designed to make production and resource allocation more efficient. With this loan, the World Bank emphasized promotion of non-traditional exports and market liberalization as part of its overall Structural Adjustment Package (IPAR Policy debate, 1995).

The implementation of SAPs saw the government adopt several measures. First, quantitative restrictions were replaced by tariff reduction and rationalization. Second, it enhanced the export compensation scheme of 1974. And third, it established the Investment Advisory Centre in 1983, to replace the New Projects Committee formed in 1968. However, the entire programme was not implemented in earnest until 1986, for various reasons including lack of political commitment, capacity to implement, and problems of timing and design (Swamy, 1994; O'Brien & Ryan, 1999). In 1986, the government published the *Sessional Paper No. 1*, entitled 'Economic Management for Renewed Growth', which proposed a broad strategy of economic change under SAPs for the remainder of the century, laying great stress on the rural economy.

As a result two sector loans were given in 1986 and 1990, going towards agriculture and industry in 1988, the financial sector in 1989, export development in 1990, and education in 1991. It was during this period that price controls were eliminated, import license schedules abolished, and import tariffs drastically reduced. In 1994, Kenya joined the World Trade Organization (WTO), and in the same year it was classified as 'open' (Bigsten & Durevall, 2006). In addition, the government instituted further measures towards export orientation, which included a further reduction of tariff bands, establishment of free trade zones, a revival of the Kenya Export Trade Authority, and establishment of the Kenya Export Promotion Council. In addition, Kenya signed a trade agreement with the US under the African Growth and Opportunities Act (AGOA) in 2000, which allowed duty- and quota-free access in textiles. Moreover, regional integration measures—the wider Common Market for Eastern and Southern Africa (COMESA) and specifically the revival of the East African Community (EAC)—also boosted export performance, particularly manufactured products.

In Malaysia, this period began with Mahathir becoming the prime minister in 1981.[15] Matahir, in response to the challenges facing the manufacturing sector, had launched a 'heavy industries' policy in 1980 while he was the Minister of Trade and Industry, and this marked a second round of ISI. The Heavy Industry Corporation of Malaysia (HICOM), later named HICOM Holdings, was established to plan, identify, initiate, invest in, and manage such projects (Milne & Mauzy, 1999: 64–65). This was a heavy-industry policy which would bring spin-offs and encourage links among industries. The policy was furthered through joint ventures with foreign firms, especially Japanese, as a way to acquire know-how. In addition, looking beyond the economic effects, Mahathir thought that such activities were an expression of nationalism and would show that Malays could advance beyond the economic limits portrayed in the earlier Malaysian plans.

Projects under HICOM included Proton (the national car project), motor cycle engine plants, iron and steel works, cement factories, a petrol refining and petrochemical plant, and pulp and paper mills. Other projects were initiated by the state petroleum company Petronas, or by one of

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[15] Prior to Razak's death in 1976, his successor Hussein Onn had suffered a stroke and had not fully recovered even after heart surgery in 1981. He took time to nominate his deputy. The timing had to fit in with the requirements of his illness and his UMNO duties. He made his final decision to nominate Mahathir only the night before the announcement (Milne & Mauzy, 1999: 27–28).

the State Economic Development Corporations. The implementation of HICOM saw a huge increase in public expenditure, which was mainly financed through external borrowing guaranteed by revenue from petroleum future sales. The targeted industries were heavily protected through tariffs, import restrictions, and licensing requirements (Kuruvilla, 1995; Kanapathy, 2000). However, the expensive nature of this policy, as well as other problems associated with the ISI strategy alluded to above, forced the government to revert to the EOI strategy in 1986 (Kinuthia, 2011).

The second round of the EOI strategy began with the liberalization of imports and the FDI policy.[16] In addition, the government enacted the Promotion of Investment Act (PIA), which offered very generous incentives mainly targeting foreign investors. It also developed its First Industrial Master Plan in 1986. Further, the new industries established under ISI were privatized through an ongoing privatization programme that the government had announced in 1983 (Milne & Mauzy, 1999: 56).[17] With the rapid build-up of foreign debt to finance heavy industries, the Malaysian monetary authorities allowed the ringgit to depreciate against the US dollar, after the second Plaza Hotel Meeting of September 1985 agreed that the dollar should float against the yen. Thus, Malaysia's yen-denominated sovereign debt doubled in ringgit terms, as the Malaysian authorities also sought to secure export competitiveness through devaluation. As the yen and the currencies of other first generation newly industrializing economies appreciated, Japanese, then Taiwanese and, to a lesser extent, Korean and other firms relocated to Southeast Asia and China, to overcome labour shortage problems (Jomo & Gomez, 2000).

The policies pursued in the 1980s and 1990s in Kenya, although assisting in creating a more open economy, did not yield the anticipated results. These two decades were considered lost in Kenya's history, since it experienced limited or even negative growth rates in some years. While the size of Kenyan export trade increased in regional terms, the country had not positioned itself as a major exporter of manufactures, and the structure of the manufacturing sector remained unchanged (see Table 11.3 above and

16 The main reason behind the FDI liberalization policy was the high public debt which had accumulated in the mid-1980s, rendering it impossible for the government to implement an expansionary fiscal policy at the time.

17 This policy was part of a worldwide trend that appealed to governments to believe that the profit-seeking private sector had an incentive to 'deliver the goods', an incentive which was lacking in the government sector. Moreover, it seemed an ideal vehicle for achieving the aims of the NEP and correcting some of the evils that had resulted from the previous policies.

Table 11.4 below). It also experienced severe macroeconomic instability, worsening BOP, and poor Kenyans bore the brunt. There was a decline in per capita GDP and economic growth and a worsening in social economic indicators, including poverty, mortality rate, illiteracy rate, and life expectancy. Worse still, there was an upsurge of the HIV/AIDS pandemic and neglect in infrastructure and other social amenities. Indeed, the economy nearly collapsed in the 1990s. Unemployment remained rampant, and the informal sector had expanded significantly but not created the anticipated jobs (Maxon & Ndege, 1995; Throup & Hornsby, 1998).

However, not everything was bad. The efforts to revamp agriculture had borne fruit, as Kenya had achieved self-sufficiency in maize and milk by the end of the 1980s. In addition, horticulture production became important in Kenya, and in terms of main exports became third after tea and coffee. Finally, due to the increased corruption, nepotism, ethnicity issues, and oppression during the Moi era, there was increased opposition and a demand for multi-party democracy. These demands saw Kenya move back to a multi-party system in 1992, culminating in Moi's departure from power in 2002 (Throup & Hornsby, 1998; Njeru & Njoka, 2007).

In Malaysia the effects of the second round of the ISI strategy were very harsh, and the government in 1986 postponed and even abandoned some of the HICOM programmes. However, the period after 1986 was characterized by impressive growth rates in the manufacturing sector until the Asian crisis of 1997. During this period, the objectives of the NEP were achieved and in some instances surpassed. There were increased investments and the country was operating at full employment. The economy had undergone structural transformation, and exports comprised 70–80% manufactured goods, while the share of the agricultural sector had declined to below 20% of GDP (see Tables 11.1, 11.3 above and 11.5 below). Income per capita had increased tremendously since the 1960s, and Malaysia was now considered an industrialized country already exporting significant proportions of manufactured goods. In addition, the privatization efforts had also borne fruit, the government had generated 10 billion USD up to 1995, and saving on capital expenditure was estimated at 30 billion USD (Milne & Mauzy, 1999: 74; Kinuthia, 2011).

The NEP, considered largely a success, was replaced by the National Development Policy (NDP) in 1990, which was more accommodating to the non-Malays and hence less controversial.[18] It was also based on a more

[18] Although NEP was considered successful, it had failed to reach some of the targets, particularly those set for greater Malay ownership of corporate wealth.

Table 11.4 Domestic exports in Kenya (% of total)

	1970	1980	1990	2001	2008
Food	50.5	43.0	61.5	48.8	38.7
Beverage & tobacco	0.6	0.5	1.1	2.5	3.7
Crude material, inedible	6.7	7.6	4.6	8.3	11.6
Mineral fuel, lubrications, etc.	17.3	35.0	15.8	14.7	7.1
Animal & vegetable oils & fats	0.2	0.1	0.2	1.1	1.5
Chemicals	8.1	4.7	3.2	1.7	4.1
Manufactured goods (includes tin)	10.3	5.8	9.0	12.4	3.3
Machinery & transport equipment	1.5	0.6	0.5	0.7	3.0
Miscellaneous manufactured articles	4.7	2.6	4.1	9.0	26.8
Miscellaneous transport commodities	0.1	0.1	0.0	0.8	0.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Various Statistical Abstracts.

Table 11.5 Domestic exports in Malaysia (% of total)

	1947	1950	1960	1970	1980	1990	2000	2006
Food	5.38	2.48	3.5	5.5	3.6	4.34	1.73	1.95
Beverage & tobacco	0.24	0.07	0.02	0.42	0.1	0.12	0.33	0.33
Crude material, inedible	72.09	78.34	71.76	53.8	32.32	14.41	2.76	2.92
Mineral Fuel, lubrications, etc.	0.29	0.51	0.27	7.08	24.49	18.32	9.62	13.73
Animal & vegetable oils & fats	3.94	3.4	2.91	6	11.12	7.13	3.47	4.67
Chemicals	0.29	0.36	0.58	0.71	0.61	1.64	3.83	5.45
Manufactured goods (includes tin)	14.65	11.65	18.58	22.91	13.1	7.95	6.91	8.17
Machinery & transport equipment	0.31	0.46	1.05	1.63	11.5	35.7	62.52	52.55
Miscellaneous manufactured articles	2.76	2.55	0.57	0.83	2.61	9.98	8.0	8.37
Miscellaneous transport commodities	0.05	0.18	0.76	1.12	0.55	0.41	0.83	1.86
Total	100	100	100	100	100	100	100	100

Source: Department of Statistics, Malaysia.

coherent and systematic analysis of the needs and capabilities of manufacturing activities. It aimed at addressing the weaknesses of the NEP, with more emphasis on human capital development and the role of the private sector. Through the NDP the government hoped to achieve balanced growth and development, in order to establish eventually a more united and just society. In addition, the NDP contained Malaysia's Vision 2020: becoming a fully developed and industrialized country by the year 2020 (Gomez, 2009).

The Industrialization Period after 2002 in Kenya and after the Asian Crisis in Malaysia

The year 2003 marked a new dawn for Kenya after the newly elected government under the leadership of President Kibaki assumed power. The National Rainbow Coalition Party (NARC), a coalition of political parties, defeated Moi's KANU government and was faced with the enormous task of rebuilding the country. The ascendancy of NARC to power was seen as an expression of popular discontent with the preceding KANU regime, which had practised dictatorship under the guise of democracy. The major challenge which faced this new government was how to restore economic growth, generate employment opportunities to absorb the large mass of unemployed—particularly the youth—and reduce poverty levels.

Immediately after taking office, the new government prepared the Economic Recovery Strategy Paper for Wealth Creation and Employment (ERS) in 2003, whose focus for the next five years was on rapid economic growth, wealth and employment creation, and poverty reduction. The government identified key pillars and specific targets aimed at reviving all sectors, most of which had forestalled or even collapsed in the previous years. In addition, the ERS promised to address governance issues. This broad-based, sector-wide approach to development, funded both from internal and external sources, was largely a success, and the Kenyan economy was back on a recovery path.

The successful implementation of the ERS informed the design of Kenya's Vision 2030 economic blueprint, which replaced it after 2007. Within this Vision, the economy is to continue pursuing an export-oriented strategy, and the manufacturing sector is to play an important role, as well as other sectors. Through this Vision, Kenya hopes to increase its competitiveness both regionally and globally and in turn achieve the status of a middle-income country by 2030. Unfortunately, the implementation of Vision 2030 was delayed owing to the post-election violence which erupted towards the end of 2007 after flawed elections.

Kenya, with the help of the external community, formed a coalition government, whose aim was to steer the country out of the crisis and address the ethnic tension which had built over the years and was clearly reflected in the allocation of resources based on an ethnically driven political system. This process, although slowing down the implementation of Vision 2030, resulted in the enactment of a new constitution, promulgated in 2010, which addresses issues of equitable distribution of resources through devolved government, among other changes. In addition, a process was set in motion to punish the key perpetrators of the post-election violence through the International Criminal Court (ICC).

The coalition government managed to begin the implementation of Vision 2030. It was also during this period that Kenya witnessed massive development of infrastructure, a key component in Vision 2030. However, these efforts were slowed down by the global economic recession of 2008, followed by a severe drought and an increase in world oil prices (caused by instability in oil-producing countries such as Libya). Kenya still faces high unemployment, high income inequalities, and high poverty levels. The manufacturing sector remains dualistic in nature, and, as Bigsten *et al.* (2004) observed, the informal sectors lack incentives for African informal firms to become formal. This sector failed to create employment, and they observe that Kenya needs higher investments and larger exports to achieve economic take-off, which can only be achieved through an efficient formal sector. Finally, although Kenya has made an attempt to address the causes of the post-election violence, much needs to be done before the ethnically based political patronage systems can be eliminated and dependable institutions established, to allow for a genuine fight against poverty, social inequalities, and unemployment.

In Malaysia, the impressive economic growth and development was affected by the Asian crisis of August 1997, when the ringgit weakened following the fall in some ASEAN currencies, particularly the Thai baht. The crisis was attributed to both a combination of the exchange rate, which was pegged to the US dollar, and a widening trade gap (Figure 11.2 above).[19] The problem was further intensified by government policies.[20] The crisis revealed insufficient central control of the banking system, and remedial measures were taken (Milne & Mauzy, 1999: 76). This crisis threatened Mahathir's command of the economy, so much so that his continuance

[19] A nation's financiers and investors borrow short-term funds in foreign currencies, such as dollars and yen, at the prevailing low interest rates abroad, and then invest those funds in real estate and other long-term investment at huge profits. If, however, the domestic currency depreciates as a result of excessive and unsustainable trade deficits and borrowing, the investors are unable to repay their foreign loans denominated in foreign currencies, banks fail or stop lending, and what started out as a financial crisis becomes a crisis of the real-estate sector, dragging the economy into recession. This was in fact an important cause of the 1997–1998 East Asian crisis.

[20] Initially, it tried to shore up the value of the ringgit through a 60 billion ringgit fund and also placed a ban on 'short-selling', which caused investors to feel trapped. The result was that they sold as much as they could as soon as they could. This was resolved later by the government cutting down expenditure on projects and introducing measures to reduce the deficit, as well as making it easier for investors to sell shares.

in office became questionable, although the odds were that he would weather the storm at least for a year or two.

Soon afterwards, the government began implementing the Second Industrial Master Plan, introduced in 1996, with the focus shifting from the traditional industrial base to a cluster-based approach. This new approach, dubbed Manufacturing ++ (manufacturing plus plus), aimed to develop dynamic industrial clusters and strengthen industry linkages, while promoting higher value-added activities. This manufacturing strategy not only entailed moving along the value chains but more importantly shifting the value chain upwards through productivity growth (MITI, 1996; Kinuthia, 2011). In addition, the government implemented some of the projects that had been postponed following the crisis, including the Multimedia Super Corridor (MSC), a mega-project which was conceived in 1994 and launched in 1996. The MSC was to be implemented and monitored by the Multimedia Development Corporation (MdeC), established in 1996, and through MIDA a set of very attractive incentives were set aside for this purpose. In addition, the government established the Multimedia University, which began operations in 1998. Through MIDA and MdeC, MNCs were encouraged to make Malaysia their headquarters (Jusawalla & Taylor, 2003). The government also liberalized the economy further in 2000 and removed some of the restrictions imposed on FDI, such as local content requirements, in line with the WTO regulations (Yean, 2004; Kinuthia, 2011).

In 2006, the government further launched the third Industrial Master Plan, which was intended to last until 2020 in line with the Vision 2020 contained in the NDP. This new plan was expected to drive industrialization towards a higher level of global competitiveness, emphasizing transformation and innovation in the manufacturing and services sector in an integrated manner, with a view to attaining developed nation status under Vision 2020. The government anticipated that all sectors except services were going to see a decline in their contribution to GDP by 2020. As a result, the Malaysian economy was expected to grow at an average rate of 6.3% during this period (MITI, 2006; Kinuthia, 2011).

During this period, Malaysia continued to maintain an impressive growth rate of 6.4% in 2007, but it fell to 4.6 and –1.7% in 2008 and 2009 respectively, as a result of the recent global economic meltdown, which affected the manufacturing sector and construction sectors most (Table 1). Mahathir retired in 2003, having steered the Malaysian economy to great success. His immediate successor, Prime Minister Abdulla Ahmad Badawi, was replaced in 2009 by Najib Rayak, the son of the Prime Minister Razak who played a major role in the introduction and implementation of the NEP. UMNO has grown in popularity but not without a challenge by the opposition owing to allegations of corruption, intimidation of opponents through imprisonment, and discrimination against non-Malays during the post-NEP era.

Interpreting the Industrial Experiences of Kenya and Malaysia

From the above discussion of the industrial experience in the two countries, we see that they show many similarities, such as their colonial heritage, diversity in ethnicity, economic structure, and development strategies at independence. However, other indicators such as the GDP per capita suggest that their initial conditions were not the same. In addition, the composition of their primary sectors was quite different. Malaysia's rich resource base initially depended on tin and rubber, and later timber, palm oil, and natural oil, compared with Kenya's settler-based agricultural economy followed later by African smallholders producing mainly tea and coffee—suggesting different potentials for growth. Robinson *et al.* (2006) observed that resource-endowed nations have been traditionally believed to offer greater development benefits. Paradoxically, it is now almost conventional wisdom that resources are a 'curse' for currently developing countries. Hence, at independence, resource-rich Malaysia could also have failed to industrialize.

The reversal of fortunes observed between these two countries cannot be explained only in terms of initial conditions. In both countries, the choice to industrialize, as in many other newly independent countries, was informed by the structuralist arguments for the need to move away from the dependence on primary commodities—hence the implementation of the ISI. Faced with an underdeveloped manufacturing sector, governments in both countries provided the initial impetus, which involved the establishment of institutions, provision of financial assistance, and provision of incentives for foreign and local entrepreneurs. Attracting foreign capital was an integral part of this process to assist not only in capital accumulation but also as a tool to discriminate against entrepreneurial minorities. Malaysia chose to discriminate against the Chinese, owing to the threat of communist insurgency, and to empower the Malays, who were considered marginalized compared with other groups—particularly the Chinese[21] (Jomo, 2007: xv). Similarly in Kenya, FDI allowed the government

[21] In the case of Malaysia, the country has long had ethnic rivalries and an ethnic affirmative action policy. This has encouraged some policy-makers to try to limit ethnic

to empower the indigenous Africans through the nationalization programme, while discriminating against the Indian community, which had been favoured during the colonial period. While in Malaysia the affirmative action may have been considered a success, based on the achievements of the NEP, in Kenya the success of the nationalization programme has been questioned, and some, like Himbara (1994), have attributed Kenya's advancement in industrial development to Asian capitalists.[22]

The start of the 1970s was an important turning point for the two countries, both politically and in terms of policy. Malaysia partially switched from the ISI to EOI following the establishment of the NEP, which identified the manufacturing sector as the main engine for growth for the next 20 years. In addition, the NEP had an affirmative dimension aimed at empowering the *Bumiputera*. This was necessitated by the existing inherent weaknesses of the ISI and the growing income inequalities between the various economic groups, as well as by increased unemployment. Matters had taken a political dimension, culminating in riots following the waning popularity of the Alliance. These events in Malaysia resulted in the declaration of a state of emergency, parliament being suspended for two years, the formulation of an economic blueprint for the next 20 years, and a change in leadership along with the formation of the Barisan National Front, an alliance of political parties. These events led to a dualist manufacturing sector, creation of a new comparative advantage through FDI and political stability, and the addressing of the unemployment problem.

In contrast, Kenya insisted on pursing the ISI further, even after being warned about the potential dangers. This created room for rent-seeking and corruption, and most of the industries became inefficient. As a result, the manufacturing sector remained uncompetitive under the ISI. In addition, the government developed the informal sector, since the ISI could not generate the much-needed jobs. This programme, although perceived in the literature as a positive thing owing to its potential to create employment, was a failure. The situation was worsened by severe external shocks, which also contributed to severe BOP problems during this period. Hence, Kenya at this stage suffered from wrong policy choices and their

Chinese control of the economy, by encouraging foreign direct investment so that the proportion of ethnic Chinese control of the economy would be correspondingly reduced.

22 For an interesting debate on nationalization in Kenya, see Leys (1994: 235), Himbara (1994), Chege (1998), and Vandenberg (2003).

implementation's failure to address both social and economic problems, unlike Malaysia. In addition, the implementation of the ISI in Kenya was an expensive affair, and, unlike Malaysia, did not have sufficient funding to finance it, bred corruption and rent-seeking, and, worse still, resulted in the neglect of other sectors—including agriculture.

Divergence in policies can also be seen by considering the composition of the goods produced at different stages of development in the two countries. Malaysia's industrialization has entailed firms moving up the technology ladder with the tightening of the labour market, efforts largely spearheaded by the government through various means such as generous incentives targeting specific sectors. This is evident when the composition of manufactured goods is considered. By 2006, Malaysia was an exporter of high-tech goods and attracted FDI in sectors with high R&D expenditures. In Kenya, such policies have been largely absent, and the manufacturing sector has been dominated by light industries and the export of primary commodities. However, in the 1990s, there was an increase in FDI both in the manufacturing sector and horticulture, owing to liberalization and the establishment of free-trade zones. Thus, Malaysia managed to break away from the dependence on primary commodities' exports and successfully diversified towards the manufacturing sector, unlike Kenya.

Malaysia has also pursued policies that have been largely inconsistent with the conventional (neoclassical) wisdom and largely driven by national pride and interest, even when to serve the interests of the rent-seekers among political leaders. Negative there is potential for negative effects. This is clearly seen in its choice for labour-intensive FDI, targeting the manufacturing sector only, while protecting the domestic sector through the ISI; its choice for affirmative action aimed at distributing growth; the pursuit of the second round of ISI, in total disregard of the SAPs while, instead, insisting on the 'Look East Policy'; and more recently, on the pursuit of unorthodox macroeconomic policies during the East Asia financial crisis. This has not been the case in Kenya, where most prescriptions for its problems since independence have been from external sources, even when sometimes these policies are inconsistent with the overall national objective and needs of the country, such as some aspects of SAPs and the development of the informal sector. This can be attributed to the ongoing dependence on external funding in times of crisis, enabling lenders to attach conditionality.

Policy implementation in the manufacturing sector in Malaysia has been assigned to various institutions, which the government established over the years to spearhead industrial development. These institutions performed the important function of coordinating and financing industrial development, mainly in the manufacturing sector and more recently in services. Two important institutions are MIDA and MIDF. Although similar institutions do exist in Kenya, they have been allowed to run down and often lack adequate funding and capacity. Furthermore, investment promotion agencies have been established but have changed functions over the years. Today, Kenya has Ken Invest, similar to MIDA but lacking independence, adequate funding, and a clear mandate to perform its functions effectively. It has yet to become a one-stop shop owing to many competing interests. Similarly, ICDC in Kenya is the equivalent of MDIF in Malaysia. Although still in operation, ICDC has not had a significant impact and has diminished in importance in Kenya's industrial development.

Thus, in Malaysia, after establishing the development agenda and winning political consensus, the responsibility for implementation was divorced from day-to-day politics by being assigned to independent institutions, which have specific targets and a clear mandate. In Kenya, because of ethnically based politics, most of the institutions are seen as avenues for rent-seeking. In most cases, good policies that might be of benefit to the economy as a whole are replaced by ethnically based policies intended ethnicity manifests itself in many important spheres of life and it remains the single most important stumbling block to Kenya's development. It has affected resource allocation, bred impunity, created disunity, infiltrated institutions, encouraged rent-seeking, and affected Kenya's growth potential. It remains the single most important reason for the reversal of fortunes in Kenya.

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12

Foreign Direct Investment in Kenya and Malaysia

Bethuel K. Kinuthia & Syed Mansoob Murshed

Introduction

This chapter examines the determinants of Foreign Direct Investment (FDI) and its impact on economic growth in Kenya and Malaysia. Both countries have a long history of reliance on FDI in economic development. Prior to their independence, FDI was mainly concentrated in the primary sectors—while after independence, FDI became an important ingredient in their industrialization process. Over the years, Malaysia has remained an attractive location for FDI, having attracted substantial inflows followed by rapid economic growth rates leading to successful industrialization. Kenya on the other hand, although having comparable levels of FDI inflows to Malaysia in the 1970s, lost its appeal and has experienced slow economic growth rates over the same period, consequently failing to industrialize. This observed reversal of fortunes between Kenya and Malaysia, which is also reflected in FDI inflows, necessitates a re-examination of its importance in economic development as well as its determinants.

The literature on determinants of FDI in host countries is vast and examines a wide range of factors. Perhaps one of the most comprehensive frameworks to date for analyzing FDI determinants is the Dunning (1977; 1993) eclectic paradigm. The paradigm, otherwise known as the OLI framework, suggests that multinational corporations (MNCs) contain Ownership- (O), Location- (L) and Internalization- (I) specific advantages, which enable them to compete with domestic firms in host countries. The precise configuration of the OLI parameters facing a particular firm and the response of the firm to that configuration are strongly contextual, reflecting the features of both the parent and host country, the industry, and the characteristics of the investing firm (Dunning, 2000).

Trade theories have also provided an alternative framework to the business school models for analyzing FDI determinants. These theories, usually based on general equilibrium models, offer explanations for the existence of both horizontal FDI (where multi-plant firms duplicate roughly the same activities in multiple countries) and vertical FDI (where firms locate different stages of production to different countries). Vertical FDI arises when factor endowment differences are large and factor price differences exist (Helpman, 1985), while horizontal FDI is based on the trade-off between maximizing the proximity to customers and concentrating production to achieve scale economies (Horstmann & Markusen, 1987). An integration of streams of literature on both horizontal and vertical FDI has generated the knowledge-capital model, within which FDI is determined by variables considered in both models (Markusen, 2002). Recently, it has also been argued that the determinants and motives for FDI have changed in the process of globalization (Kokko, 2002; Addison & Heshmati, 2003). As a consequence, the traditional determinants of FDI are considered insufficient to induce FDI inflows.

The impact of FDI on economic growth in host countries has also received adequate attention in the literature. The conventional wisdom asserts that FDI plays an important role in capital accumulation and also as a source of knowledge transfer and spillovers (De Mello, 1997). Developing countries suffer from low capital accumulation owing to low domestic savings; hence, FDI meets the savings—investment gap. In addition, FDI can lead to improved balance of payments and offer much-needed employment opportunities to the surplus labour in these countries. FDI is also considered an important conduit for technology transfer, leading to increased productivity of domestic firms through various channels. Furthermore, it can also generate export spillovers, among other benefits to firms within host countries. Hence, based on the neoclassical view, FDI plays an important role in promoting growth and development in host countries. The structuralists, on the other hand, observe that developing countries fail to benefit from FDI owing to existing structural rigidities and advocate for protectionist policies if developing countries are to develop (Burton, 1998). In recent times there has been the new institutionalist theory, which asserts that markets can work only with good institutions. The government therefore plays an important role in providing the institutions, legal framework, incentives, and other related services that facilitate the generation of benefits from FDI (Rodrik, 2004). Finally, the dependency theory perceives FDI as a neo-colonial tool, through which developed countries exploit the developing countries; hence, FDI is not desirable for growth and development (Cardoso, 1972).

Although it can be argued that this literature is substantial, the empirical findings are rather limited. Evidence from a survey of literature suggests that existing theories account only partially for the determinants of FDI (Agarwal, 1980) and are still in their infancy (Blonigen, 2005). Faeth (2009) further observes that there is no "single theory of FDI, but a variety of theoretical models attempting to explain FDI and the location decision of multinational firms. Therefore, any analysis of determinants of FDI should not be based on a single theoretical model". Similarly, empirical evidence on the impact of FDI on economic growth and development is mixed and often dependent on some other factors such as host country's absorption capacity and the technology-gap (Reichert & Weinhold, 2001; Lall & Narula, 2004). The statistical reasons for this inconclusive evidence can be traced to several issues. First, models estimated with time-averaged data lose dynamic information and, owing to both the lack of dynamics and degrees of freedom, run increased risk of serious omitted variable bias. Second, contemporaneous correlation across a cross-section does not imply causation, and thus these models may suffer from endogeneity biases. In addition, these problems are difficult to address satisfactorily since suitable instruments are often not available (Tsai, 1994; De Mello, 1997; Reichert & Weinhold, 2001).

Thus, while the importance of FDI has been appreciated over time, several important issues concerning FDI remain unresolved. Of interest in this study are two such issues. First, what are the determinants of FDI? That is, from a developing country perspective, what are the factors that host countries can address or introduce in order to attract FDI? Second, what is the impact of FDI on economic growth? Is it positive as the neoclassical school suggests, or negative as the dependency school asserts? These questions have not been adequately addressed in the two countries. In Kenya, for example, only two studies exist, Mwega and Ngugi (2006) and Ngugi and Nyangóro (2005), which investigate the determinants of FDI in a cross-country context using a Kenyan dummy. Although both papers arrive at different conclusions, they identify macroeconomic environment and institutional factors as important determinants. In Malaysia, several studies have been undertaken in this area (Ang, 2008; Pradhan, 2008; Choong & Lam, 2010). However, these studies ignore political and institutional factors. As a departure from previous studies, in this study a Vector Error Correction Model (VECM) is estimated using time series data for the period 1960–2009 to address the two questions. The importance of institutional factors in determining FDI is also examined.

The results obtained in this study provide evidence in support of FDI-led growth in Malaysia and growth-led FDI in Kenya. Several variables are found to influence FDI in both countries, both in the short term (time period within which one or more important conditions cannot be changed) and in the long term (time period within which anything can be changed). The real wage is found to influence FDI and gross national income (GNI) in the long term in Malaysia. The exchange rate, inflation rate, financial development, trade openness, and governance variables are found to affect FDI in the long term in Malaysia, while democracy and infrastructure variables have minimal effects on FDI there. In Kenya, the real wage, exchange rate and democracy variables are found to affect FDI in the long term. In addition, the infrastructure and governance variables do not have an impact on FDI in the long term. In both countries, changes in trade openness and the exchange rate affect the changes in FDI in the short term. In Kenya, changes in democracy are also found to have a significant effect on changes in FDI in the short term. Short-term changes in the variables appear to disappear quickly over time as the economy moves towards the long term. Technical details involved in this estimation can be found in Kinuthia & Murshed (2012).

The rest of the chapter is organized as follows: in the next section an overview of the FDI and economic growth pattern in the two countries is presented; the following section presents a brief discussion of the data and the estimation technique; and the final section contains a discussion of the results and the conclusion.

Overview of FDI and Economic Growth in Kenya and Malaysia

From independence to date, Malaysia has always registered on average higher economic growth rates than Kenya. For the period 1960–2000, Malaysia consistently registered an impressive decade average growth rate of between approximately 5.8% and 7.8%. This is in comparison with Kenya, which registered decade average growth rate of between 2% and 7.1% during the same period. However, both countries have experienced slow growth during the last decade, having registered an average growth rate of about 4%. The impressive growth rate of Malaysia has been accompanied not only by structural transformation but also by a dramatic increase in GDP per capita, which grew from 300 USD in 1960 to 7,029 USD in 2009, accompanied by a significant reduction in poverty (Kinuthia, 2010a). This is in contrast with Kenya, where the slow growth has resulted in only marginal increase of per capita GDP from 97.6 USD in 1960 to 738 USD in the year 2009 and where poverty remains high.[1]

FDI has been an integral part of the development process in both Kenya and Malaysia. This association dates back to the period before independence, when the two countries were British colonies. Prior to Kenya's independence in 1963, FDI was mainly occupied in both agriculture and manufacturing sectors (Swainson, 1980: 101). In Peninsular Malaysia, foreign capital was involved mainly in the production of tin and rubber, which accounted for more than 80% of exports before independence in 1957 (Rasiah, 1995: 56). It has been argued by some scholars that Malaysia's choice to rely on FDI at the initial stages of development was motivated by the threat of communist insurgency, in addition to political motives (Jomo, 2007: xv). Both governments had offered a wide range of incentives and established institutions through various legislation, aimed at attracting foreign investors, with much success.

In the first decade after independence, the two countries experienced high growth rates after embarking on the import substitution industrialization (ISI) strategy. There was unprecedented growth of the manufacturing sector, largely dominated by foreign capital. In Kenya, for the period 1954–1963, manufacturing grew by 8.47% annually, and for the period 1964–1970 this sector grew much faster than the whole of the economy and was among the highest in Sub-Saharan Africa (Zwanenberg & King, 1975: 133). Similarly, in Malaysia the share of manufacturing in GDP increased from 9.4% in 1960 to 12% in 1970, while the share of industry in GDP grew faster from 19.4% to 27.4% during the same period (Table 12.1). However, although the ISI strategy assisted in the diversification of these economies from dependence on primary commodities, it failed to create sufficient jobs owing to its capital-intensive nature. In addition, its high import content requirement threatened the balance-of-payment positions in both countries.

The negative effects of the ISI strategy and growing income inequalities in Malaysia culminated into race riots in 1969, forcing the government to change its development strategy. In 1970, the New Economic Policy (NEP) was introduced with a dual aim. First, it aimed at reducing and eventually eradicating poverty, by raising income levels and increasing employment

[1] These figures have been obtained from the World Bank's World Development Indicators Database (2010).

Table 12.1 Selected economic indicators for given years

		1960	1970	1980	1990	2000	2009
FDI inflows (million USD)	Kenya		13.8	79	57	110.9	140.5
	Malaysia		94	933.9	2,332.5	3,787.6	1,387.4
Exports of goods and services (% of GDP)	Kenya	31.9	29.8	29.5	25.7	21.6	25.3
	Malaysia	50.6	41.4	56.7	74.5	119.8	96.4
GDP growth rates	Kenya	−8*	−5	6	4	1	3
	Malaysia	8*	6	7	9	9	−2
GDP per capita (current USD)	Kenya	97.6	142.5	446.8	366.6	403.7	738
	Malaysia	299.9	394.1	1,811.8	2,431.8	4,029.9	7,029.8
High tech exports (% of manufactured exports)	Kenya				3.91	3.85	5
	Malaysia				38.2	59.5	47
Manufactured exports (% of merchandise exports)	Kenya			12.1	29.2	20.8	36.5
	Malaysia		6.55	18.8	53.8	80.4	69.9
Manufacture value added (% of GDP)	Kenya	9.4	12	12.8	11.7	11.6	8.7
	Malaysia	8.1	12.4	21.6	24.2	30.9	25.5
Industry value added (% of GDP)	Kenya	18.2	19.8	20.8	19	16.9	15.3
	Malaysia	19.4	27.4	41.0	42.2	48.3	44.3

Source: World Bank, World Development Indicators Database 2010. * 1961 figures

opportunities for all Malaysians, irrespective of race. Second, it aimed at accelerating the process of restructuring Malaysian society to correct economic imbalances, so as to reduce and eventually eliminate the identification of race with economic function by 1990 (Jomo, 1990; Kinuthia, 2010a). To achieve the objectives of the NEP, the manufacturing sector was identified as an engine for growth for the next 20 years. Although the ISI strategy continued being pursued in some sectors, the economy was reoriented towards exports. The government embarked aggressively on efforts to attract export-oriented industries through various incentives, which saw labour-intensive MNCs relocate to Malaysia (Table 12.1). Kenya during this period continued pursuing the ISI strategy and provided limited incentives towards the export of manufactured goods (Nyong'o, 1988).

Since the 1970s, FDI inflows have increased steadily in Malaysia, reaching a peak in the 1990s before declining owing to the Asian financial crisis in 1997 and the recent global financial crisis in 2008. Except for the short period between 1980 and 1985, when Malaysia re-introduced the ISI strategy, FDI inflows have largely increased within a liberalized environment. Similar trends can be observed in the manufacturing and industry sectors and in manufactured exports and GDP per capita, which increased tremendously over the years. Moreover, the composition of manufactured goods changed during this period, with a significant increase in the production of high-tech goods for export, comprising almost half of the manufactured goods exported since the mid-1990s. In Kenya, although FDI inflows have been lower in comparison with Malaysia, it increased by a factor of 6 in the period 1970–1980, before decreasing in the 1990s, and only increased marginally after 2000. This is in spite of Kenya pursuing structural adjustment programmes (SAPs) after 1980, aimed at restructuring the economy from being inward-oriented under the ISI strategy to a greater emphasis towards export promotion. The same trend can be observed in the manufacturing and industry sectors, whose shares in GDP have not increased beyond 13% and 20% respectively. Moreover, there has been only a marginal increase in income per capita and manufactured exports. In addition, the percentage share of high-tech goods in manufactured exports remains very low, at less than 5% (Table 12.1).

Thus, while Malaysia underwent successful industrialization during this period, Kenya made very little progress. Malaysia's industrial success has been accompanied by very high FDI levels, while Kenya's slow growth has been accompanied by very low levels of FDI. Malaysia's impressive performance resulted in structural transformation, whereby it changed from being a predominantly resource-based exporter to being the developing world's sixth-largest exporter of manufactures, just behind the four dragons of East Asia and China (Lall, 1995). Malaysia had various sources of FDI over the years. In the 1970s, Japan, the UK, and the US were the main sources of FDI. In the 1980s, Japan was the most important source of FDI, while Singapore was second; the UK and the US were third and fourth, respectively. In the early-1990s, Taiwan became the most important source of FDI, followed by the US and Japan. From the mid-1990s until 2000, the US was the most important source of FDI, followed by Japan and Singapore (Kinuthia, 2010a). The main traditional sources of foreign investments in Kenya are the UK, US, Germany, South Africa, Netherlands, Switzerland, and recently China and India (UNCTAD, 2005; Kamau *et al.*, 2010).

In terms of existing studies on FDI, two studies have been conducted in Kenya that have addressed the determinants of FDI in a cross-country context, Mwega and Ngugi (2006) and Ngugi and Nyangóro (2005). In these studies, a Kenyan dummy was introduced in a panel estimate of a pool of countries, in order to establish if Kenya is on the regression line. The studies found that Kenya is not unique from other countries, implying that it is subject to similar determinants of FDI found in other countries. The first study concludes that FDI in Kenya is mainly determined by the fundamentals as captured by the trading partners' growth rate, terms of trade shocks, external debt ratio, and the quality of institutions. The second study stresses macroeconomic stabilization as well as the quality of institutions as important FDI determinants. However, neither of these studies examined the impact of FDI on economic growth.

In Malaysia, several studies have investigated FDI determinants as well as its impact on economic growth, using cross-sectional and time-series approaches. Kinuthia (2010b), within a cross-sectional framework, using data for the period 1970–2007, found that financial development and macroeconomic stabilization factors determine FDI. However, the study did not find any strong evidence that FDI causes economic growth. Ang (2008), using data for the period 1960–2005, found that real GDP, growth rate of GDP, financial development, infrastructure development, trade openness, and macroeconomic uncertainty promote FDI. Higher statutory corporate tax rate and the real exchange rate appreciation were found to discourage FDI inflows. Similarly, Choong and Lam (2010), using data for the period 1970–2006, found evidence of the market size hypothesis. In addition, the level of openness and literacy rates were found to have a positive impact on FDI inflows. They also found a bi-directional causality between real GDP and FDI inflows, which is consistent with findings by Chowdhury and Mavrotas (2006), but in contrast with findings by Pradhan (2008), Ang (2009), and Kinuthia (2010b). However, none of these studies have considered institutional and political factors that may affect FDI inflows.

Data Sources and Empirical Analysis

The empirical estimation in this chapter follows those of Asiedu (2002) and Kolstad & Villanger (2004), where the relationship between FDI inflows and its determinants can be expressed in the following functional form:

$$fdi_t = f(D_t, C_t, B_t, E_t) \tag{1}$$

where D represents the size of domestic market, C represents the cost factors, B represents potential trade barriers; and E represents a group of factors that are external to the firm but which are capable of significantly influencing its levels in the production function.

The empirical model is based on the generalized version of model (1) and involves a log linear multivariate regression model, expressed as follows:

$$\ln fdi_i = \beta_0 + \beta_1 \ln D_t + B_2 \ln C_t + \beta_3 \ln \beta_t + \beta_4 \ln E_t + \varepsilon_t \quad (2)$$

where ln represents natural logarithms.

The variables used, sources, and period of coverage are summarized in Table 12.2. The dependent variable FDI is measured as net inflows per year.[2] The domestic market D is measured by size of the GNI. Based on the market size hypothesis, the GNI is expected to positively affect FDI.[3] C represents several cost factors. First, the real wage rate is used as a proxy for the labour costs. Low wage rates are expected to attract labour-intensive FDI but may also hinder FDI in higher value added industries.[4] Second is the cost of infrastructure development. A well-developed infrastructure will attract FDI. For lack of a better measure for Kenya, an infrastructure index is constructed as a proxy to measure the level of infrastructure development. We follow Ramasamy and Yeung (2010) and construct an infrastructure index comprising electricity supply per capita and the number of telephone lines per 100 people. These two components were mean standardized and equally weighted. However, in Malaysia, government data on development expenditure on infrastructure is used.[5] A positive relationship is expected between the infrastructure index and FDI.[6] The third cost factor is the extent of development in the financial

2 Since FDI flows have been going on for a long time, recent and relatively large changes in FDI behaviour may not be apparent if FDI stock figures are used. That is, changes in stocks on a year-to-year basis will be quite small when they occur against an absolutely large accumulated base value. As a result, it may be difficult to identify the empirical factors affecting FDI stock values, given relatively small variations in the FDI stock dependent variable. Moreover, inward FDI behaviour is a more comprehensive measure for flows than for stocks (Globerman & Shapiro, 2002). Furthermore, net inflow of FDI is the best measure to examine a country's ability to attract FDI (Jensen, 2003).

3 The standard way of measuring the size of the domestic market in host countries has been through the use of GDP. However, GNI is a better measure, as it includes not only the total value produced in a country but also income from investments abroad, less similar payments made to other countries.

4 An alternative measure used is GDP per capita, which is considered an implicit measure of the wage rate. However, these measures will also implicitly reflect productivity differences among countries; hence, they will not necessarily reflect differences in unit labour costs, which in principle they are meant to measure.

5 This is calculated as the total federal government development expenditure in transport, communication, electricity, and water.

6 Several authors have used several variables as proxies for infrastructure, the main ones being internet hosts per 10,000 people, telephone mainlines per 1,000, and millions of kW-h of electricity generated as ratio to GDP (Asiedu, 2002; Biswas, 2002; Globerman & Shapiro, 2002). Ang (2008) used total government spending on transport and communication.

Table 12.2 Variables, definitions and data sources

Variable	Definition	Source
FDI	FDI net inflows in million USD, average (1970–2009)	World Development Indicators
GNI	Real GNI in million USD, average (1960–2009)	World Development Indicators
Wage	Average real annual manufacturing wage rate (1960–2009)	International Labour Organization
Trade Restriction/ Openess (To)	Average of annual export and import duty in Malaysia, percentage share of average exports and imports in GDP for Kenya (1970–2009)	Ministry of Finance, Malaysia World Development Indicators
Inflation Rate (INF)	Inflation rate, consumer prices (annual %) (1961–2009)	World Development Indicators
Infrastructure (INF)	Expenditure on infrastructure for Malaysia (1970–2009). In Kenya an infrastructure index is constructed (1970–2007)	Ministry of Finance, Malaysia World Development Indicators
Institutions	Governance (1972–2009)	Freedom House
Development	Democracy and Autocracy (1960–2009)	Polity IV Annual Time Series
Financial Depth (FD)	Money and quasi money as a share of GDP(M2/GDP): Malaysia (1960–2009) Kenya (1962–2008)	World Development Indicators
Exchange Rate	Exchange rate (1960–2009)	World Development Indicators

system. A well-developed financial system tends to have a positive impact on FDI since it allows for adoption of best practices and technologies and learning-by-doing. Money and quasi money (M2) as a share of GDP are used as a measure of financial depth, and a positive relationship with FDI inflows is expected.

Measuring the trade restriction (B) of a country has been a subject of debate for a long time. Since openness is not directly observable, nor is there a generally accepted and unique measure derived in theory, the data on export and import duty is used in both countries. Increased trade openness appeals to efficiency-seeking FDI, which tends to be more export-oriented, while restricted trade openness appeals more to the market-seeking FDI, where firms prefer to operate in a protected environment, and is mainly associated with inward-oriented industrialization strategies. In this case, firms may decide to set up subsidiaries in host countries if it is difficult to import their products to the country, a phenomenon commonly known as the 'tariff jump hypothesis'.

Finally, E represents several important variables. First, the rate of inflation and the exchange rate are used as proxies for macroeconomic stability. High inflation will discourage FDI inflows. Similarly, depreciation (an increase) of the exchange rate will appeal more to foreign investors. Second, institutions matter for FDI. Following Mavrotas *et al.* (2011), two datasets are considered. The institution freedom index is used as a measure of democracy, or how the government is run. This dataset pertains more to 'economic governance' and covers the size of government expenditure and tax structure, the legal structure and property rights, access to clean money, the freedom of trade internationally, and the regulatory structure. The maximum score in this index is 10.[7] Another measure of institutional development is proxied by the Polity IV variable obtained from the Polity dataset and relates to how a government is formed, elected, or selected. It gives a democracy score of between 0 and 10 (highest). A similar autocracy dataset gives an autocracy a score of between -10 and 0, with -10 being the worst score. The Polity 2 score is a combination of both autocracy and democracy and a reflection of both a country's democratic and non-democratic credentials, and the score is between 10 and 10. This is scaled upwards to between 0 and 20 for positive numbers. Well-established democracies, independent judiciaries, and election challenges help to guarantee property rights, ensuring investments are secure in the long term and hence positively impacting FDI. Following this argument, one would expect that higher levels of democracy are associated with more FDI inflows.[8] Yet still, considering both datasets, it is possible to find a well-governed autocracy and a poorly governed democracy, which will affect FDI differently.

A summary of statistics as well as a correlation matrix of the variables discussed above is presented in Tables 12.3–12.6. In addition, the time series graphs for the variables are presented in Figures 12.1 and 12.2. The summary statistics show that for the period 1970–2009, Malaysia on average had higher FDI inflows, GNI, trade openness, investment in infrastructure, and financial depth, and was more democratic compared with Kenya.

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[7] Note: the Kaufmann governance indicators cannot be used since they are available only from 1996.

[8] For a further discussion on the relationship between democracy and FDI, see Li & Resnick (2003).

It also had a lower rate of inflation, a stronger currency, and a lower score in governance compared with Kenya. Moreover, on average the real wage rate in Malaysia appears to have been lower than in Kenya. The correlation matrices show high correlation between some of the variables, which suggests the presence of multi-collinearity and the need to include a time trend. Finally, lacking time series data on the manufacturing sector, this study assumes that most of the FDI in Malaysia is efficiency-seeking and mainly located to the manufacturing sector. This is a plausible assumption, given Malaysia's recent export-oriented industrialization, in addition to findings by some studies such as Lall (1995) and Kinuthia (2010a).

Table 12.3 Summary statistics: Kenya

Variable	Obs	Mean	Std. Dev.	Min	Max
lfdi (million USD)	40	3.42	1.24	−0.93	6.59
lgni (million USD)	50	4.53	0.56	3.25	5.41
lwage (USD)	50	4.47	0.40	3.71	5.03
ltrade openness (million USD)	50	5.16	0.87	3.35	6.17
lfinancial depth (ratio)	47	3.23	0.58	1.38	3.68
inflation (%)	49	11.76	8.82	0.83	46.98
exchange rate (ratio)	49	20.05	29.04	0.45	99.99
linfrastructure (ratio)	37	−0.04	0.31	−0.68	0.30
lgovernance (index)	38	1.56	0.23	1.10	1.87
lpolity (index)	47	1.75	0.69	1.10	2.89

Table 12.4 Summary statistics: Malaysia

Variable	Obs	Mean	Std. Dev.	Min	Max
lfdi (million USD)	40	7.19	1.26	4.54	9.04
lgni (million USD)	50	6.04	0.89	4.37	7.34
lwage (USD)	48	3.87	0.20	3.41	4.32
ltrade openness (million USD)	40	7.17	0.60	5.58	7.96
lfinancial depth (ratio)	50	4.23	0.61	3.14	4.87
inflation (%)	49	4.22	3.11	0.59	18.33
exchange rate (ratio)	51	2.96	0.66	2	4
linfrastructure (million USD)	40	6.78	1.05	3.91	8.22
lgovernance (index)	38	1.38	0.17	0.91	1.62
lpolity (index)	50	2.67	0.16	2.40	3.00

Table 12.5 Correlation matrix: Kenya

Variables	lfdi	lgni	lwage	lnto	lfd	inflat~n	rer	linf	lgov	lpolity
lfdi	1.00									
lgni	0.16	1.00								
lwage	−0.26	−0.71	1.00							
ltrade openness	0.15	0.80	−0.54	1.00						
lfinancial depth	0.25	0.59	−0.82	0.55	1.00					
inflation	0.02	−0.39	0.24	−0.32	−0.11	1.00				
exchange rate	0.21	0.61	−0.96	0.46	0.86	−0.18	1.00			
linfrastructure	0.13	0.67	−0.72	0.73	0.72	−0.01	0.72	1.00		
lgovernance	–	−0.29	0.53	0.02	−0.40	0.22	−0.55	−0.03	1.00	
lpolity	0.22	0.63	−0.93	0.42	0.86	−0.17	0.95	0.66	−0.69	1.00

Table 12.6 Correlation matrix: Malaysia

Variables	lfdi	lgni	lwage	lto	lfd	inflat~n	rear	linf	lgov	lpolity
lfdi	1.00									
lgni	0.89	1.00								
lwage	0.62	0.68	1.00							
ltrade openness	0.68	0.56	0.57	1.00						
lfinancial depth	0.61	0.79	0.54	0.51	1.00					
inflation	−0.21	−0.44	−0.31	−0.18	−0.63	1.00				
exchange rate	0.51	0.67	0.37	−0.01	0.63	−0.51	1.00			
linfrastructure	0.80	0.92	0.57	0.62	0.84	−0.50	0.54	1.00		
lgovernance	0.66	0.70	0.59	0.67	0.81	−0.52	0.52	0.68	1.00	
lpolity	−0.22	−0.13	−0.07	−0.08	−0.20	0.07	−0.33	−0.07	−0.25	1.00

In Kenya, on the other hand, there is evidence that FDI is largely market-seeking and has been involved in various sectors, such as horticulture, manufacturing, and tourism (UNCTAD, 2005; Kamau *et al.*, 2009).

Discussion and Conclusion

The estimation techniques used to generate the results discussed here can be obtained from Kinuthia & Murshed (2012). These results reveal that the determinants of FDI in Kenya in the long term are the real wage, the exchange rate, and the state of democracy. In Malaysia, on the other hand, inflation, financial depth, trade openness, exchange rate, infrastructure, and governance variables have a long-term impact on FDI. The real wage in Kenya is found to be weakly exogenous and affects FDI negatively in the

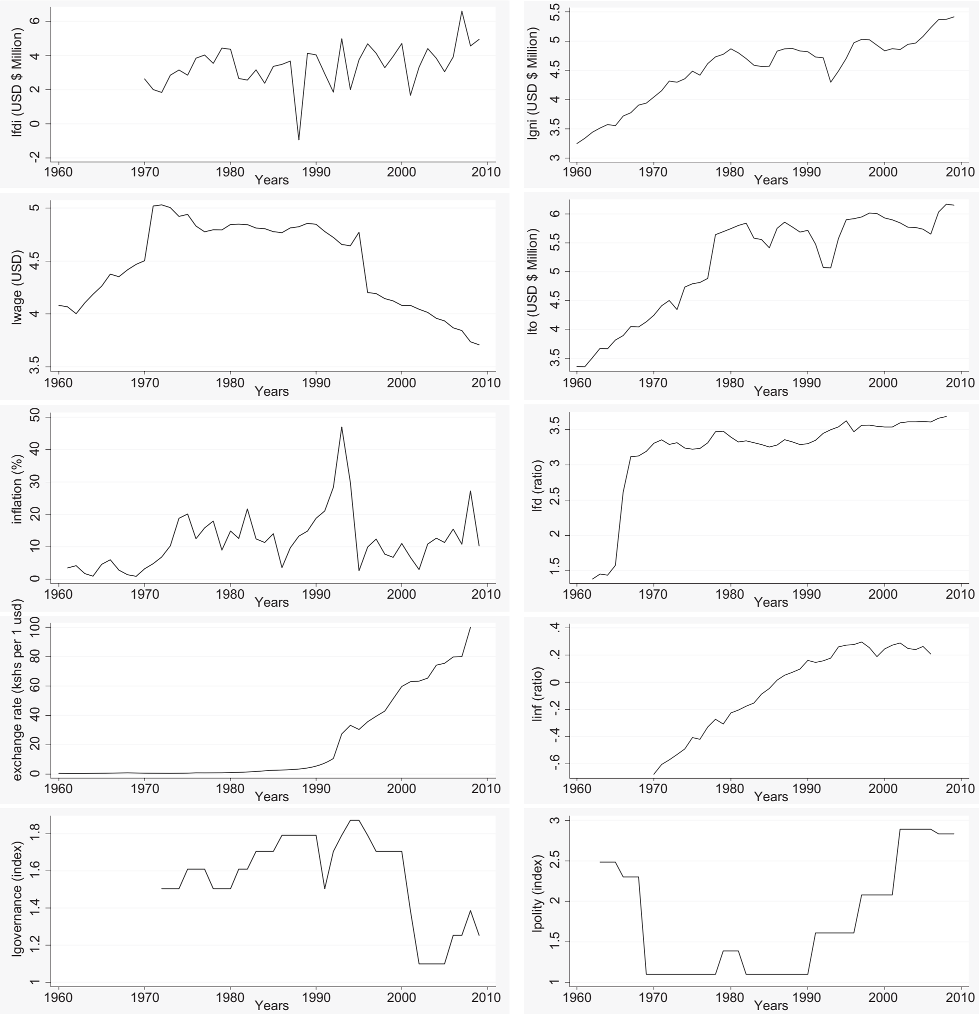

Figure 12.1 Time series graphs for Kenya's variables

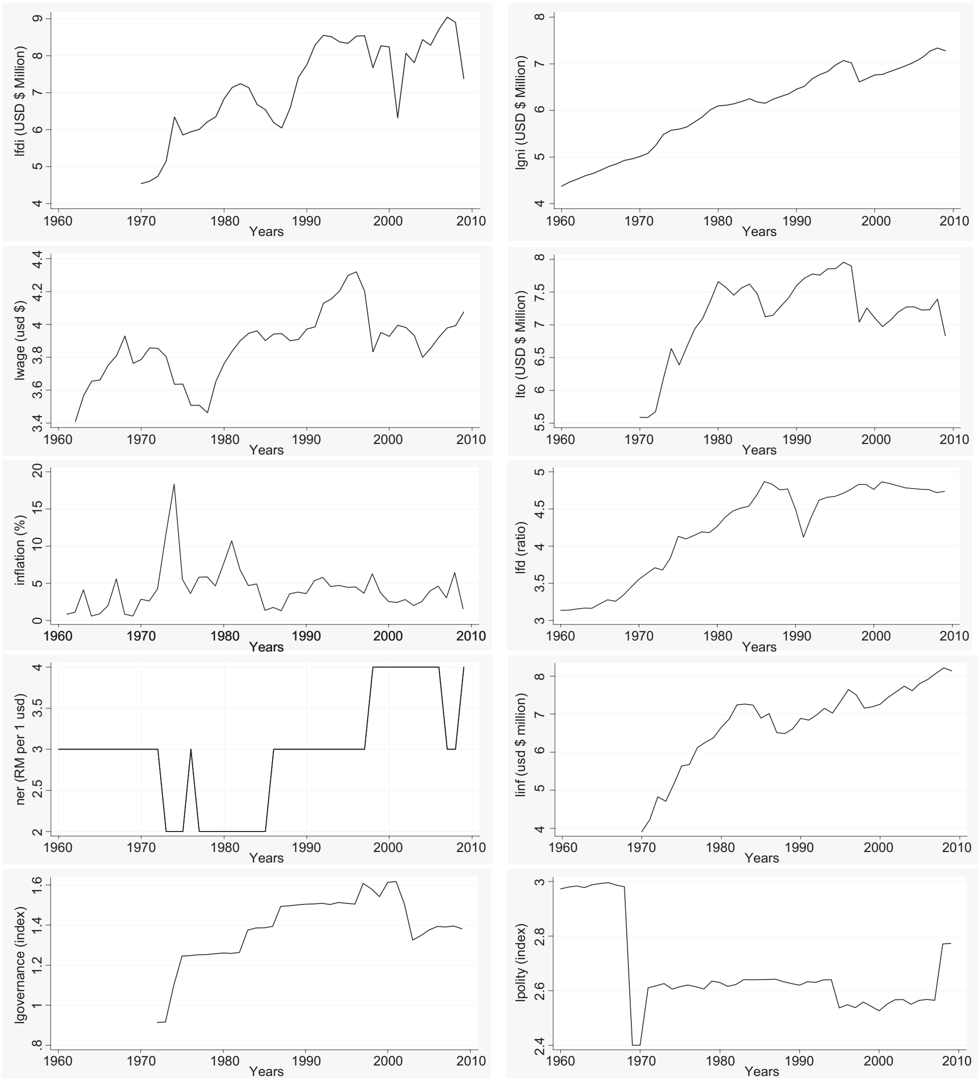

Figure 12.2 Time series graphs for Malaysia's variables

long term, while in Malaysia it is found to have a long-term co-movement with FDI inflows and GNI. In addition, the real wage rate affects GNI in the short term in Malaysia. Moreover, a graphical inspection of the real wage suggests that, over time, it has increased in Malaysia, while it has been decreasing in Kenya. Malaysia took advantage of cheap labour in the 1970s, but by 1990 the country was already operating at full employment and the labour market was tight. Kenya, in contrast, had limited skilled labour in the 1970s, which suggests that the wages were high, especially given the ISI strategy. Over the years, there has been an increase in both skilled and unskilled labour, and Kenya's economic slowdown has resulted in surplus labour pushing the wage rates downwards. These results are consistent with those obtained by Bellack *et al.* (2008) and Lall *et al.* (2003): having relatively lower costs provides an environment conducive to FDI both in the long and short term. In this regard, Malaysia's wage policy has been important in encouraging labour-intensive FDI and, in turn, growth.

Macroeconomic stabilization is found to be crucial for FDI inflows. Two important macroeconomic stabilization factors considered in this study are inflation and the exchange rate. Exchange rate devaluation is found to affect FDI positively both in Kenya and Malaysia. FDI appears to be sensitive to the exchange rate appreciations in the long term, in both countries. In the short term, changes in the exchange rate affect changes in FDI growth in Malaysia positively and significantly, unlike in Kenya, where changes in the exchange rate affect growth of FDI positively but not significantly. Similar results have been found by Froot & Stein (1991) and Kiyota & Utara (2004). This is also consistent with Ang's (2008) findings for Malaysia. This result appears to suggest differences in the exchange rate policies: while it is more managed in Malaysia, the exchange rate is market-driven in Kenya, with limited interventions by the Central Bank.

The rate of inflation in Malaysia has a significant effect on the FDI inflows in the long term, while in Kenya it is found to affect changes of FDI in the short term. In Malaysia, the rate of inflation has been maintained on average below 5%, whereas in Kenya this has remained at more than 10%. High and unpredictable inflation cripples businesses and checks the development of financial intermediation within the private sector (Rogoff & Reinhart, 2003). Investors prefer to invest in more financially stable economies that reflect lesser degrees of uncertainty. It is also important to note that macroeconomic stabilization in Malaysia has entailed the use of unorthodox means and in contravention of the neoclassical wisdom. For example, although Malaysia's pathway through the 1997–1998 crisis included an orthodox adjustment programme of the type the IMF would have required, this programme was soon reversed in favour of reflationary monetary policies and the imposition of a short-term capital control regime. These responses took place against a backdrop of political intrigue and drama, but they reflected an underlying pragmatism and recent history of using capital controls and of not turning to the IMF (Jomo, 2006). This is in contrast with Kenya, which largely embarked on reforms, especially in the 1980s, promoted by the IMF and the World Bank under the structural adjustment programmes, sometimes with very negative results due to problems of timing and design, among other reasons.

Trade openness produces interesting results in both countries. It has a positive effect on the FDI inflows in both countries. However, the effect of trade openness on FDI inflows in Malaysia is positive and significant both in the long and the short term. In Kenya, on the other hand, it does not have a significant effect on FDI except in the short term. In addition, the dummy variables capturing the effect of trade reforms pursued in both countries since 1987, although positive, is not significant in both countries. Asiedu (2002) observes that the impact of trade openness depends on the type of investment. When investments are market-seeking, trade restrictions can have a positive impact on FDI. At the same time, export-oriented investments may prefer to locate in more open countries since increased imperfections that accompany trade protection imply higher transaction costs associated with exporting. This latter case seems to be prevalent in Malaysia and is also consistent with findings by Choong & Lam (2010) and Ang (2008), while the former reflects to a large extent FDI in Kenya. Until recently, Kenya's economy, especially in manufacturing, remained inward-oriented and, in the face of liberalization, largely uncompetitive. Moreover, as Lall & Narula (2004) have observed, trade openness is only one ingredient in attracting FDI; hence, in the absence of absorption capacities, only limited FDI inflows can be expected.

The level of financial depth is found to affect FDI negatively in Malaysia in the long term, while it has limited negative impact on changes in FDI in Kenya. The negative effect of financial depth in Malaysia is not consistent with observations by Ang (2008; 2009), who finds a positive and a significant long-term relationship between financial depth and FDI inflows in Malaysia. However, Kinuthia (2010b) observed that when the impact of FDI on economic growth is analyzed, controlling for domestic investment, the financial development variable is positive, which suggests that it is more appealing to domestic firms than foreign-owned firms. Akinlo (2002) has also observed that financial deepening may also encourage capital flight by facilitating international capital transfers. Since the financial markets have been liberalized and the international market deregulated, domestic capital may move abroad where risk-adjustment returns are higher.

The infrastructure variable is found to have a positive impact on FDI inflows in Malaysia, though not significant both in the short and the long term. In Kenya, it does not have the expected signs, which may be attributed to a measurement problem. Infrastructure development has been an integral part of Malaysia's efforts in attracting FDI, and significant resources have been devoted towards its development—hence the positive impact. The country has a state-of-the-art infrastructure, which makes it an attractive location. Ang (2008) finds a positive and significant impact of infrastructure on FDI in Malaysia in the long term. Kenya, on the other hand, neglected its infrastructure over the years, and this has been a concern to many foreign investors, a problem not unique to Kenya but found in Sub-Saharan Africa generally. This is consistent with findings by Asiedu (2002) that infrastructure has had limited impact on FDI in Sub-Saharan Africa.

The institutional variables also reveal interesting results. In Kenya, improved democracy has a positive and significant impact on FDI inflows, both in the short and the long term, while the governance variable does not have an impact on FDI. In Malaysia, in contrast, changes in the democracy variables do not affect growth of FDI significantly, but rather it is the governance variable which has a long-term positive and significant impact on FDI. Kenya from the 1980s embarked on structural adjustment programmes aimed at ensuring sound macroeconomic management as well as market efficiency. This is reflected in the democracy variable, which appears to matter for FDI. This is unlike Malaysia, which, although experiencing macroeconomic stabilization, did not undertake such comprehensive reforms as Kenya did. In addition, Kenya has suffered from governance problems, which have been compounded by its ethnic diversity, allowing for significant rent-seeking behaviour and poor service delivery. As Easterly & Levine (1997) have observed, the effects of ethnic fractionalization partly explain Africa's growth tragedy, which seems to have been the case in Kenya.

In Malaysia, the governance variable is a reflection of government involvement in allocation of resources through well-established institutions. This has seen an affirmative action implemented in favour of marginalized groups, which in turn has guaranteed political stability, making the country more appealing to foreign investors. Malaysia, although a resource-rich country, avoided the resource curse and diversified the economy through various efforts, which saw massive FDI inflows into the manufacturing sector. As Dunning (2005) and Jomo (2007) have observed, volatility in resource revenue and resource dependence, pressure from opposition and marginalized groups (mainly the *Bumiputera*) well represented in government, as well as the communist threat, provided the Malaysian elites with incentives for diversification. The positive impact of institutions in Malaysia is consistent with findings by Quere *et al.* (2007) and Kolstad & Villanger (2007): the quality of institutions may matter for FDI since it can raise productivity prospects, and dependable governance infrastructure may attract foreign investment.

In conclusion, the results in Malaysia provide evidence of FDI-led growth, which is not the case in Kenya, where growth drives FDI. The reasons for Malaysia's success in attracting high FDI inflows compared with Kenya have to do with sound macroeconomic management, trade openness, and successful infrastructural and institution development. In addition, trade openness appeals only to export-oriented FDI. Kenya's FDI is largely market-seeking, operating under a more or less protected environment until recently. The ISI strategy also allows for rent-seeking behaviour, and therefore most industries under such a policy may be inefficient and therefore have a limited impact on economic growth. Finally, it is also fair to observe that FDI in Kenya has been negligible compared with Malaysia. Kenya, thus, stands to benefit much if it addresses the impediments to FDI identified above and takes advantage of its surplus labour to attract export-oriented industries, just like Malaysia did in the early 1970s.

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PART FOUR

COMPARING VIETNAM AND TANZANIA

13

Differential Supply Responses to Liberalization, and Resultant Poverty Alleviation in Vietnam and Tanzania

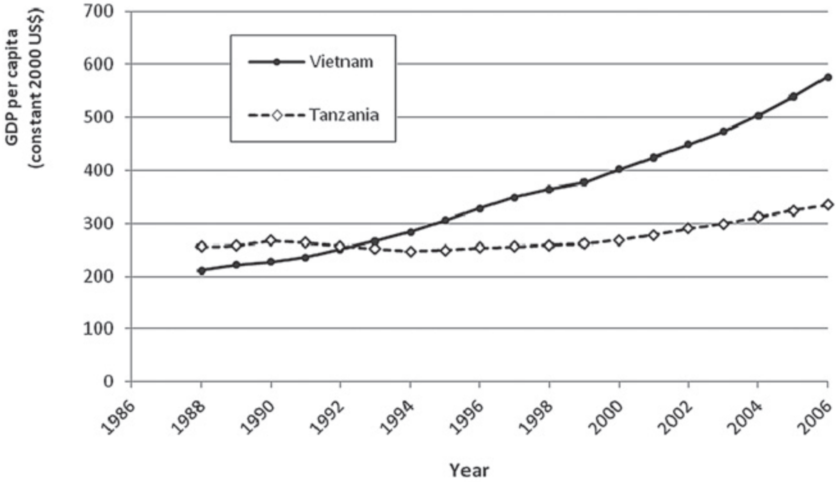
Jan Kees van Donge*

Introduction

This paper offers a comparison of the development trajectories of Tanzania and Vietnam since the early 1980s. At that time, both countries had a socialist orientation in which state institutions were seen as the main means to accumulate capital and foster economic growth. In both countries during the 1980s, this strategy resulted in deadlock, as economic growth did not materialize. They both embarked therefore on economic reform by liberalizing the economy. The results in the two countries have been very different in terms of economic growth: in 1988, at the beginning of the reform period, GDP per capita was higher in Tanzania (255 USD) than in Vietnam (210 USD). Around 1992, both countries had the same GDP per capita. Thereafter, the difference widened, and in 2006 Vietnamese GDP per capita (575 USD) was considerably higher than that of Tanzania (334 USD). The growth in Vietnamese GDP per capita is almost exponential in nature, whereas Tanzanian growth is moving gently upwards after having gone into a slight dip (see Figure 13.1).

The purpose of this paper is to understand these different development outcomes in the light of the policies adopted by each country. Such a comparison may give rise to scepticism because there are many reasons

* This paper relies to a great extent on the graphs made by Ms. Ursula Oberst. The analysis of the rice trade in Vietnam relies on the work of Ngo Thi Men, Hanoi Economic University.



Source: World Bank (2012).

Figure 13.1 Comparison of GDP per capita in Tanzania and Vietnam

to argue that the Vietnamese and the Tanzanian economies are so different that it does not make sense to compare them. For example, although the agrarian sector is dominant in both economies and therefore provides an unavoidable focus for comparison, in Vietnam rice farming is central and a large area is under irrigation, whereas in Tanzania the main source of food is maize, cultivation is extensive rather than intensive, and it is rain-fed. Given such differences, this paper does not take the position that Tanzania's development problems can be solved merely by copying the Vietnamese. Neither does it claim the other extreme, as formulated by Fforde (2007: 227) in his statement that "Vietnamese experience is worth studying, but emulation of it is probably meaningless".

The purpose of this paper is to enlighten. Rodrik (2007) argued that comparing development patterns should not lead to simple advice to imitate, but rather to clarification of underlying patterns of development. That is the position taken in this paper because there is a clear focus of comparison in the challenges that demanded a policy response in the 1980s: both countries were dealing with foreign exchange crises, a major cause of which was a collapse in agricultural production. This stagnation or decline in their agricultural sectors was explained as resulting from a lack of incentives. The comparison makes sense, therefore, primarily because there were such great similarities in the underlying problems.

The foreign exchange crisis emerged in Tanzania in the late 1970s and reached its crisis point in the early 1980s. The logical response was to draw upon loans from the International Monetary Fund. However, the Tanzanian government did not accept the conditionality imposed: it especially resisted liberalizing the exchange rate. In this conflict, Tanzania drew particularly on support from the Nordic countries, and to a lesser extent the Netherlands. However, increasingly these like-minded donors lost faith in Tanzania's development strategy and, combined with internal pressure, this led to an accommodation with the donor community in the mid-1980s. However, it was not until 1995 that a genuine agreement on economic reform emerged (White & Dijkstra, 2003).

In Vietnam, the acute foreign exchange crisis situation emerged through international political developments. Vietnam was cut off from most Western aid after the American war there—Sweden was a notable exception—and the country had no access to the international financial institutions. Vietnam's relations with China turned extremely sour after China invaded Vietnam in 1979 in retaliation for Vietnam's invasion of Cambodia the previous year. The country's pariah status in the West was reinforced after its occupation of Cambodia. Its major international relations were therefore with the Soviet-led Council of Mutual Economic Cooperation (COMECON). COMECON was a substantial source of aid, and investments were made in a perspective of regional specialization in tropical crops.[1] However, in the late-1980s, the COMECON countries were facing increasing economic problems and the Soviet Union collapsed. Vietnam did not manage to gain access to the international financial institutions.[2]

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1 For example: "The Soviets also have been a major supplier of food and commodity aid on a mostly grant-aid or soft currency basis. By 1983 they were supplying 90 percent of Vietnam's petroleum, iron and steel, fertilizer, and cotton imports and 70 percent of its grain imports". Library of Congress (n.d.) *Soviet Union*. Available at: http://countrystudies.us/vietnam/61.htm [accessed: 21 June 2010].

"In 1984, increases in capital investments within COMECON were the highest for Vietnam and Cuba—coming to 26.9% for Vietnam and 14% for Cuba, compared with 3.3% and less, for the others, except Poland, Romania". Wikipedia (2009) *International Relations within the Comecon*. Available at: http://en.wikipedia.org/wiki/International_relations_within_the_Comecon [accessed 8 September 2012].

Quang Anh found that the coffee boom in Central Vietnam was based to a large extent on great infrastructural investment in the COMECON period (oral communication: PhD research). Ngo Thi Men (2005) found the same with respect to the rice sector in the Mekong Delta.

2 "In January 1985, the IMF suspended further credit when Vietnam failed to meet a repayment schedule on the amount owed to the fund. Talks to reschedule this obligation again

Fforde (2007: 202) collected recollections of this period among Vietnamese managers. Their insider views articulate the foreign exchange crisis sharply:

> The danger that the Soviet system was about to collapse had direct implications for the very existence of the Vietnamese Communist Party. The leadership could not reverse course any longer [to centralization], but had to continue renovation to preserve the system and attract foreign capital.

In the words of managers of state-owned enterprises (SOEs):

> We were looking for a way to setting up joint ventures with overseas, stimulating exports and imports (either directly or via trading companies) so as to compensate for the resources no longer supplied by the state. (*ibid.*)

In both countries, this foreign exchange crisis was intimately linked to the performance of the agricultural sector. This is not surprising, as the economies of both countries were and still are primarily based on agriculture. Tanzanian export earnings came virtually wholly from export crops such as sisal, tea, coffee, cashew nuts, and lesser-known ones such as pulses and sesame seeds. Tanzania's choice, after the Arusha Declaration in 1967, of a development path of heavy state intervention did not affect agricultural output until about 1970. After 1970 there was a fast decline of output in this sector (Svendsen, 1986: 68; Van Donge, 1994). In Vietnam, the crisis primarily involved the production of the staple food, rice. In 1985–86, the government was faced with famine and had to appeal for international food aid.

The cause of the poor performance of the agricultural sector was seen as a problem of incentives. In Tanzania, this was in some cases combined with a drastic fall in world market prices, most notably with respect to sisal. A second factor was a drive towards agricultural collectivization, albeit that the collective farm in Tanzania was always an addition to and not a replacement for the private farm. However, a more convincing explanation of this decline in Tanzania was the widening gap between producer prices paid by state marketing boards and the world market price. Farmers were taxed through state agricultural marketing, and they reacted by dropping production. The resultant decline in export earnings was a major cause of the foreign exchange crisis (Ellis, 1983).

failed in 1987, making Vietnam ineligible for fresh funding. In 1987 Vietnam owed the fund some US$90 million. Its foreign exchange reserves in 1985 had been estimated at less than US$20 million". *Vietnam External Debt (1987)*. Available at: http://www.mongabay.com/history/vietnam/vietnam-external_debt.html [accessed 17 August 2012].

In Vietnam too, the collapse in rice production was seen as caused by a lack of incentives:

> Peasant households had very low incentives to push up agricultural production as terms of trade for agriculture were declining and the cooperative's share was increasing. As inflation was too high, peasants lost their incentives to work on cooperative land and to exchange with state trading agencies because the procurement prices were fixed at a low level. In addition, taxes on agriculture were complained to be too high. As a result peasant household received only 13–15 percent of the crops. (Nguyen Do Anh Tuan, 2006: 82)

The Vietnamese government attempted to collectivize the agricultural sector comprehensively, and there was great resistance against this from below, directed against mismanagement in these collectives as well as against collectivization as such. This resistance led regularly to production crises that were followed by reform that gave concessions to individual initiatives. These concessions were then often reversed by attempts to recentralize (Kerkvliet, 2005). Whereas previously food imports from COMECON countries had been resorted to in the event of production crises, this was no longer an option in the late 1980s.

Both Tanzania and Vietnam overcame the crisis and growth returned. That growth was higher in Vietnam than in Tanzania—for example, 7.5% per year as compared to 5.7% per year in Tanzania in the period 1995–2008. However, whereas this has resulted in massive poverty reduction in Vietnam, this is not the case in Tanzania. In Tanzania there has been substantive poverty reduction in the capital Dar es Salaam, but the return to economic fundamentals has had far less effect on poverty in rural Tanzania (Table 13.1). The contrast with Vietnam is striking. In Vietnam as well, the decline of poverty was most pronounced in urban areas, but in Vietnam the decline was also massive in rural Vietnam (Table 13.2). Poverty alleviation in rural areas has the greatest impact on the reduction of overall poverty because the majority of the population is rural. This implies a primary role of agriculture in raising incomes.

Table 13.1 Poverty data from Tanzanian household budget surveys: Headcount under poverty line (%)—mainland only

Year	Total	Dar es Salaam	Other urban areas	Rural areas
1991/2	38.6	28.1	35.0	40.8
2000/1	35.6	17.6	32.2	38.6
2007	33.4	16.0	24.2	37.4

Source: National Bureau of Statistics, Tanzania.

Table 13.2 Poverty data from Vietnam living standards surveys—headcount under poverty line (%)

Year	Total	Urban	Rural
1993	58.2	25.1	66.4
1998	37.4	9.2	45.2
2002	28.9	6.6	35.6
2004	19.5	3.6	25
2008	15.9	3.8	20.3

Source: General Statistical Office of Vietnam.[3]

The Supply Responses

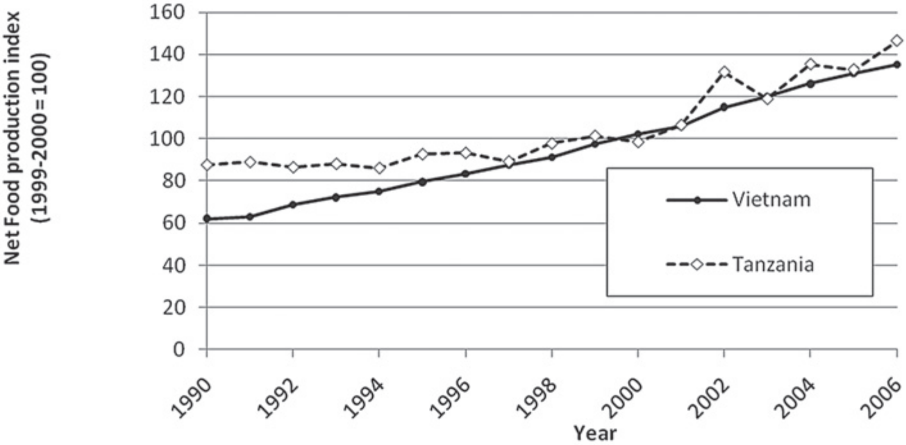
In both countries, economic liberalization was expected to lead to a supply response by farmers as incentives were restored. Such a response occurred massively and dramatically in the Vietnamese economy, but in Tanzania there was only a hesitant and partial recovery of production. This can be illustrated by the comparative development of food production shown in Figure 13.2. Vietnamese food production starts from a lower base than is the case in Tanzania. It increases in a linear fashion, however, and overtakes Tanzania's growth in about 2001. Tanzania's food production also shows an upward trend; but not only is growth less steep, it is also more erratic than in Vietnam.

The first major difference is that Tanzanian food availability has remained problematic. Food imports show a rising trend since the onset of proper liberalization (Figure 13.3).

There is, as a rule, sufficient food in the country in aggregate, but its distribution is unequal. This is true geographically as well as within the general population:

> In August 2005, the proportion of districts reporting food shortages was 29 percent (34 districts). By January 2006, due to prolonged drought conditions, this percentage had risen to 65 percent (77 districts). (RAWG, 2005: 8)

[3] Vietnam has carried out a series of Living Standards Surveys that are accessible at the website of the General Statistical Office of Vietnam. There is a wide discussion on the geographical spread of poverty as well as on the methods for measuring poverty. With respect to the spread of poverty over the country, see Vietnam Academy of Sciences (2006) and Ngueyn *et al.* (2008). For a discussion on the methods of poverty measurement, see Baulch & Masset (2003). This results in qualifications of conclusions. White & Masset (2003) argue that poverty is understated for rural areas and poorly educated households. However, they argue that fewer children live in poverty than is assumed.



Source: FAOSTAT © FAO 2013. Accessed June 11, 2013.

Figure 13.2 Net Food Production Index (1999–2000 = 100)

Source: FAO (2012).

Figure 13.3 Tanzania: Food imports (1000s USD)

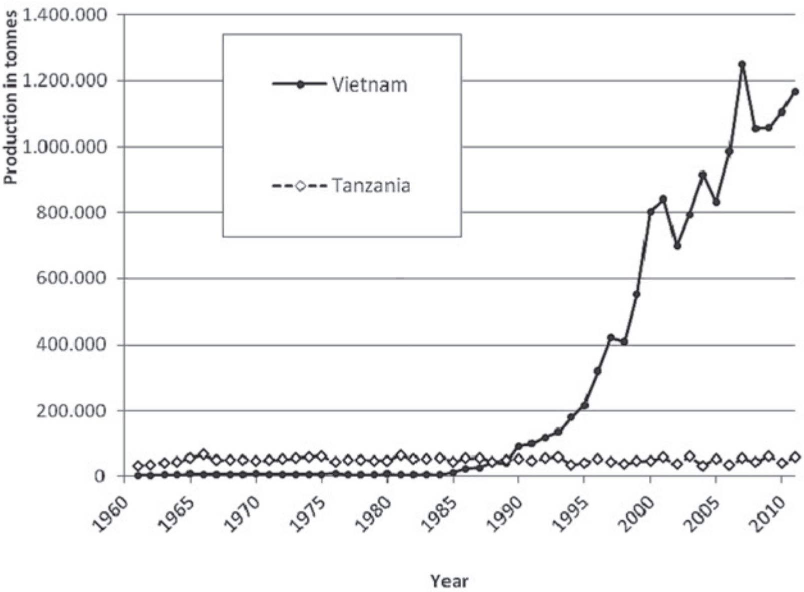
> Malnutrition in children under five years continues at a high rate. The rate of malnutrition has declined in the past few years, but not at the same rate as the reduction in under-five mortality. Nearly 4 children in 10 are stunted for their ages, a reflection of under-nutrition over a long period of time. (RAWG, 2005: 19)
>
> The contrast with Vietnam is probably nowhere as stark as in food production. Rice production increased from 17 million tons in 1988 to 30 million tons in 1998. The country changed from being an importer of food to an exporter. It is since the late 1980s the third- and in some years the second-largest rice exporter in the world. Exports averaged 2.3 million ton a year in the period 1989–1998 (Bui Ba Bong, not dated).

Ample food production raises the income of farmers, while it keeps food prices low for consumers. This is not only relevant for the urban consumer, because there are also many rural rice-deficient households (Irvin, 1995). Export crops can of course also play a crucial role in raising rural incomes.

Growth in such crops has been phenomenal in Vietnam since liberalization. Coffee production has risen exponentially, and Vietnam now produces, after a relative dip in production, close to 800,000 tons, whereas Tanzanian production has remained stuck at 50,000 tons. Cashew production tells a similar story. Aquaculture has developed rapidly in rice-growing areas. The greatest poverty alleviating effects in Vietnam may be in the development of non-rice crops (Benjamin & Brand, 2002).

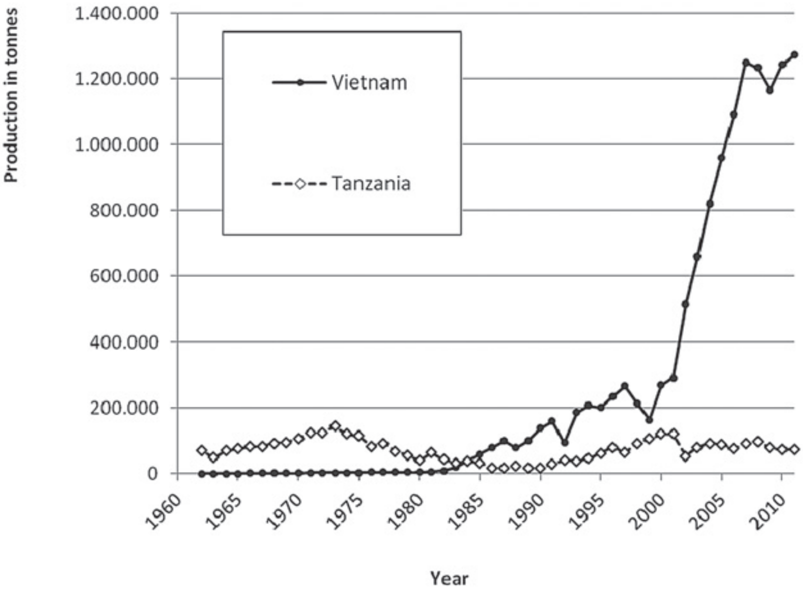
Figures 13.4 and 13.5 show comparisons of coffee and cashew production in Vietnam and Tanzania. The comparisons show clearly spectacular growth and stagnation. These differences reflect not only an increase in output, because there is a similar discrepancy in the increase in yields.

Smallholders dominate agricultural production in both countries. This difference in the supply response of agriculture to economic liberalization therefore has grave consequences for poverty alleviation. Higher incomes through increased production benefits relatively poor sectors. Tanzania used to have comparatively prosperous peasantries growing cash crops such as coffee, cotton, cashew nuts, and tea. When Tanzania embarked on economic liberalization, it was expected that this would lead to higher producer prices and more agricultural output. In a competitive environment, smallholders would get a larger share of the world market price, and this would provide an incentive for higher output in export crops (Ellis, 1983). A supply response was expected especially after the state marketing boards were dismantled. The supply response has been disappointing and expectations have not materialized. There was some recovery, but thereafter production settled in a low equilibrium. Crops like coffee, cotton,



Source: FAO (2012).

Figure 13.4 A comparison of coffee production in Tanzania and Vietnam



Source: FAO (2012).

Figure 13.5 A comparison of cashew production in Tanzania and Vietnam and cashew were expected to revive and bring cash into rural Tanzanian households:

> Most cash-crop production levels, such as for tea, tobacco, sisal and coffee, have fluctuated around 50 thousand tons a year. Only cotton and cashews have recorded significant jumps in production. Cashew production increased in 1999 to about 130 thousand tons but has since declined to an average of 100 thousand tons a year. Cotton production, although increasing in the mid-1990s, subsequently declined steadily until it began to increase slowly after 2000 and then it rapidly increased in 2004. (RAWG, 2005: 79)[4]

One explanation is that farmers' share of the export price on the world market has not increased that much. There have been some increases, but these are not universally impressive. In the period 1994–1999, very low shares accrued to farmers for pyrethrum (21.8%) and tea (34.5%). High shares accrued to them for cashew (64.7%) and fire-cured tobacco (74.9%). However, in most cases, farmers received around 50% of the export price in the period 1994–1999 as compared to a low point of 41.7% for all export crops in 1980 (RAWG, 2003).

Towards Explanation: Liberalization and the Regulation of Markets

Liberalization of markets is the key concept in explanations of the stagnation of Tanzania as well as the growth of Vietnam. In Tanzania, the stagnation is mainly explained by incomplete liberalization. There was some liberalization after 1985, and there were reforms in the parastatal sector that dominated agricultural marketing. However, the parastatal marketing boards were not abolished and in many cases they were kept operational,

[4] The production figures of the main smallholder export crops, however, show more variation than is portrayed in the *Second Poverty and Human Development Report* (RAWG, 2005). In 1998/99–2008/9, the average volume of coffee exports was 47.55 million tons, which is close to the median of 47.3 million tons. However, the range of scores was larger than this correspondence of average and mean suggests: 34.3 in 2005/06; 62.3 in 2008/9. Scores are more extreme in the case of cotton. The average volume of exports in the same period was 68.2 million tons compared with a median of 48.3. The range of scores was also much larger: 35 million tons in 1999/00 compared with 125.6 million tons in 2005/06.

The average volume of cashew-nut exports in the period was 89.5 million tons, compared with a median of 93.8. Here also the range was larger than the comparison of mean and median suggests: 67.3 million tons in 2001/02; 121.2 million tons in 1999/00; median: 93.8. In the context of this paper, it is significant that there has been little research explaining these divergent outcomes. The suggestion, based on my experience, is that successful marketing arrangements integrating credit with dependable outlets for produce is crucial.

while they should, on financial grounds, have been closed down. Tanzania failed to discipline its public sector. Soft budget constraints on government departments and parastatals remained in force after 1985. Deficits were covered by the government-owned National Commercial Bank and monetarily financed (Ericsson, 1998). Donor pressure to bring government expenditure under control and to counter corruption built up over the years, and commitments to aid declined rapidly although disbursements were continued very well.[5]

After the election of a new president in 1995, agreement was reached between the Tanzanian government and the donor community to tackle the major causes of macroeconomic instability. Cash limits were introduced for government departments. The banking sector was reformed along financial lines. The Bank of Tanzania became a much more independent actor, regulating the currency and supervising the banking system rather than being the government's banker (White & Dijkstra, 2003). Most parastatals were then privatized or reduced to supporting and monitoring institutions. The result was an institutional void.

Bryceson (1993) describes how the liberalization in food marketing in Tanzania was more a matter of adapting and experimenting without a clear policy emerging. Cooksey (2003) has argued that liberalization has not fundamentally changed the pattern of exploitation of Tanzanian peasants by the political-bureaucratic class. For example, at the time of his writing, cashew was the only crop bought by private traders only. In other cases, there has been a move towards cooperatives as main buyers alongside private buyers. In some cases, this has led to a collapse of the system, as farmers took out loans from the cooperative and sold to another marketing channel in order to avoid repayment. The reaction has been a return to state control. Whereas originally the marketing boards, renamed as crop authorities, retained powers only of regulating the market, new legislation reversed this and gave them the power to operate in markets as well. Cooksey (2003) sees this reassertion of state control, in conjunction with a revival of taxation of export crops by local authorities, as a negative influence. Local authorities are under pressure to raise revenue locally, and taxing the marketing of export crops is a relatively easy solution. Ponte (2002) described how, after liberalization, a marketing structure

5 Mwase & Ndulu (2008) suggest that there was ultimately consensus in this period, but this was definitely not the case according to Bigsten & Danielson (2001). It is also my impression that without donor pressure, the reforms after 1995 would not have occurred.

failed to emerge for tobacco in Songea district. These sources date from quite some years back, and since then there seems to have been a continuous experimentation with marketing arrangements. The idea was to introduce competition but to maintain the possibility to regulate supply and demand. There remained thus a major role for state institutions to intervene in marketing.

There are more explanations of Vietnam's quick supply response to liberalization than there are for the hesitant supply responses in Tanzania's economy. The literature on Vietnam since liberalization is often strident and mono-causal in terms of the benefits of liberalization. For example:

In order to achieve its objectives Vietnam must achieve further progress in establishing the institutional framework necessary for a market economy (Harvey, 2009).

Market forces have led to poverty reduction and, if poverty is persistent, then it is because of lack of market integration: a regional breakdown of the poverty trends will then show that outlying areas are doing less well than areas that are near a hub of business activity. This is evident in the following statement on the least poor districts:

In the north, these districts correspond largely to the Red River Delta region, with its intensive irrigated rice sector. In the Southeast, most of the districts are relatively prosperous, reflecting proximity to Ho Chi Minh City. Similarly, in the Mekong Delta most of the districts are relatively well off except for a few coastal districts and one on the Cambodian border (these are known as poor areas with large numbers of Khmer farmers). (Minot, 2000: 13)

Reasoning in terms of market incentives is analogous to this. In this view, the Vietnamese economy can only progress further if the remnants of socialist inefficiency are taken away. Targets include the following: first, the continuing dominance of SOEs; second, a state-owned banking sector backing up these enterprises; and, third, regulation of the maize market through export quotas. These are seen as obstacles to the further development of an entrepreneurial class that is governed by the profit-and-loss account instead of administrative influence. Minot and Goletti (1996) have been forcefully arguing this with respect to rice. The rice sector is crucial in explaining the difference between the responses to liberalization in Tanzania and Vietnam, because the growth in output was so spectacular in Vietnam. It raised farm incomes, and it provided ample food and therefore cheap prices for food-deficient households and the urban sector. As food is such an important part of the expenditure of poor people, the supply of rice at reasonable prices had a great poverty-alleviating effect. However, an actual examination of the rice sector in Vietnam does not show the virtues of thorough liberalization. The working of the Vietnamese rice market can, on the contrary, illustrate how government intervention is an integral part in the explanation of the spectacular growth in output. This puts the claim that lack of liberalization is at the core of Tanzania's problems in agricultural marketing in a different perspective.

The Rice Sector in Vietnam: A Governed Market

If one wants to understand the spectacular growth in output of rice in Vietnam, then one needs to examine the state involvement. This growth originated especially in the Mekong River Delta and benefited from "earlier long-term investments in infrastructure projects on irrigation and drainage, soil improvements and development of regional adequate rice strains for further crop shift and intensification" (Ngo Thi Men, 2005: 18). This considerable investment in agriculture in the period of central planning, however, did not result in more output at that time. It required changes in the incentive system through the dismantling of communal production to turn the potential of these investments into increased production (Nguyen Do Anh Tuan, 2006). Another factor that tends to be overlooked in explanations that concentrate on the virtues of market forces is state involvement in agricultural credit and input supply. Jansen (2002) stresses these elements to explain the supply responses in agriculture.

Most commentators not only overlook such state involvement but see intervention by SOEs in the market as merely parasitic. More liberalization is therefore required, according to them, to remove constraints on entrepreneurial initiative. The widely quoted report that Minot & Goletti (1996) wrote for IFPRI argued, for example, that practices restricting the rice trade led to undue surplus expropriation by SOEs. According to that report, the state monopoly of the rice trade between the Mekong Delta and rice deficit areas results in high profits. This argument is made more forcefully with respect to state involvement in rice exports: the difference between the lower Vietnamese price and the export price is in fact an export tax of about 30%, as it is a monopoly profit. The arguments against state involvement in the market are backed up by empirical claims. For example, Benjamin and Brand (2002) found that, in two Southern districts, the rice trade had been liberalized and that this had led to market clearing that raised farm incomes. Che, Kompas & Vousden (2001; 2006) have argued that economic liberalization leads to productivity gains; and the more liberalization there is, the greater the gain. They extend their argument to a general argument about the efficacy of market institutions and private property regimes for economic growth in Vietnam (Tran Ti Bich, Grafton & Kompas, 2008).

However, these papers generally lack a precise description of the institutions involved. For example:

> With the period of trade liberalization, the state market was effectively abolished, controls were *largely removed* from the domestic market and international trade was *permitted*. (Che, Kompas & Vousden, 2006: 561; emphasis added)

Such a way of formulating the issue raises the question as to which state controls have not been removed and what is this process of permission. Luu Thanh Duc Hai (2003) provides a precise description of actual rice marketing within the Mekong Delta. He reveals a flourishing private sector of assemblers, wholesalers, and millers. A very competitive environment has emerged. However, "a major market share is still in the hands of the state-owned enterprises and state farms. The Vietnamese market is not that private as many policy-makers want us to believe" (p. 103).

Two main SOEs are involved in rice marketing: Vinafood I and Vinafood II. They dominate the export trade in rice, but not only that:

> More than 56% of white rice from state-owned enterprises is exported and around 14% is sold to the domestic market. About 80% of the supply sold on the domestic market is transferred to deficit regions in the North as part of the National Food Security Program. (Luu Thanh Duc Hai, 2003: 93)

Private traders can obtain export licenses, but they are minor players (e.g. 6.5% in 2001). In 2008, the government imposed a complete ban on exports. The SOEs are of course also buyers, and the government wants them to buy especially when prices drop, in order to maintain a floor price (Luu Thanh Duc Hai, 2003: 101).

Vietnam has embraced the idea of the market, and therefore the system is often portrayed as much more ruled by price considerations than it actually is:

> The process of price formation in the market is simple. The domestic price strongly depends on international prices. The government derives a minimum export price from international rice prices. SOEs and other large millers/owners derive their price level from this minimum level. Moreover, state-owned enterprises are encouraged to guarantee a floor price to domestic producers. At the local level the bargain process is driven by competition. (Luu Thanh Duc Hai, 2003: 104)

This quotation distinguishes three processes of price formation: international prices for SOEs and large millers, floor prices that are guaranteed to domestic producers, and the farm gate price that is the result of hard bargaining. The logic that connects them is not clear from this passage and may be more complicated than this quotation suggests. For example, if the export price is dominant then this should affect farm-gate bargaining. However, these effects are—for a good reason—often perverse in order to regulate local prices. Export is restricted if the export price is high. For example, bad harvests in the region in 2008 led the government to even ban exports and keep the harvest under control in its SOEs in order to keep the Vietnamese consumer price low. It may then release rice onto the local market to drive the price down. If there is a glut of rice in the world and the export price is low, government will give as many licenses to exporters as possible. It will then release money to SOEs to buy from farmers in order to support the farm-gate price. This happened, for example, in 2009.[6]

[6] On Vietnam's position in the world market in 2009: 'In the news: (Vietnam) Rice export boom may be an accident, analysts warn': "demand for Vietnamese rice surged since other major exporters like Thailand and India cut back on exports while the economic slump boosted demand for rice worldwide as a substitute for other foods. The question, they said, is how long the market situation will remain so favourable for Vietnamese rice exports". Available at: http://asianfarmers.org/?p=789; posted 20 January 2010 [accessed 9 September 2012]. Government licenses private exporters when supply is high, but these are organized in an association where government and the state enterprises are dominant. For example, the official news agency Thiannennews reported: "Exporters are being told to set their prices at no lower than US$475 per ton for 5-percent broken rice, Vietnam's highest quality variety. The minimum price for 25-percent broken rice is $435 per ton. Many businesses want to lower prices to attract buyers more easily, but market trends are now favourable for Vietnamese rice, said Pham Van Bay, vice chairman of the association". Available at: http://en.moneyvietnam.com/index.php?option=com_news&op1=industry&sid=35100; posted 18 October 2010 [accessed 9 September 2012]. SOEs continue to be deeply involved in the rice trade. Vinafood II, the SOE that is working in the Mekong Delta reported: "In the reviewed period, the corporation increased turnover by 14.3% per year, reached an export turnover of over US$4.8 billion (an annual increase of 27.21%) and contributed over VND 2.4 trillion (US$129.4 million) to the State budget (an annual increase of 39.7%). It also invested in the construction of depots to raise its rice storage capacity to 922,000 tonnes, and launched 100 retail stores in the southern provinces". Available at: http://hanoitimes.com.vn/newsdetail.asp?NewsId=17362&CatId=34; posted 18 August 2010 [accessed 9 September 2012]. Another indication of government involvement in the rice trade is found on a website of the United States Department of Agriculture: "In order to help rice farmers achieve a profit margin of at least 30 percent (based on the calculated production cost), the Government Office asked the Ministry of Finance on March 12, 2010, to coordinate with MARD (Ministry of Agriculture and Rural Development) to determine and publish the 'official' rice production cost so that local provincial authorities can announce the appropriate paddy purchase price, which is also the price that local rice businesses are supposed to use when buying the paddy rice. In early March 2010, the Vietnam Food Association [the government-dominated corporatist structure] instructed its members to buy and stock one million tons of milled rice, in order to keep the local paddy price from going down". *Vietnam Grain and Feed Annual 2010*. Available at:

In order to understand this counterintuitive process of limiting exports when world market prices are high and stimulating export when these are low, one must look at the international rice market. This is very thin. Only 5–6% is traded internationally. It is far less traded than other staples such as wheat and maize. The reason is that the major rice-consuming nations such as China, Indonesia, and India aim at self-sufficiency. Because of the restricted nature of the international rice market (less than 6% of global production) and the residual character of exchanges (producing countries produce first and foremost for their own consumption), international prices are extremely volatile, depending upon bad or good harvests (UNCTAD, 2010).

The most advantageous situation for Vietnam is, of course, when the region has a bad harvest but Vietnam has a good one. Then one can reason that SOEs appropriate surplus through trading. The IFPRI study is based on such a year, and this does not warrant generalizations. If one takes a perspective that is longer than one year, then the embedding of market forces into institutions—in the case of Vietnam, state-owned—appears to be crucial.

The Hybrid Nature of the Vietnamese State and the Importance of Rents

Vietnam's unique hybrid of state involvement in the economy that merges with market forces may have propelled the economy since 1986, while Tanzania's radical privatization after 1995 may be an important factor in its stagnation.[7] Van Arkadie & Do Duc Dinh (2004) make it a central element in their comparison:

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http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Hanoi_Vietnam_4–5–2010.pdf [acccessed 9 September 2012].

7 The difference in the institutional structures in Tanzania and Vietnam that emerged can be understood as an outcome of the implementation of budget constraints. When donor funds flowed again after 1985 and the foreign exchange crisis eased, Tanzania failed to discipline its public sector. Soft budget constraints were maintained on government departments and parastatals. Their deficits were covered by the government-owned National Commercial Bank and monetarily financed (Ericsson, 1998). The institutional structure of Tanzania was therefore hardly reformed until 1995. Then the cash flow to parastatals halted and most parastatals were privatized or wound down. The number of parastatals decreased by two thirds. The parastatals that remained were difficult to divest or were those where a public good was involved—for example, the railways, electricity supply, harbours, etc. However, attempts were also made there to involve the private sector and instil cost consciousness. The magnitude of these changes can be illustrated by the winding down of the state-owned textile sector from 35 mills to 2.

The implementation of tough budget controls disciplined Vietnamese SOEs after liberalization (Wood, 1989: 567). The argument has been made most cogently by Fforde

> Thus in the reform period, after an initial slow start Tanzania has vigorously embraced privatization, whereas it is in the area of enterprise policy that the Vietnamese authorities have been most persistently subject to criticism. Ownership reform has been slow. However, so far this has not acted as a drag on growth in the way predicted by external commentators. While it is not difficult to come across horror stories of inefficiency, there are also many examples of successful joint ventures and productive contributions made by the sector.

Among centrally planned economies, Vietnam's story is one of gradual change rather than the big bang. This implies the maintenance of a large state sector in the economy, a sector that is only slowly decreasing: in 1995, 67% of industrial enterprises were state-owned and in 2007 this had declined to 57% (General Statistical Office of Vietnam, 2012) The state-dominated economy in Vietnam has not been replaced, but it has creatively adapted.[8] Fforde (2009) argues that the resulting particular mix of private and state enterprises has been carrying Vietnam's successful growth record:

(2007) that the limited autonomy given to the SOEs in the late 1980s and the reorganization of the banking system is central to understanding the initial transformation of the Vietnamese economy. This entailed a massive shift from cash flow accounting and thinking in terms of physical output to thinking about output in monetary terms and the adoption of monetary criteria for enterprise success. It is also logical that when the economy is virtually wholly in state ownership, one will need to impose tough budget constraints on enterprises to keep the creation of money in check. State enterprises were said to produce in 2009 at least 40% of GDP and the same share of industrial output. They contributed about 50% to exports (Fforde 2009). This is in contrast to Tanzania, where state enterprises have disappeared as a statistical category. Nguyen Manh Cuong (2004) maintained that there is still an unlimited regime of soft budget controls. Indeed, state enterprises in Vietnam retain privileged access to land and credit, even after the implementation of the Enterprise Law 2003, requiring SOEs to behave as private firms. However, it makes no sense to deny the large changes in the state-owned sector in Vietnam.

[8] Firstly, the period of central planning must be reconsidered. 'Breaking the fences' has been a common metaphor to describe the onset of economic reform in Vietnam. Kerkvliet (2005) has argued more generally that it was protest from below that led to economic reform. The centrally planned economy may also have been far more loose and decentralized than was assumed. The provincial governments had probably much more autonomy than was thought. The fact that Vietnam was faced with hyperinflation at the end of the 1990s also suggests that pricing was not a monopoly of the planners, but that there were also independent economic actors (Van Arkadie & Do Duc Dinh, 2004). A closely related argument is made by Painter (2005), who argues that Vietnam is not and never was the monolithic entity assumed in Marxist-Leninist society. Vietnam's development is one of a Marxist-Leninist state absorbing change, and this is how it avoided rejection by its citizens.

> It is useful to recall that the so-called state sector in Vietnam is arguably better viewed, not as a series of bureaucratically run entities, but as a number of complicated business arrangements with a wide range of commercial and business relationships . . . The intriguing question is whether this overall political economy is one that can accompany sustainable growth to middle income status and beyond. There are arguments that it is, not least that it has worked so far. (p. 87)

Conclusion: Agriculture, Poverty Alleviation, and Economic Growth

Comparing the development trajectories of Vietnam and Tanzania suggests a pathway of development that seems almost self-evident. When the majority of the population is rural and the largest part of the poor population is also rural, it makes sense to focus on that part of the population. Raising rural incomes has then the greatest impact on poverty alleviation, and thus raising incomes from agriculture is the primary means to do so. This will also lead to increased food supply, keeping prices low for the major commodities in the consumption basket of the poor. A governed market appeared in Vietnam to be a major instrument in maintaining stable farm incomes. Tanzania liberalized and expected that markets would spontaneously emerge and give farmers higher incomes. That did not happen, and lack of effective institutional structures prevented farm incomes from increasing and poverty being alleviated.

This conclusion raises two questions about its limitations. Firstly, it is not the whole story, and should it not be seen in conjunction with wider developments in these economies? Secondly, has this analysis, dealing as it does with a historical situation, lost significance in subsequent developments? The answer to these questions is that, indeed, there have been in both economies significant developments in other sectors of the economy. But this has not lessened the relevance of a priority for agriculture and rural development. Priority for agriculture and rural areas is still as relevant as it was immediately after liberalization.

Tanzania has established sound macroeconomic fundamentals in its economy since 1995.[9] This has not resulted in growth in the agricultural

[9] The positive reports on the Tanzanian economy tend to overlook enduring weaknesses. Careful reading of the Bank of Tanzania reporting (Bank of Tanzania, 2010) shows how the weakness of the Tanzanian economy continues to manifest itself in issues surrounding the balance of payments and government financing. There remains after macroeconomic stabilization a continuing deficit on the balance of goods and services. The deficit increased from 44 million USD to 2,876 million USD in the period 2000–2008. This is

sector and substantial poverty reduction, despite large changes in the economy (World Bank, 2002). However, two other sectors have grown rapidly. Since 1995, exports have increased, most notably owing to a mining boom. Exports of minerals in 1997 comprised only 6.8% of total exports. That rose to 24% in 2000 and 39% in 2009. The output of gold increased particularly—for example, from 15,060 kg in 2000 to 46,433 kg in 2008. This translated, however, into a relatively small rise in the share of GDP: mining and quarrying contributed on average only 2.15% to GDP in the period 1999–2008. It also provides little employment (Bank of Tanzania, 2009). The Tanzanian Integrated Labour survey found that only just under 1% of employment outside the mainly self-employed agricultural sector was in mining, while in that year the sector contributed 1.5% to GDP. Contribution to GDP growth, therefore, does not lead to a corresponding increase in employment (National Bureau of Statistics, 2001; Bank of Tanzania, 2009). The poverty-alleviating effects are therefore minimal.

Tourism is another sector that has developed impressively. This appears, like the mining boom, starkly on the current account. The surplus on the balance of services increased from 265 million USD in 2000 to 571 million USD in 2008. This was mainly due to increased receipts under the heading of travel (Bank of Tanzania, 2009). Tourism seems to have more effect on generating local income than mining: in 2004, 160,750 persons were employed in tourism as compared with 96,000 in 1995. The estimate is that about 4% of the population employed outside agriculture worked in that sector (National Bureau of Statistics, 2001; Skoffe, 2008). However, a study by Kweka, Morrissey & Blake (2003) found that "[t]he results show that tourism has a significant impact on output and incomes, especially taking into account the strong inter-sector linkage effects, although this

partly an accounting phenomenon, as direct foreign investment turns up as an increase in exports. However, exports also increased considerably owing to the mining boom (Table A4.1). Foreign financing remained crucial in the government spending. Grants made up 38% of government revenue in 2000/01–2008/09. However, this only partly stabilized government finances. During that whole period, budgets were in deficit—on average 21%—albeit with great variations over the years (Table A2 1). Tanzania's external debt as a percentage of GDP declined considerably after macroeconomic stabilization: from 94.3% in 2000 to 30.3% in 2006. The latter figure emerged after a spectacular drop from 60.8% in 2005. This is most probably the result of debt relief, especially the Heavily Indebted Poor Countries (HIPC) initiative in 1996. External debt service as a percentage of exports was reduced from 16.7% in 2000 to 1.2% in 2006. However, there was another hidden foreign subvention in the discrepancy between scheduled debt service and actual debt service. The scheduled debt service in the period 2000–2008 was 3,180 million USD, while the actual amount paid was 1,088 million USD (Table A5.1).

has not been translated into corresponding employment gains". This commendable growth, therefore, does not provide the employment that has a sizeable impact on poverty alleviation. This is reinforced by the regional concentration of tourism in only parts of the country: the coast and the game parks in the North.

The share of agriculture in Tanzania's GDP decreased considerably from 48% in 1999 to 28% in 2010. This was not due to the growth in the new sectors of mining and tourism, but to a growth in services. By international standards, Tanzania as a whole has a huge informal sector, estimated at 60% of the urban economy. Wuyts (2001) has argued that there is no progress in the productivity of this sector and that it is highly import-dependent. Informal-sector growth is not adding value to agriculture but is probably a drain on that sector. In the period 1991–2001, incomes in the informal sector grew by 18% whereas those in agriculture grew by only 8% (Skoffe, 2008: 172). Similarly the share of traditional agricultural crops in export declined from 42% in 2000 to 22% in 2009 (Bank of Tanzania, 2009). However, in other respects, agriculture remains vital in the Tanzanian economy. The latest estimate of the share of agriculture in total employment (2007) was 75%. Similarly, the share of the rural population in total population was still 74% in 2010 (World Bank, 2010).

Non-farm income has become more and more important. Skoffe (2008: 169, 171) mentions that 40% of all income in rural Tanzania is non-farm income. Ellis & Mdoe (2003: 14) found in villages in the Morogoro region:

> Overall, across the sample villages, 50% of household incomes are derived from crop and livestock sources, and 50% from nonfarm sources comprising wage labour, nonfarm self-employment and remittances. The relative contribution of crops to total income declines across the income ranges, while that of wage income changes little. There is no doubt from the evidence that becoming better off in rural Tanzania involves becoming less reliant on agriculture within a diverse livelihood strategy.

These observations are important but do not legitimate a policy shift away from agriculture. These findings illustrate first of all how terms of trade must have turned against agriculture. These raise the same questions about the quality of growth as those raised by the growth of the informal sector in urban Tanzania. When the economic value of remittances, petty trade, and low-paying wage labour is pitted against those of agricultural production, especially of valuable export crops, the latter will stand out.

There are influential voices asking priority for agriculture; however, these do not call for independent smallholder farming. REPOA, an influential

NGO producing economic analysis, formulated a plea for massive development of contract farming (RAWG, 2005). President Kikwete has increasingly and more forcefully called for more private investment in agriculture. He is, however, quite ambiguous in his commitment to small-scale farming. He also stresses the virtues of contract farming, but he certainly does not belittle the importance of large-scale farming. Faith in the independent economic potential smallholder is weak if not absent in these calls.[10] The belief that smallholders can produce high quality export crops in a system of regulated marketing is absent. Yet that was a common situation in the 1950s–1970s in Tanzania.

The Vietnamese economy has also undergone large changes outside the agricultural sector since the onset of liberalization. It is not often noted that Vietnam has become a significant energy producer since liberalization. That is primarily because of oil production, and crude oil is Vietnam's most important export above agriculture and manufacturing. Vietnam had until recently no refining capacity and therefore has to import as well. Nevertheless, there is considerable income from oil exports. Income climbed from 0.6 million USD in 1991 to 4,958 million USD in 2010. Overall, however, there is a deficit: oil imports grew from 0.26 million USD to 6,846 million USD. That deficit would, of course, be much more difficult to bear if there was not local oil production. Vietnam is also a sizeable coal producer. Production climbed from 6,748 thousand tons in 1986 to 48,443 million tons in 2009.[11] These sectors are important

10 Kikwete's position is revealed by some of his statements: "Clusters of profitable agribusinesses would be promoted to incorporate small-scale farmers, the government, bilateral and multilateral companies for food security, production of surplus and eradication of poverty" (*Daily News*, Dar es Salaam, 18 February 2012. Available at: http://m.dailynews.co.tz/index.php/local-news/2011-kikwete-touts-private-sector-participation-in-agriculture [accessed 9 September 2012]). In an interview in Guinee, he said: "Let them be big farmers, be involved in agriculture as big farmers. Of course, peasant agriculture is important, but we also need large-scale farmers" (La Ligue des Démocrates Réformistes de Guiné, 22 December 2009. Available at: http://www.guinee-plurielle.com; 22 December 2009; accessed through http://allafrica.com/stories/200912180913.htm [accessed 9 September 2012]). His commitment to agriculture and especially smallholder agriculture is challenged by the NGO MIVWATA, which attempts to organize smallholders. See report on: http://viacampesina.org/en/index.php?option=com_content&view=article&id=1232:tanzania-mviwata-asks-for-agricultural-sectors-budget-raise&catid=15:news-from-the-regions&Itemid=29 [accessed 9 September 2012]. See also Hans Theting & Brita Brekke, 'Land Investment or Land Grab? A critical view from Tanzania and Mozambique'. Available at: http://www.commercialpressuresonland.org/research-papers/land-investment-or-land-grab-critical-view-tanzania-and-mozambique [accessed 9 September 2012].

11 Figures available at: http://www.indexmundi.com/energy [accessed 18 March 2012].

to save foreign exchange and these SOEs contribute to the treasury, but they do not directly contribute to poverty alleviation. Mining and quarrying in 1993 comprised only 9.4% of GDP and employed 0.7% of the workforce.[12]

The second main change in the Vietnamese economy is the rapid development of manufacturing. The share of manufacturing in GDP decreased immediately after liberalization, as inefficient state factories closed, but a new export-oriented manufacturing has arisen. However, the share of manufacturing in GDP did not rise over 20% and the average in the period 1990–2005 was 17%. The share in exports, however, was much higher: in the same period the share of manufacture in exports was on average 55% (World Bank, 2010). However, these industries are very import-dependent for inputs and valued added in Vietnam remains low (Hill, 2001; Nguyen Manh Cuong, 2004; Buisman & Wielenga, 2008) Manufacturing undoubtedly created jobs, but less so than expected (Jenkins, 2004; 2006). The contribution of manufacturing to employment was percentage-wise less that the growth of GDP during the 1990s. This trend continued well after 2000: in 2006 the share of employment in manufacturing (20%) was less than the share of services in total employment (26%). Most employment growth was in the service sector. Jenkins argues that these jobs in the service sector are often low-skilled, low-paying jobs and are in fact disguised unemployment. Manufacturing has through job creation contributed to

[12] The employment figures are taken from http://www.gso.gov.vn [accessed 18 March 2012]. Two additional considerations are important here, and these point to issues that tend to be overlooked in positive accounts of the Vietnamese economy. There is in Vietnam a persistent concern about the foreign exchange position, albeit that this is not particularly bad in comparison with Tanzania. The average deficit on current account for the period 1997–2010 was 3% of GDP. That is compensated for by an inflow of foreign exchange in that period of, on average, 5.7% of GDP. The deficits on the current account are also an accounting expression of the inflow of foreign direct investment, as this brings in more imports. For example, in the years 2007 and 2008, the deficit on the current account was particularly high, at respectively 10% and 12%, but the inflows of foreign direct investment were respectively 8% and 11% of GDP. There are also, however, concerns about the quality of the investment—for example, if it flows into sectors such as real estate, gaming, health, or education. Such investment is also feared to be footloose. Nevertheless, in that same period fuel exports contributed, on average, 21% to exports and therefore provided a considerable loosening of the foreign exchange constraint. *However, more important and crucial to the Vietnamese development strategy is state involvement that implies transfers to agriculture and SOEs*. Therefore, it may be more significant that the income from oil rents in the period 1997–2010 was 8% of GDP. Income from natural resources also appears in the government budget, but it is not consistently reported. However, in the period 2005–2007 about 10% of government revenue came from natural resources tax. This is besides the income accrued from state participation in the oil and coal industries (World Bank, 2012).

poverty alleviation, but this is less the case than is expected when considering, for example, the growth in manufacturing exports.

The importance of agriculture for poverty alleviation, therefore, also remains paramount in Vietnam, despite the much larger growth in manufacturing as compared with Tanzania. Indeed, the share of agriculture in Vietnam's GDP declined from 46% in 1986 to 28% in 2010. Although the share of agriculture in total employment also declined, it remained at 52% in the latest estimate (2006). The share of the rural population also declined, from 80% in 1985 to 72% in 2010 (World Bank, 2010). The majority of the population, therefore, still lead rural lives, and the effect of raised incomes will still be highest if concentrated on rural Vietnam.

Yet also in Vietnam there is a lack of belief in the efficacy of the policies that were at the core of liberalization. These are considered to have run their course, as the agricultural increase in production was due to irrigation, added labour, and fertilizer. There is a need for a higher technological level for further productivity increases, and the smallholder is not necessarily seen as the agent for this (Nguyen Ngoc Que & Francesco Goletti, 2001; Nguyen Do Anh Tuan, 2009) The success of Vietnamese agriculture is an essential part of the successful Vietnamese development record, and the smallholder was an essential part of this. There is no reason to assume that the smallholder is inherently unable to adopt further innovations. That does not imply an uncritical glorification of the smallholder. For example, there is undoubtedly a need to stop further fragmentation of land in densely populated areas like the Red River delta, but that need not imply a plea for large-scale farming. Similarly, the agencies that regulated the agricultural markets are seen as belonging to a past age. Vinafood is seen now as a bastion of vested interests. Undoubtedly, there is a need for reform of regulatory institutions as circumstances change, but that should not blind us to the virtues of governing the market as shown in the Vietnamese experience.

The Vietnamese economy has undoubtedly changed, but the development strategy that led to the big push after 1986 has not lost any of its relevance.

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The Variation in Output and Marketing of Cashew in Tanzania and Vietnam

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Introduction

There is a pronounced difference in the levels of cashew production between Tanzania and Vietnam. This helps to explain the difference in economic growth between the two countries, as cashew is an important source of income and employment in both countries.

This chapter presents stylized facts of the cashew sector in Tanzania and Vietnam, based on fieldwork conducted in the highest cashew-producing areas in both countries. Though the same crop is grown in both countries, the differences in output produced may be explained by three factors: (i) how the crop sector is organized; (ii) how factor inputs are utilized; and (iii) how institutions are used to administer the crop.

The induced innovation model of Hayami & Ruttan (1998) provides a handle to understand the divergence in production at the household level. The Global Value Chain (GVC) framework allows analysis of interaction of different actors within the chain, thus covering the institutional set-up.

This chapter is organized as follows: before looking at the characteristics of cashew farmers, the methodology used is explained and the relevant literature is reviewed. Before concluding, market dynamics are covered.

Methods

The evidence reported here is derived from fieldwork in Tanzania and Vietnam between November 2008 and February 2010. Two comparative

* This chapter is derived from two chapters of the author's PhD thesis (Kilama 2013).

surveys of cashew producers were organized. Farmers were selected from the highest cashew-producing areas of Mtwara in Tanzania and Binh Phuoc in Vietnam. A total of 400 households were sampled by size, using numbers of trees and land size for Tanzania and Vietnam respectively. The lists compiled were used for selecting small, medium, and large farms from different hamlets in the selected villages. Data collection during interviews with the cashew households was at three levels: farm, household, and individual members of households. Additional qualitative information was gathered from focus-group discussions in the villages.

In order to understand the different routes that cashew takes from producer to consumer, it is important to cover the history of the crop. To get a picture of the organization of the cashew sector, comparative visits to key stakeholders in the sector were conducted in Tanzania and Vietnam. Interviews were held with key informants, such as processors, government departmental heads of cashew-related ministries, research institutions, and coordinators of marketing of input and output. A desk review was carried out of relevant data that was supplied or recommended by key informants. This information was supplemented by observations made by the researcher.

Induced Innovation and Creating Space for Actors to Perform

The induced innovation model of Hayami & Ruttan (1998) is based on the idea that technological and institutional innovations are endogenous to the economic system.

> The [induced innovation] model attempts to make more explicit the process by which technical and institutional changes are induced through the responses of farmers, agribusiness entrepreneurs, scientists, and public administrators to resource endowments and to changes in the supply and demand of factors and products. (Ruttan *et al.*, 1998: 175)

The model shows that a change in the price ratio of factor inputs induces a new technology, which in the long run produces output at lower cost, given inelastic supplies of labour and land. Technology substitution occurs between scarce factors that are expensive and abundant factors that are cheap. With labour being more expensive, labour-saving (mechanical) technologies are introduced making it possible to use more land and less labour. The labour-saving technologies involve the use of tools and machines. A rise in the price of land, on the other hand, is followed by innovation that allows an increase in production, by using a combination of more labour and biological technology. Land-saving (biological) technology comprises better-producing varieties, which utilize smaller areas, and an increased usage of fertilizer.

Tool specificity may hinder or allow for switching between crops. Mechanical technology innovations create tools that are non-specific. This means that they can be used for a range of crops—for example, saws and shears for pruning may be used for different tree crops. The use of a specific biological technology, on the other hand, makes switching to another crop costly, as by doing so one incurs more sunk cost. *Sunk costs* are irreversible costs that may differ according to the type of technology used. For example, before the first harvest, farmers must learn (through training, or learning by doing) how to care for their plantations, must obtain initial seedlings, and must put in their labour time. Additional costs incurred before the initial harvest include fumigation, weeding, fertilization, pesticides, water for dissolving/mixing pesticides, irrigation costs, and labour costs up to the year of the first harvest (Lambson *et al.*, 1995). Thus, if farmers ever decide to quit, all this initial cost is foregone. Investors are often careful not to fall in the *sunk cost fallacy*, a fallacy in which they believe they simply have to put more money into an investment even if it is irrational to continue to do so as no profits are ever going to be realized by putting in more money. Thus, the only option left is to exit (Baliga *et al.*, 2009).[1] Once an initial cost is incurred, an investor has to wait before seeing the first harvest. The waiting in contract theory is known as the hold-up problem, where producers (farmers) become dependent once they have incurred sunk cost and thus become vulnerable Noldeke *et al.*, 1995; Mackintosh, 2001). Sunk costs matter because, first, they make the producer vulnerable to contract changes (the hold-up problem), and second, specific investments are lost by switching to an alternative crop.

Hayami and Ruttan's induced innovation model of agriculture provides useful variables to account for differences between cashew-producing areas of Tanzania and Vietnam. In this model, land and labour as inputs are very important. Improved seedlings (biological technology) and improved tools (mechanical technology) are also important. These technology improvements mean intensive investment, which are introduced when a producer is faced with less labour or less land.

There are two conclusions that can be drawn from this model. First, differences in factor conditions mean that there will be differences in

[1] This is also referred to as the Concorde effect, owing to the escalation of commitment that comes about with it.

output. For Tanzania, which has abundant land, labour-saving technologies are required in order to improve her production. In Vietnam, which has less land and competes for labour, both land-saving and labour-saving technologies are required.

Second, this framework of analysis draws attention to other factors in addition to labour and land, in particular investment in technology adaption. When looking at biological technology, we refer to varieties used as either initial seedlings, or upgrading.

This raises the issue of tree density (i.e. number of trees per hectare). The absolute variable of output per household says little about variation among households with regards to land and tree ownership. This model allows for the inclusion of output produced per land area (yield) and output per tree (productivity) by each cashew farming household. Tree density or output per tree reflects the amount of investment undertaken by a primary producer to obtain a certain yield (i.e. output per hectare).

An increase in the price of output entails better future revenue, which in turn means better or rather more production in the next season. A further better price would lead to further increased production. Thus, during a period of price increases, assuming all things being equal, farms will be better attended or managed with the adoption of new input-saving technologies. These technologies are invented by either farmers or research institutions and are later tested by respected research institutions before being rolled out to producers (Diyamett *et al.*, 2006). On the other hand, lower prices indicate poor future revenue, which in turn means less production in the next season and less maintenance of farms.

For all this to take place, there is a great need of coordination between the inventor of the appropriate tools and the distributor of those tools to the producers/farmers. A decision about production technology is affected by the efficiency of research organizations to invent and distribute better technologies to the farmers. This leads to the topic of the organization of actors and value chain analysis, which is discussed next.

Actors in the market are organized differently, given time and space. GVC analysis seeks to explore and predict how nodes of value-adding activities are linked in the spatial economy (Sturgeon, 2009). GVC analysis assists in understanding the governance structure of tradable goods. The analysis "describes the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond".[2] GVC analysis has been evolving over time; in initial discussions on GVC

[2] http://www.globalvaluechains.org/concepts.html

by Gereffi (1994) and Gibbon (2001), governance was termed as buyer-driven or producer-driven, and later also trade-driven. Work in value chains focusing on crops produced in poor countries and consumed in rich countries[3] has gained prominence since the mid-1990s and especially after the GVC Initiative[4] was formed in 2000. These initial works assume that the governance of the chain is consistent at all different nodes of the chain.

According to Talbot (2009: 100), the governance of the value chain differs along and within the chain; thus, in analysing the entire chain, one will encounter different segments of the chain with different governance structures. This means that different actors play key roles at different segments of the chain. The state marketing agents deal with provision of inputs and buying of output and, through pricing policies, determine the distribution of benefits within this segment of the chain (Talbot, 2009: 100–101). At the point at which the producing state-governed segment of cashew meets the processor/exporters, a new governance structure is adopted with different benefits for distribution among the actors. Thus, this chapter deals mainly with understanding the segment of the chain where farmers interact with the state-governed marketing body. Coordination is required to ensure that inputs are provided in a timely manner, output is traded in a timely manner, and processing continues without any disruption. When such a situation exists, the transaction costs are minimized, while production is maximized with a high equilibrium; in other words, the system will operate with economies of scale. Coordination needs to occur among downstream actors and upstream actors and at sectoral level. With this, the state has a role to play: it can either be supportive or unsupportive. *Coordination problems* lead to multiple equilibriums. A delay at any level is costly and leads to a lower equilibrium with less return to producers.

The existence of market failures introduces the issue of contracting. Contracts are needed owing to the existence of incomplete information (often termed asymmetric information) and uncertainty that results in positive transaction costs. Given the gestation period of a crop, the nature of contracting among actors is crucial. Presumably, crops with a long gestation period like cashew are traded in long-period contracts, while those with short gestation period are traded in short-period contracts. Contracts

[3] Gereffi (1994; 1999), Gibbon (1997), Cramer (1999), Dolan *et al.* (2000), Kaplinsky *et al.* (2001), Gibbon *et al.* (2005), and Gibbon *et al.* (2010).
[4] A network of researchers that consolidates information on GVC.

may be of a short-term nature, mainly referred to as a spot contract, or of a long-term nature, with reputation at stake, and referred to as a relational contract.[5]

In *spot contracting*, client and agent make their offers simultaneously. Once a contract is concluded, both client and agent go their own separate ways. In *relational contracting*, client and agent make their offers sequentially. Relational contracting follows a long-term perspective, where trust among actors is crucial and buyers have a reputation to preserve in order to ensure a continuous trading relationship. For trading to occur, coordination is a key factor, where linkage is created from downstream to upstream actors.

In Vietnam, the presence of strong domestic raw material supply to upstream actors is attributed to low transportation costs, little bureaucracy, and control on quality. Given these benefits accrued from local supply of raw material, upstream actors will entice the downstream actors by providing a good price for their raw material. Since upstream actors have invested in machinery, they become vulnerable and thus face a *hold-up* problem.[6] The hold-up problem may lead to under-investment and hence inefficiency (Klein *et al.*, 1978). Given economic freedom, downstream producers may decide to produce another product with better returns. Thus, upstream producers are obliged to pay a reasonably good price to encourage downstream producers to provide the required raw materials. The economic freedom to choose other products by downstream actors is a credible threat.

The type of payment paid to farmers also affects their production. Downstream actors receive their payments as a core or a residual. The core payment entails receiving revenue with minimal transaction costs associated with marketing. The residual payment entails receiving the remaining revenue after deducting costs associated with marketing. Marketing is done either by private traders or (coordinated) by the state. The downstream actors make a reasonable investment. The bargaining position of downstream actors changes after producing (Gow *et al.*, 1998). Across all cashew farmers, a change in the price (both relative and absolute) leads to a reaction by the farmers. The price received in a current season affects the efforts put into the production in the next season. A good price means that downstream actors will, firstly, continue producing

[5] The uncertainty in production stream and price lead to implicit contracting. Most goods are sold in spot market—e.g. sugar, farm inputs, and household utensils.
[6] Williamson (1979), Hart *et al.* (1988), Rogerson (1992), and Macknitosh (2001).

and thoroughly attend to their farms; and secondly, expand their farms and/or thirdly, upgrade their farms. On the other hand, a bad price means downstream actors will, firstly, discontinue producing and thoroughly attending to their farms; and secondly, sell off or abandon their farms. Following the collapse of raw cashew price in 2000, Vietnamese cashew farmers resolved to switch to rubber, while in Tanzania farmers resolved to neglect their farms.

In Tanzania, the cashew sector has experienced repeated institutional rearrangements affecting both quality and quantity of cashew produced. In Tanzania, the "sins of commission" in the late 1970s to mid-1980s in terms of policy distortions were corrected by Structural Adjustment Programme (SAP), unfortunately leading to "sins of omission", with under-provision of public goods (Ndulu, 2007: 13).[7] The cashew sector was overseen by a marketing board and crop authorities. The marketing board and crop authorities were tasked with regulating the marketing of produce (raw and processed) and hence coordinated the supply of inputs, the purchase of output, and the regulation of the quality of produce. With marketing boards and crop authorities supplying inputs on loans, the interlocking market[8] enforced residual payments on farmers. The adoption of a free market went hand in hand with the collapse of coordination of inputs by the state. The old marketing boards up to 1992 were parasitic, shifted the entire burden of administrative costs to farmers, and made payment by residual, which was a disincentive. Grading (classification of raw cashew) was integrated into the system. When Tanzania adopted the SAP, the support system was dismantled: the state halted its coordination of the sector, infrastructure was not developed, and grading was not taken seriously in any way.

The liberalization in late 1980s resulted in splitting the market into input and output, with buyers being more interested in buying the output than in providing inputs. The total pull-out of the government led to the collapse of coordination and grading and to severe credit shortages for inputs. This led the farmers to shift to the production of *lemons*. Liberalization counted only on prices to allocate resources, but this worked only until the end of the 1990s. The collapse of the price in 2000

7 The distortions include fixed exchange rate and ineffiecient markets, while SAP introduced cost sharing and pull-out of governement from most spheres, including coordination.

8 This can be referred to as a dependency on buyer to provide seller with inputs. When the buyer is very strong, as in the case of monopoly of a crop board or marketing board, the seller (farmer) falls into a dependency ploy.

led to the neglect of farms because the farmers lacked resources (credit and inputs) to attend to their farms. Coordination was returned again in 2007 through the Warehouse Receipt System (WRS).

Receiving residual entails the farmer in Tanzania paying for inefficiencies in other levels of the value chain. This situation is even worse during bad years, as the cost for marketing is not adjusted according to output. The farmer pays for fixed transport costs and administration-related costs. This can be attributed to the lack of an industrial policy integrating all actors strategically in the sector. This means each actor is thought of independently and not with regards to the existence of other actors. The multi-tiered marketing authorities need to operate efficiently. In the end the residual payment arrangement discourages the best personal efforts. Downstream actors have little incentive to improve the quality of their product. Downstream actors make just enough effort to be at the boundary of acceptable quality, signifying a typical *lemon* (Akerlof, 1970) problem. It is not that farmers cannot produce good-quality produce, but rather that the offered price is distorted owing to marketing inefficiencies. Since the buyers anticipate low quality, they tend to offer the lowest possible price. This is a classic *prisoner's dilemma* solution in game theory, where parties choose bad solutions in anticipation of the others doing the same. In reality, this will lead to a combination of low yield/output and low price—in other words, a low yielding equilibrium. Moreover, a low price leads to low production in the coming seasons.

For markets to work, a sound institutional set-up that thrives on enhancing the operation of the market in a self-monitoring way is required. A thin market tends to create monopoly and monopsony, which are not market-efficient in allocating resources but rather a way of letting a few actors accumulate wealth at the expense of others.

In Vietnam, all actors in the cashew sector are dealt with in a integrated way. Being inclusive, it operates as an out-grower system, with coordination overseen by VINACAS (Vietnam Cashew Association). The collapse in price in 2000 saw farmers switch to rubber, which was made possible by accumulated savings and the existence of pepper as an additional source of income. In Vietnam, pepper provides flexibility for farmers to switch between perennial crops (cashew to rubber), regardless of incurred sunk costs. Despite the continuous importance of cashew in Vietnam, the presence of an alternative crop and flexibility ensures that farmers receive a high price.

The *economies of scale* are achieved by the existence of a continuous commitment to growth, brought about by the long-term effects of increased production with falling average cost of production (Penrose, 1959). The economies of scale are strongest where there exists relational contracting, where actors at all different levels benefit from best performances, as the profit is maximized. On the other hand, *diseconomies of scale* occur where there exists little to no coordination among actors and whereby goods are produced at an increasing cost per unit. Diseconomies of scale result when actors operate with a short-term view in mind, and every time a product decision is taken or trading occurs, there seems to be a new contract with little coordination or regard to consequences from the previous actions of any actor.

The linking of downstream and upstream actions is an important part of integrating all actors, creating a self-governing mechanism in the form of *implicit contracting.*[9] An unclear linkage between upstream and downstream leads to hold-up problems for actors, given initial costs incurred. Whenever the local upstream actors are unable to offer a reasonable price, the upstream actors from outside the country will seize the opportunity. Unfortunately, if not rectified, this type of contract arrangement aggravates the problem of low quality of cashew produced—lemons—especially with the existence of restrictions for non-local actors.

Characteristics of Cashew Farmers[10]

In Tanzania, small farmers have land plots of about 7 hectares and medium farmers have 10 hectares, with large farmers having more than twice as much land as medium farmers. In Vietnam, large farmers have twice the amount of land their medium counterparts have and almost four times as much as their small counterparts. Half of the households in Vietnam have 800 trees; there is an average of 1,109 trees per household. Medium farmers in Vietnam have double the number of trees of small farmers. Large farmers in Vietnam have thrice the number of trees of small farmers. Coincidentally, in Tanzania the large farmers in terms of number of trees would be considered small in Vietnam. Yet, large farmers in Vietnam have less land than the small farmers in Tanzania. Table 14.1 shows the differences between small and large farmers in Tanzania and Vietnam.

9 The uncertainty in production stream and price leads to implicit contracting.

10 The averages computed in this paper are comparable across categories, showing the direction of how certain factors (variables) perform and not necessarily the exact magnitude.

Table 14.1 Household-based indicators

		TANZANIA	VIETNAM
SMALL	*Size of households*	About 5 members per household. Of these, 3 make up the theoretically active population (i.e. members aged 15–64 in the household).	The household sizes of cashew farmers are higher than the national averages.[12] Small farmers have about 4 (4.3) members per household. Of these, 3 make up the active population (i.e. members aged 15–64 in the household).
	Marital status	75% of the small farmer heads are living in union. Common to this group are widows accounting for 9%, with 11% being polygamous households.	93% of small farmer heads are living in union.
	Age	The average age of a small farmer is 51 years, with 95% confidence interval of 49–54 years.	The average age of a small farmer is 45 years, with 95% confidence interval of 42–47 years.
	Education	One in every five heads has no formal schooling. Of the interviewed small farmers, 50% have completed at least primary school.	About 50% of the interviewed small farmers have completed at least primary school.
	Average start year of residence	1958 [i.e. about 51 years ago]	1991 [i.e. about 19 years ago]
	Average start year of cultivation	1982 [i.e. about 26 years ago]	1995 [i.e. about 15 years ago]
	Cultivation	20% of the farmers inherit their trees. Seedlings are often provided for free, while own sources and in-kind payments are often used as modes of payments.	Seedlings are obtained for free, and at times both small and large farmers utilize loans.
	Labour	Small farmers use on average 8 farm workers. Of these, 3 come from within the household. Small farmers use on average 7 workers for weeding, 5 workers for cleaning, and another 5 workers for picking cashew.	Small farmers use on average 5 farm workers. Of these, 2 come from within the household. Small farmers use on average 4 workers for picking cashew, 3 workers for weeding, and 2 workers for cleaning per household.
	Land	7 hectares (average)	3 hectares (average)
	Trees	200 trees (average)	618 trees (average)

[11] Vietnamese Household Living Standard Survey (2008) with household size at 4.12.

Table 14.1 (cont.)

		TANZANIA	VIETNAM
LARGE	*Size of households*	7 members of household. Of these, 4 make up the active population (i.e. members aged 15–64 in the household).	5 members of household. Of these, 4 make up the active population (i.e. members aged 15–64 in the household).
	Marital status	97% of large farmer heads are living in union. In Tanzania, 66% of larger households are polygamous.	All heads are living in union.
	Age	The average age of a large farmer is 59 years, with 95% confidence interval of 54–64 years	The average age of a large farmer is 50 years, with 95% confidence interval of 46–53 years.
	Education	1 in every 5 heads in Tanzania has no formal schooling. 30% of the interviewed large farmers have completed at least primary school.	More than 80% of the large heads of households have completed at least primary education.
	Average start year of residence	1952 [i.e. about 56 years ago]	1988 [i.e. about 22 years ago]
	Average start year of cultivation	1973 [i.e. about 35 years ago]	1993 [i.e. about 17 years ago]
	Cultivation	Family influences commencement of production, while inheriting trees is rare among the large farmers. Seedlings are often provided for free, and at times own sources and in-kind payments are often used as modes of payments.	Seedlings are obtained for free, and at times both small and large farmers utilize loans.
	Labour	Large farmers use about 17 farm workers. Of these, 3 come from within the household. Labour for weeding (14 workers), cleaning (11 workers), and picking cashew (10 workers) and packaging (5 workers).	Large farmers use about 10 farm workers. Of these, 3 come from within the household. Labour for picking cashew (9 workers), weeding (4 workers), and cleaning (4 workers).
	Land	25 hectares (average)	11 hectares (average)
	Trees	672 trees (average)	2040 trees (average)

The difference between the current residence and the birth place shows that migration has played a major role in Vietnam, where cashew farmers have migrated from the north to Binh Phuoc, attracted by the availability of suitable land for cultivation under a village resettlement scheme. Most farmers migrated from the north, following incentives provided in the resettlement programme for the *stieng*, a minority people that is well represented in Binh Phuoc.

Family labour is the main source of labour in both countries.[12] For cashew farmers in Tanzania, additional sources of labour include relatives, informal organized groups, casual workers, and contract workers. In Vietnam casual workers are the source of additional labour, mainly for picking cashew. The uniqueness of these different kinds of labour is discussed below.

Cashew is an important source of revenue for farmers in Tanzania and Vietnam. For all farmers, cashew revenue accounts for more than 50% of their total revenue. In Tanzania, 72% of farmers depend for more than three quarters of their revenue on cashew. In Vietnam, 60% of farmers depend for more than three quarters of their revenue on cashew.

Investment Indicators

For this chapter, there are a number of variables that are important to define: Land (H), as plot of land measured in hectares (ha); Trees (T), as total number of trees owned by the household; Labour (L), as total number of farm workers used per household; and production (P), as output per household in kilograms (kg).

This section continues to provide stylized facts on general production levels of cashew in the two countries. This part presents empirical evidence with respect to household investment indicators, mainly trees per hectare and output per tree, for the cases of Tanzania and Vietnam (Table 14.2).

Tree density is much higher in Vietnam than in Tanzania. The pattern of output per tree does not vary substantially between both countries, but in Tanzania trees are older and larger. In Vietnam they are of newer varieties and smaller. The investment indicators in terms of tree density are higher in Vietnam than Tanzania, while there is overlap in output per tree between the different categories. Therefore, this indicates higher sunk cost in Vietnam than in Tanzania.

[12] RAWG (2005: 83).

Table 14.2 Geometric means of tree density and output per tree by farmer type and country

	Small		Medium		Large	
	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam
Tree density	29.7	191.4	33.6	233.5	27.2	162.1
Output per tree	4.1	7.3	6.4	5.6	5.9	8.2

Source: Author's household survey data.

Despite sunk costs, investment in cashew is a continuous process, and credit is crucial. Survey data show that in Vietnam credit is provided through government-initiated poverty programmes and private banks. Tanzania lacks a clear provider of credit, and farmers depend mainly on earnings from cashew as a sole supply of credit.

Stylized Facts (Findings)[13]

This section deals with differences in cashew output, which are analysed both within each country and between countries (Table 14.3). First, output

[13] Decomposition of yield: Output produced by farmers depends on number of trees and amount of land. To start with, yield (P/H) can be decomposed and re-written as:

$$P = \frac{P}{H} \cdot H \quad (1) \qquad \text{and} \qquad \frac{P}{H} = \frac{P}{T} \cdot \frac{T}{H} \quad (2)$$

where $\frac{P}{H}$ = yeild; $\frac{P}{T}$ = output per tree; and $\frac{T}{H}$ = tree density

Output increases with yield. Yield may increase owing to increase in land size or adoption of technology with the same land size equation (1). From equation (2), yield (P/H) equals the product of output per tree (P/T) and tree density (T/H). The first term on the right-hand side of this decomposition indicates that when output per tree increases, this will lead to increase in total output. This term would increase with age, whereby with a fixed number of trees, output will increase. The second term in the decomposition represents tree density, which reveals the number of trees per hectare.

The use of geometric means provides averages near the median which follow a normal distribution, whereby their product will always equal the constant yield. Both equations (1) and (2) can be depicted graphically as rectangular hyperbolas with equal yield curves (for positive y- and x-values only).

Alternatively, looking from the perspective of labour use, an alternative decomposition is given by:

$$P = \frac{P}{L} \cdot L \quad (3) \qquad \text{where } \frac{P}{L} = \text{labour productivity}$$

Table 14.3 Geometric means of output (kg) and land size (ha) by farmer type and country

Country	Farmer type	Output	Land size
Tanzania	Small	531,4	4,4
Tanzania	Medium	1.678,7	7,7
Tanzania	Large	2.938,4	18,0
Vietnam	Small	3.789,8	2,7
Vietnam	Medium	7.506,7	5,7
Vietnam	Large	13.257,2	9,9

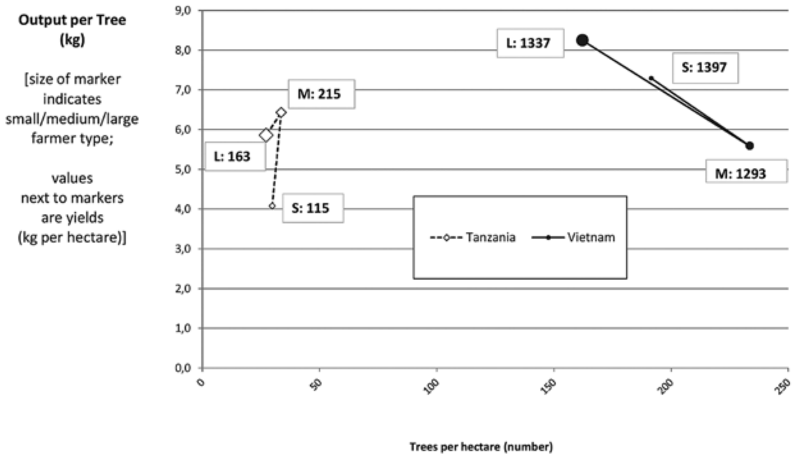
Source: Author's household survey data.

per household is consistently higher in Vietnam than in Tanzania, not only by type of farm unit (small/medium/large) but across all three categories. Secondly, farm size is consistently higher in Tanzania than in Vietnam, not only by type of farm unit, but across the board. Consequently, divergences in yield are much more pronounced than divergences in output per household between both countries (across types of farmers).

In Figure 14.1, output per tree is presented on the y-axis and trees per hectare on the x-axis. In this graph, six main points are plotted: three for small, medium, and large farmers in Tanzania, and the same for Vietnam. As a visual aid, points from the same country are joined by a line and marked with corresponding yield values for each point. Yield is consistently higher in Vietnam than in Tanzania: yield rates are in hundreds kg per ha in Tanzania, while in Vietnam they are above a thousand kg per ha. On average, this discrepancy is 7-fold between the two countries. In Vietnam, small farmers, followed by large farmers, have the highest yield. This is in agreement with the fact that overall cashew yield in Vietnam is high; about 1.33 tonnes per hectare, compared with 180 kg per hectare in Tanzania.

Tanzania uses more labour than Vietnam: the median proportion of households using farm workers is higher in Tanzania than in Vietnam. Farmers in Tanzania cannot easily adapt to new varieties, even if they want to, as they are challenged with seasonal labour scarcity.

Difference in output can also be in terms of difference in number of workers and labour productivity (i.e. output per head). Equation (3) shows that output increases with labour productivity, as fewer workers entails high labour productivity. Labour productivity may increase owing to increase in number of workers or adoption of technology with the same number of workers.



Source: Author's household survey data.

Figure 14.1 Tree density, output per tree, and yield by farmer type and country

Table 14.4 Geometric means of labour, labour per hectare, and labour per tree by farmer type and country

Country	Farmer type	Labour	Labour per ha	Labour per tree
Tanzania	Small	6.5	1.4	0.052
Tanzania	Medium	9.5	1.2	0.036
Tanzania	Large	15.0	0.8	0.029
Vietnam	Small	4.1	1.5	0.008
Vietnam	Medium	6.6	1.2	0.005
Vietnam	Large	9.0	0.9	0.006

Source: Author's Household Survey Data.

Table 14.4 shows the use of labour on average, labour used per hectare, and labour used per tree by farmer type. Labour use increases by farmer type, and large farmers in Vietnam use approximately the same labour as medium farmers in Tanzania. The modes of engagement of farm workers differ for both countries. *Small farmers use more labour per hectare in both Tanzania and Vietnam.*

Inasmuch as there is discrepancy in output, yield, and labour use between the two countries, there is also discrepancy within each country. Farmers in Tanzania depend on cashew for revenue; thus, at any moment a scarcity in cash hinders their ability to attend to their farms (labour and inputs). This is a severe problem for the small farmers and a problem also for medium and large farmers.

Market Dynamics[14]

In Tanzania, there exists a multi-tiered marketing system of buying raw cashew and inputs. In Vietnam, farmers buy and sell their cashew to private traders. Inferences made in this section come from my observations during fieldwork visits in Tanzania and Vietnam.

Tanzania has witnessed two types of traders: private and multi-tiered government-led traders. Before market liberalization, marketing boards were parasitic in nature. Apart from providing inputs, they shifted the entire burden of marketing cost to farmers and made payment by residual, which acted as a disincentive. Marketing boards determined the price offered to farmers. With falling prices, farmers neglected their farms.

During liberalization, prices fluctuated between seasons and within a season. At the beginning of a season, private traders bought raw cashew at a high price. Later in the season they offered lower prices. This had repercussions for the quality of raw cashew nuts produced. Spot contracting was the main way of trading. Traders were simply interested in obtaining raw cashew nuts and not in supplying farm inputs. The total pull-out of the government during liberalization created a vacuum in coordination. The farmers experienced this lack of coordination as a lack of inputs and fluctuating prices. This led state officials to qualify traders as bad for farmers. The farmers experienced insufficient supply response through the lack of sufficient traders.

To restore the coordinating role, the state centralized (monopolized) trade, from purchase of produce, supply of jute bags, transport, and even the provision of inputs. The trading system in Tanzania shows a move from cartel to monopoly in buying of cashew because of mistrust of traders. The system leaves no room for the creation of a space for trust between agents and clients. The current system in Tanzania means little participation and interaction with the farmers. For instance, with regard to investment in extension services, only "50% of the developed innovations reach cashew farmers in Tanzania", says a NARI agronomist.[15] The marketing of raw cashew in Tanzania exhibits characteristics of spot contracting. In the

[14] This section is greatly informed by theoretical discussions on contracts by Mackintosh (2001).
[15] Interview with Dr. Louis Kasuga, 17 November 2008.

Warehouse Receipt System (WRS),[16] farmers through their respective primary societies (PS) do not sign any contracts. There exists an implicit contract where, by selling through the WRS, farmers will be paid an indicative price (± bonus) and be provided with subsidized inputs. Unfortunately for the farmers, since they have already invested, they become vulnerable and face the catch-up game of waiting (the hold-up problem).

Exporters are the main buyers of cashew. When the price falls, quality suffers most. In Tanzania during bad years, farmers either abandon their trees or simply hastily attend to their farms. Thus, the observed increase in price does not translate directly into an increase in the quality of output but rather increases production of low-quality cashew (lemons). This spiral of upgrading the inferior quality continues for a while. Thus, consecutive years of good price initially helps only to increase the quality from a very low level. As farmers receive most of their earnings from cashew, not much choice is left during times of bad harvest or bad price. Therefore, in seasons of low prices, farmers receive a lower than anticipated price, as their payments occur only after deduction of all associated marketing costs by trading coordinators.

In Tanzania, buyers of raw cashew nut include local processors and exporters. The demand for raw cashew nut mainly comes from outside Tanzania, with exporters having a larger role to play. There are few local processors among the upstream actors. Thus, most of the raw cashew nut produced is taken up by foreign exporters to be processed elsewhere.

Figure 14.2 illustrates the probable decisions on quality and the price that is likely to be offered by farmers and exporters. The top-right entry in the figure represents the pay-off for the exporter and the bottom-left entry represents the pay-off for farmers.

A farmer has a choice between producing high-quality or low-quality cashew, while an exporter can offer a high or low price. If a farmer produces high-quality cashew and receives a high price, this is considered a good outcome because the farmer is able to meet production costs. But if the farmer producers high quality and is offered a low price, this is worst for the farmer because the farmer will not be able to recoup production costs. Alternatively, if the farmer produces low-quality cashew and receives a high price, this is the best result for the farmer because the farmer is overly compensated and is able to meet production costs and be left with a profit. But if the farmer produces low quality and receives

[16] The Warehouse Receipts Act No. 10 of 2005.

Farmers Quality Offer \ Exporter Price	High Price	Low Price
High Quality	good / good	best / worst
Low Quality	worst / best	**bad** / **bad**

Figure 14.2 Marketing of cashew as a prisoner's dilemma, Tanzania

a low price, this is bad for both the farmer and exporter, as neither of them can recoup their costs and both stand to sustain a loss. As this is a spot contract, both the farmer and buyer move simultaneously (independently) (see Figure 14.2). The farmer's best result is getting the highest price, while the buyer prefers receiving the best quality of cashew. At the same time, the exporter who is not sure of the quality provided will want to pay a risk-free price.

Therefore, common to both farmer and exporter, there exists a good option of farmers producing high quality and receiving a high price from exporters, and also a bad option where farmers produce low quality and receive low price. But since both farmers and exporters cannot tell either the price or the quality, in game theory this leads to a *prisoner's dilemma* solution. In a *prisoner's dilemma* solution, both farmer and exporter arrive at an independent decision—low price and low quality cashew rather than aiming for high quality and high price—and this is bad for both. This is an equilibrium whereby the farmer produces low-quality cashew and receives a low price from the exporter. Low price entails less money available for maintenance for the farmer, and so the cycle continues, leading to further low yield. The Tanzanian cashew case shows the operation of diseconomies of scale, where there is an increase in cost per unit produced.

This means that the current set-up of WRS in Tanzania would improve tremendously by allowing the creation of pressure groups to ensure a timely delivery of goods, together with services and close cooperation between both the farmers and WRS officials.

In Vietnam, the government set processing at the centre of the cashew sector. In addition, processors face a hold-up problem as they had incurred initial investment costs in obtaining their tools. Initially, both imported raw cashew nut and domestically supplied cashew nut were processed. There are many local processors (upstream actors), enough to compete for both locally available raw cashew nut suppliers as well as suppliers from foreign destinations. A farmer producing raw cashew nuts can receive a high price or low price. In receiving a high price, the farmer can take action or not. The same applies if the farmer receives a lower price. Farmers' actions range from continuing to produce cashew, or switching to an alternative crop, or attending to his farm only hastily. Neglect or abandonment are the forms of actions taken by farmers.

The world-wide fall in price of raw cashew nut in 2000 affected Tanzanian and Vietnamese farmers. Moreover, farmers reacted differently. Farmers in Tanzania continue to produce cashew following a season of high price, and they opt to hastily attend to their farms or neglect them after low price season. Farmers in Vietnam continue to produce cashew following a season of high prices, but they opt to switch to other crops following a low prices' season. In Vietnam, cashew was commercially introduced in late 1980s, while rubber was introduced only in early 2000s.[17]

The Vietnamese cashew marketing operates as illustrated in Figure 14.3. For simplicity, I start by assuming there are only two types of players: a farmer (F) and a processor (P). In this case, a farmer has a choice of producing cashew or rubber. For the cashew produced, a processor can pay a high or low price. This is an example of a sequential game, where once one player makes a move the next player makes a move informed by the initial player's move. This means the first move demonstrated in Figure 14.3 involves a farmer who decides to grow cashew or rubber. When the farmer (F_1) grows cashew, he will sell to a processor (P_1), who has an option of offering a high price or low price. A second farmer (F_2) observes the move/action made by processor (P_1), and farmer (F_2)'s decision is informed by the action of processor (P_1). If processor P_1 offers a low price, there is a high likelihood of farmer F_2 switching to rubber, as returns from

[17] Fieldwork, December 2009–January 2010, and interview with Duy, 23 November 2011.

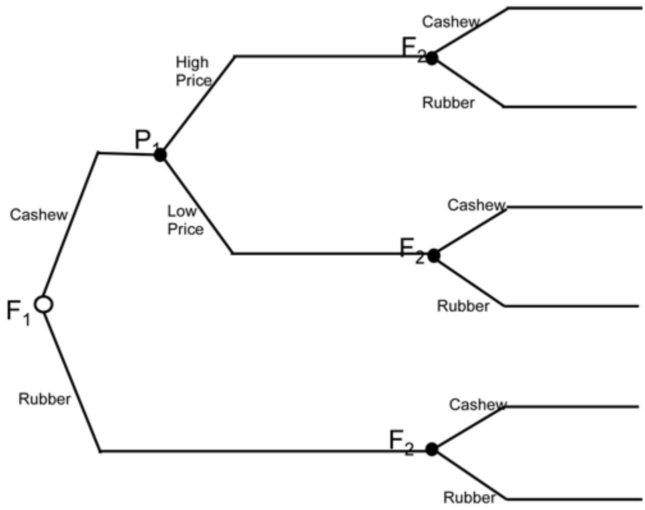


Figure 14.3 Reputation cashew game, Vietnam

cashew will be low. For a repeated game, provision of high price ensures continuous production as an equilibrium solution. This is an indefinite game, as there are many players, both in terms of sellers and buyers (farmers and traders). Farmers {1, 2, 3 ... n} will produce cashew if and only if the processors offer a high price. Ideally, the processor wants the farmer to produce cashew. In order for this to happen, the processor has to pay a high price, to entice the farmer to continue producing cashew. Otherwise, the farmer will take an alternative action—that is, switch to rubber. This has an implication for processors, who will not have enough raw cashew nuts to process. This solution offers a high equilibrium, because both processor and farmer know that this interaction is indefinite. Thus the processors will have to continue providing a high price.

While the processors in both Tanzania and Vietnam face the hold-up problem, the processors in Vietnam face a credible threat of the uprooting of trees. So here we see that the problem of spot contracting is solved by creating trust, which is cemented through reputation. The issue of trust in Vietnam comes in at a different level. With economies of scale, farmers who already have economic freedom need to be paid fairly to avoid a collapse of the whole system, while at the same time large processors need to adhere to standards and thus act as lead examples to all other processors. Ultimately, the government finds it easier to control a few large processors, who may have subcontracted part of their work to smaller processors. Trust and reputation matter in relational contracting.

The Vietnam relational contracting system presents an example of vertical integration. The nature of implicit contracting determines the overall performance of the sector. Spot contracting in Tanzania results in low quality and low quantity, while relational contracting in Vietnam results in high quality and high quantity of raw cashew nut production.

Conclusion

The stunning observations in Vietnam on yield and output performance cannot be replicated in Tanzania given the level of technology and availability of credit in the latter country. Credit availability in Tanzania needs to be improved; this can be done by linking poverty programmes to productive sectors, as is done in Vietnam. Tanzania can try to deal with the different bottlenecks in production by providing incentives to all actors and improving the delivery of inputs and infrastructure to allow for continuous maintenance.

Looking at the Tanzanian case alone, it is easy to point to the involvement of the state as an impediment to expansion of the cashew sector. But in Vietnam the government is also heavily involved. The issue is not so much the involvement of the state but rather the role played by the state. When the state operates as a catalyst and involves other stakeholders strategically, this enhances vertical integration and economies of scale. In Tanzania, the cashew sector has experienced repeated institutional rearrangement, affecting both quality and quantity of cashew produced. But when a state seems to provide incentives that only encourage some of the stakeholders, then this limits benefits only to the assisted stakeholder and results in diseconomies of scale for the entire sector. This may actually act as a subsidy to foreign actors of the cashew value chain, who are happy to obtain raw cashew and process them elsewhere. This loss of value addition via foreign stakeholders can be stopped if the state reorganizes itself and offers incentives inclusively for all stakeholders involved in cashew production.

It is clear that there is sharp divergence in cashew production at the household level, both in terms of sunk cost and output performance and input usage. Once a first harvest of cashew is realized, following a bad year in terms of price levels farmers in Vietnam switch to rubber, while those in Tanzania opt to neglect part of their farms or to only hastily attend to them.

In addition, yield differences are huge. Vietnam, a newcomer to producing cashew, has high-yielding varieties. On the hand, Tanzania has lower yields, a reflection of aging trees, poor maintenance, and a poorly functioning market. Though the figures for yield are lower in Tanzania, as in many other African countries, trend-wise there has been an increase; but the figures still point to a need for more improvement (Dietz, 2011). The decisions on maintenance made by farmers affect the quality of their produce.

The scarcity of labour and the rigidity of the leading innovation institutions are partly reflected through the difference in tree density. This could also be a reflection of the low capacity of research institutions to roll out packages of innovations to farmers. There is more room for expansion in Tanzania; but, again, this will mainly depend on availability of credit.

In Tanzania, spot contracting works through centralized marketing and results in low-quality produce and low price. This means that, in Tanzania, hold-up problems work adversely, with farmers being locked within a *prisoner's dilemma* leading to a low-productivity, low-quality equilibrium, while in Vietnam relational contracting results in high-quality produce from farmers and high prices from processors. This means that, in Vietnam, hold-up is confined not only to the cashew producer, but also applies to the cashew processors (with their own 'sunk costs'), who are faced with the credible threat that farmers may opt out in favour of a competing crop (rubber), thus promoting relational contracting focused on higher productivity, yield, and quality.

It is believed that for Africa to develop it has to mimic institutions like those present in the West.[18] The literature, as Tendler (1997) points out, tends to draw lessons from poor performance and draw conclusions in support of the superiority of market mechanisms for solving governance problems, economic problems, and even poverty. Seeing the free market working in Vietnam, this case of cashew has shown that there is much happening behind the scenes that acts as a catalyst to enhance the entire sector. In Vietnam, the freedom of choice for farmers provides alternatives and is a credible threat to processors, while in Tanzania the involvement of the state, with the inclusion of a single stakeholder and the exclusion of the others, restricts expansion of the entire sector. Vietnam therefore shows that markets that are strategically supported by the state perform better.

[18] Tendler (1997), Booth (2010), Ellis (2011).

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15

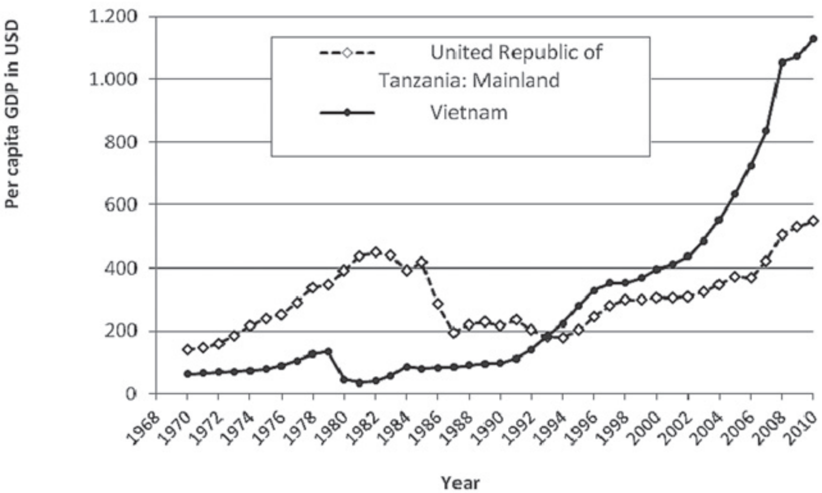
The Textile Industry in Vietnam and Tanzania

Jamal Msami

Introduction and Background

It makes sense to analyse developments in Tanzania and Vietnam on the same platform, as, in addition to sharing not too dissimilar political ideologies in the past, the economic performances of the two countries have been lateral inversions of one another in the last 40 or so years and have also been underpinned by the same agricultural foundations for significant periods in this time (Figure 15.1). Political ideologies in the two countries have over time defined principles and drivers of economic growth as well as the organizational structure of production. Agriculture in the two countries has largely been defined with an emphasis on inverted subsidiarity of value chains, with the state afforded heightened prominence not only in policy prescriptions but also in their operationalization. For over 50 years, agriculture in the two countries has been organized with clear distinctions of cash and food crops, for trade and consumption purposes respectively. In the years of their post-independence from their erstwhile European masters (1961 for Tanzania and 1945 for Vietnam), the two countries' economic structures have also been shaped by light-duty industrial manufacturing aimed primarily at adding value to their agricultural produce and in the process reducing their reliance on processed imports of intermediate and other consumables. Effective production in the two countries has nonetheless remained labour-intensive, even since the advent of the technological age. The availability of natural fibres, notably cotton (through either domestic cultivation or importation), and low-cost surplus labour have provided excellent bases for the development of textile industries in both Tanzania and Vietnam.

The textile industry in Tanzania takes its roots in the cotton ginning industry in the early 1950s, when ginneries were introduced in rural areas where cotton was grown, especially in Mwanza and Shinyanga regions of the country (Ladha, 2000). Under the import substitution policy of its first-phase, post-independence government, significant investments were made in support of the sector, which grew large enough to meet the country's domestic textile and garment demand between 1960 and the early-1980s. At its peak in 1980, Tanzania's textile industry employed about 37,000 people (25% of the working force) and contributed 25% of GDP in the manufacturing sector (TIB, 1996). By the early 1980s, Tanzania had a total investment of 500 million USD in the textile sector, with the government accounting for over 70% of all investment. Commentators have traced sector performance to the establishment of the Tanganyika Lint and Seed Marketing Board in 1956[1] with the primary focus to market and sell Tanzanian cotton. The gross production value of cotton rose from 48 million USD in 1961 to more than 112 million USD in 1966[2] (FAOSTAT,



Source: UNSTATS (2011).

Figure 15.1 Per capita gross domestic products: Tanzania and Vietnam.

1 Prior to 1956, Tanzanian cotton was marketed by the Uganda Lint Marketing Board.
2 FAOSTAT 2012, *Value of Agricultural Production*. Available at: http://faostat.fao.org/site/613/DesktopDefault.aspx?PageID=613#ancor [accessed 10 January 2012].

2011). By 1966, cotton production in Tanzania accounted for 0.75% of total world production of 10.7 million tonnes.

However, the spread of the cooperative movement following privatization under the 1967 Arusha Declaration and a deterioration of relations between cotton growers and ginners in the late 1960s marked a major turning point in the country's production of cotton, with production falling to about 59.8 million USD as early as 1975.

This era of centralized planning saw a large number of publicly owned textile mills not run commercially and instead concentrating on employment generation rather than profits. According to Kabelwa & Kweka (2006), the failure to apply managerial and technical expertise resulted in most government-owned mills operating below 10% of installed capacities. This trend continued until the late 1990s, when most mills were shut down awaiting privatization. The major mills like Ubungo Spinning Mill in the commercial capital Dar es Salaam, Kiltex in Tanzania's second biggest city Arusha, Mwanza Textiles, Musoma Textiles (both in the western cotton-growing area), and Mbeya Textiles (in the eastern cotton-growing area), completely collapsed and remained out of operation for many years even after privatization.

Cotton and textile production faltered as the country entered a decade-long recession in the second half of the 1970s. In 1983, an IMF-imposed Structural Adjustment Programme to remedy the economic downturn removed subsidies to the sector and also import controls that had promoted domestic consumption of textiles. Consequently, there was a flood of imports of textiles and garments from Southeast Asia and China, which were of better quality and more competitive prices than locally produced textiles products. Second-hand clothes (*mitumba*), which had previously been imported by charitable organizations for donation to the needy,[3] were now commercialised by traders. By 2002, importation of second-hand clothes had reached 35.2% of all textile imports in Tanzania (MITM, 2004).

In recent years, there has been a surge in importation of textiles into Tanzania, which has widened the trade balance—given the lesser growth of exports and widespread dumping of second-hand clothes and other products. This has hurt the local textile industry and increased joblessness among former textile labourers, most of them women.

[3] Desperately poor people such as the aged, orphans, poor families, disabled, refugees, and the victims of disasters.

The textile industry in Vietnam has existed for at least a century, while traditional handicraft activities such as embroidery and silk weaving have existed for much longer (Manh, 1998). The development of the textile industry in Vietnam started when the Nam Dinh Textile Complex was established in 1897 in Namh Dinh province, in the north of the country. The industry grew rapidly in the post-WWII period. In the south, the firms were established using modern machinery from Europe and America. This period also saw the establishment of large state enterprises equipped in North Vietnam with machinery from China, the USSR, and Eastern Europe. The period also saw the restoration and construction of major state-owned factories such as the Nam Dinh textile factory, 8 March Textile Factory, Vinh Phu Factory, Thang Long Garment Company, Chien Thang Garment Company, Nam Dinh Garment Company, and Dap Cau Garment Company. Textile and garment cooperatives in 'traditional villages' formed an important part of the industry's development history in Vietnam (*ibid.*). After reunification of Vietnam in April 1975, the government took over a number of factories in the south, such as Thang loi Textile Company, Viet Thang Textile Company, Phong Phu Textile Company, Thanh Cong Company, Nha Be Garment Company, Hoa Binh Garment Company, Viet Tien Garment Company, etc. In addition, a number of new enterprises were established, such as the Hanoi Textile, Nha Trang Textile Company, and Hue Textile Company. Subsequently, large state corporations were established with the aim of defining and regulating the sector's landscape—namely, the Textile and Garment Union of Enterprises, Textile Export—Import Company (Textimex), and Garment Export—Import Company (Confectimex). In response, the Vietnamese textile industry expanded rapidly to gain a foothold in both the domestic and international market.

Between 1985 and 1995, the number of state-owned textile enterprises increased from 196 to 215 units, while the number of private enterprises grew by more than a factor of 10, from 43 to 482. Overall, the number of cooperatives went down by 84.1% to 242, reflecting a substantial rechanneling of efforts in the textile sector by the government. By 1997, output in the garment and textile industry had increased by 128.5%, while total industrial output increased by 132.1% compared with 1990. In this period, textile production increased only 47.6%, and garment production increased rapidly by 346.5%. The structure of the garment and textile industry also changed. In 1990 the output of textiles accounted for 72.9%, and the output of garments accounted for only 27.1%. In 1997, these figures were 47.1% and 52.9% respectively. Although the textile sector grew slowly, it still held a substantially larger share of total industrial output (6.1%) than the garment sector (2.7%). Furthermore, fibre production increased slowly, fabric production increased unevenly, and garment production grew steadily (*ibid.*). A series of subcontracting agreements, first with the former Soviet Union in the mid-1970s and subsequently with Hungary, East Germany, and Czechoslovakia in 1979, have enabled Vietnam to satisfy her textile inputs' requirements with imports from these partner countries. Vietnamese annual cotton production amounts to only 5% of domestic demand, with her textile industry relying on crucial imports of synthetic fibres, dyeing substances (100% of domestic demand), and 80% of chemicals.

Objectives of the Study

The main objective of this study is to compare the structure and status of the textile industries in Tanzania and Vietnam, their operating environment (including the constraints facing them), the role of various stakeholders, and the trade opportunities, with the aim of identifying measures that would revive and sustain the textile industry in Tanzania, drawing lessons from the Vietnamese experience. Specifically, the study explores the following:

1. The extent to which the government supports private-sector efforts in the textile industry.
2. The existence of an institutional framework to coordinate policies and facilitate timely policy adjustments to remove inconsistencies, incentive distortions, and obstacles to higher efficiency and competitiveness.
3. The availability of various skills (marketing, technical, managerial, and financial) and training programmes for all cadres, including incentives to encourage plant training, and capacity-building for experts.
4. The existence of rational tariffs, levies and taxes, and labour laws.
5. The existence of policies to encourage forward and backward integration, which is critically important for internalization of quality concerns.
6. The existence of infrastructure such as electricity supply, roads, port facilities, transportation services, and banking services.
7. The distance to the major international markets (Europe and the US). This is also an important determinant of the operating environment and therefore competitiveness.
8. The access to trade agreements such as the Cotonou Agreement and the AGOA.

9. The macroeconomic management or economic policy stability—in particular, interest rates, inflation rate, foreign exchange policies, and fiscal policies, all of which are important determinants of the attractiveness of the operating environment and therefore competitiveness and political stability.
10. The extent of market regulation, which determines competitiveness of the market, and the ability to access quality inputs and services at internationally competitive prices.

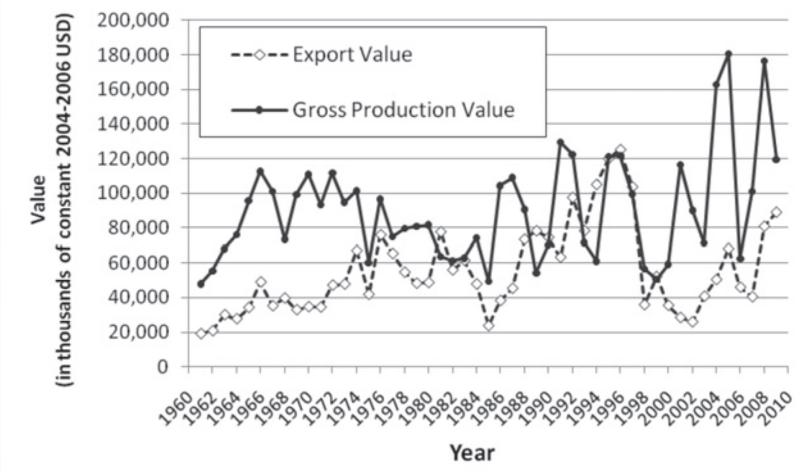
Methodology

Data collection firstly involved in-depth review of secondary information in the form of academic articles, outputs from other applied research processes, government statistics, and press coverage. Second, diagnostic interviews were conducted with several actors in the textile value chain, including ginners, spinners, weavers, garment makers, government agencies, and other non-government service providers along the chain. They included Tanzania China Friendship Textile; African Pride; Morogoro Canvas and 21st Century Textile in Morogoro; Mohammed Enterprises (T) Ltd.; Afrisian Ginning Co. Ltd.; Sk Apparel Manufacturing Co.; Karibu Textile Mills Ltd.; Ministry of Industry, Trade and Marketing; Tanzania Revenue Authority (TRA); Manica Freight Services Tanzania Ltd.; Board of External Trade; Confederation of Tanzania Industries; Tanzania Investment Centre; and Tanzania Cotton Board (TCB). Data were also collected from secondary sources from different libraries—namely, the University of Dar es Salaam (UDSM), Sokoine National Agricultural Library in Morogoro, Research on Poverty Alleviation (REPOA), and Economic and Social Research Foundation.

A comprehensive literature study of the cotton, textile, and garment sectors in Vietnam was performed by drawing on research done previously by the International Development Research Centre (IDRC), the Trade and Competitiveness Team at the Vietnamese Institute of Economics, the Food and Agriculture Organization (FAO), and the International Cotton Advisory Committee (ICAC).

Current Status of Textile Industries in Tanzania and Vietnam

Tanzania exports over 70% of cotton production as lint, with minimal added value. The gross value of lint produced in the country declined from 112 million USD in 1966 to a historical low of 49 million USD in 1985, before intensified sector reforms undertaken in the early 1990s[4] reversed the trend to a record production value of 176 million USD in 2008 (Figure 15.2). Exports of raw lint have mirrored production dynamics in the country, with a decline in value from 49 million USD in 1966 to 23 million USD in 1985, followed by a rise thereafter to 80 million USD in 2008. To maximize the value of the cotton lint and increase employment in Tanzania, an improvement of production technology, with an emphasis



Source: FAOSTAT (2011).

Figure 15.2 Cotton lint production and exports for Tanzania, 1961–2009

[4] The first steps toward cotton reform in Tanzania were taken in 1989/90, when the government launched the Agricultural Adjustment Programme, effectively transferring ownership of seed cotton from the Cotton Board (A successor to the Lint and Seed Marketing Board) back to cooperative unions, with the board converted into a fee-based marketing service for final sales and input purchases. Price controls on cotton were gradually relaxed. Since 1991/92 the government has been announcing only indicative prices, not fixed prices. The cooperative unions have been free to determine their own producer prices for the forthcoming seasons.

The Cotton Act of 1994 formally eliminated the monopoly held by the Cotton Board and the cooperative unions and allowed competition in cotton marketing and ginning. Subsequently, the number of licensed regional cooperative unions rose from 14 in just one year to 22 in 1995. Private companies started trading cotton, and 8 new private ginneries were constructed opening up another marketing channel, especially in Western Tanzania.

on increasing productivity, range, and sophistication of textile products, is essential.

On the manufacturing side, there are 20 major textile companies in the country, most with roots in public ownership from the 1970s. Almost all of the companies were set up as fully integrated enterprises, with the capacity for processing lint cotton into a final product. The fully integrated approach would have been an obvious solution to start an industry where the infrastructure was poor, but it is a very rigid structure and uncommon in other major textile manufacturing countries, where there are mixtures of stand-alone companies providing one or two processes within the textile chain and some very large fully-integrated enterprises. In many circumstances, the major value chain processes of spinning, weaving, knitting, clothing, and dyeing/finishing are often considered as separate sectors of the textile industry (Tanzania GATSBY Trust, 2007).

As of 2010, cotton spinning in Tanzania had an installed capacity of 22,500 tonnes of lint cotton when fully utilized. The majority of textile processing is based on locally consumed imitation wax products, khanga and kitenge styles, which are cotton-based products. The general standard of these products is poor by European standards but is nonetheless considered acceptable for the domestic market, as reflected in their quality certifications by the Tanzania Bureau of Standards (TBS). The estimated internal requirement is around 300 million metres per year (*ibid.*).

On the other hand, Vietnam imports about 86% of its cotton lint requirements, and its domestic cotton consumption is estimated at between 90,000 and 100,000 metric tons of cotton lint per year, but domestic production stands at 12,278 metric tons per year[5] (Huong & Dao, 2003). In 2002 alone, Vietnam imported about 94,000 metric tons of cotton lint, worth 93 million USD. The US is the leading supplier, with US exports of 32,000 metric tons and an export value of 29 million USD. The production capacity of fibre spinning is concentrated in the state-owned enterprises. At present the production capacity is 72,000 tons per year. The capacity of fabric weaving achieves 380 million meters annually. Besides weaving of towels, mosquito-net weaving is spread around the country and in all the sectors of the economy. The capacity of round-necked knitted wear is 19,500 tons annually. In addition, Vietnam can produce other types of knitted wear, such as curtain, knitted mosquito net, socks, and woollen weaving with a capacity of 4,000 tons per year. The capacity of dyeing is

[5] Three-year average for the period 2001/2002–2003/04.

equivalent to the capacity of weaving. Dyeing of high quality is concentrated in state-owned enterprises. The capacity of garment production is 275 million units per year. In 2007, the US International Trade Committee (ITC) placed Vietnam among the 30 largest exporters to the US market. According to the Vietnam National Textile—Garment Corporation (VINATEX), Vietnam was ranked 16th out of 153 garment exporters worldwide in 2006, and 11th in 2010 (WTO, 2011). Textiles and garments will continue to be Vietnam's major industry and export in the years to come. In 2010, the country's total textile exports were valued at 12.8 billion USD, surpassing its export target of 7–7.5 billion USD for the year. The strategy for the sector includes increasing the supply of domestically produced inputs through major investments in the sector. The US remained Vietnam's largest export market, with a turnover of 2.4 billion USD, making up 57% of the country's total revenues from textile exports. The Vietnamese Ministry of Industry and Trade targets the industry's export revenue at 13 billion USD by 2010 and 25 billion USD by 2025 (ITC, 2007). Similarly, the Vietnam Apparel Industry has been experiencing tremendous growth, reaching 34% in 2007, and is projected to maintain an annual growth potential of 20%, reaching the export target of 12 billion USD by 2010 and US$25 billion by 2020 (American Chamber of Commerce in Vietnam, 2008).

In absolute terms, Vietnam's trade in textiles and related articles has been vastly superior to Tanzania's in the last 15 or so years (Table 15.1). However, Tanzania imports more second-hand clothing articles both in absolute and relative terms than Vietnam. Imports of worn articles in Tanzania increased from 16 million USD to over 62 million USD between 1994 and 2011, compared with Vietnam's modest increase of 383,000 USD to 663,000 USD in the same period, reflecting supply and demand dynamics in the two countries' textile markets. Imports of worn articles in Tanzania accounted for 17% of all textile imports in the country in contrast to Vietnam's 0.01%.

Challenges and Prospects Facing the Textile Industry in Tanzania and Vietnam

Challenges identified by stakeholders contacted in Tanzania during the course of this study relate to the use of out-dated technology, incentive problems with labourers, high taxes, utilities, transport infrastructure, customs procedures, market problems, instability of the currency, and lack of support from the government. These aspects are discussed below in comparison with Vietnam.

Table 15.1 Selected features of textile trade for Tanzania and Vietnam, 1995–2010*

	Textile Exports		Textile Imports		Textile Trade Balance		Total National Exports		Total National Imports		Worn clothing and other worn textile articles % Total Textile Imports		Textile Exports % National Exports		Textile Imports % National Imports	
Year	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam	Tanzania	Vietnam
1995	148	916	110	1055	38	−138	1264	7858	2340	9753	15	0.04	12	12	5	11
1996	170	1220	94	1441	76	−221	1392	9508	2231	12556	27	0.04	12	13	4	11
1997	166	1544	92	1499	74	45	1247	11674	2027	13845	24	0.04	13	13	5	11
1998	75	1472	97	1749	−22	−277	1144	11977	2324	13751	26	0.00	7	12	4	13
1999	52	2000	123	1704	−71	296	1143	14033	2227	13734	38	0.01	5	14	6	12
2000	55	2131	126	2024	−71	107	1361	17149	2084	17639	27	0.00	4	12	6	11
2001	60	2221	128	2026	−68	195	1767	17837	2227	18252	23	0.05	3	12	6	11
2002	58	3074	130	2650	−72	424	1902	19654	2160	21864	24	0.09	3	16	6	12
2003	96	3954	140	3093	−44	861	2171	23421	2681	27285	20	0.07	4	17	5	11
2004	144	4904	145	3775	−1	1128	2609	30352	3483	34150	21	0.03	6	16	4	11
2005	164	5435	184	4186	−20	1249	2953	36618	4231	38292	14	0.01	6	15	4	11
2006	138	6692	226	4723	−89	1969	3449	44926	5156	46522	14	0.01	4	15	4	10
2007	154	8801	309	5966	−155	2835	4094	54591	6324	64453	13	0.01	4	16	5	9
2008	278	10377	334	6830	−57	3547	5039	69691	8164	82212	13	0.01	6	15	4	8
2009	251	10628	315	6535	−64	4093	4837	62862	7502	72540	16	0.00	5	17	4	9
2010	261	12855	365	9208	−104	3646	6142	79118	8935	86998	17	0.01	4	16	4	11

* Unless stated otherwise, trade statistics are presented in millions of nominal USD prices.
Source: Computed from International Trade Statistics published by UNCTAD (2011).

Technology

In Tanzania, machinery in the textile industry remains out of date, with spare parts and adequate servicing major problems throughout the textile value chain. Most of the equipment is 30 or more years old. The running speed, for example in existing spinning facilities, is 50% of what can be achieved with modern ring spinning technology, and current operating capacity is about 50%. Most production machinery in weaving is based on old shuttle-loom technology, which produces 100% plain-weave cotton fabric. If well maintained, such a system is capable of producing high-quality materials. However, as most plants are not well maintained, automatic weft-replacement systems do not function, and in most cases weft packages have to be changed manually. Processing capacity is incapable of competing in the global market. The operating width of most of the weaving machines in use is below the minimum requirement for garment production. No continuous dyeing facilities are found in most factories and no processing capability for an export bed-sheet market. However, all the large-scale garment-making plants offer good working conditions and are populated with a wide range of modern machinery.

Lack of significant capital investment in the industry has led to reluctant use of old technology, which restricts production and quality of the textile products. For instance, it is common knowledge in the domestic industry that the quality of yarns has remained rather inconsistent as a result of a lack of proper blow-room equipment and fibre management at the spinning stage (Tanzania GATSBY Trust, 2007).

In addition, the fully integrated structure characterizing most textile mills is very rigid, especially as most of the integrated companies cater for the domestic market, which provides little incentive to increase quality. The efficiency of the industry is generally low by international standards. The condition of many of the factories is sub-standard, with inadequate cleaning, air conditioning, dilapidated buildings, and low efficiency. However, most of the mills have recently been privatized and modernized to some extent. Most of the export-oriented mills have made the right investments in new winding, twisting, weaving, and knitting equipment, while the locally orientated mills continue to use their original technology. The new investment in the textile sector, aside from the privatizations, has come in the form of process plants that import bleached fabrics and print them for the local and regional markets. These plants are mainly set up with Indian technology and are almost all owned by local investors, most of whom are used to trading in these same products and have now invested in production facilities.

In Vietnam, the status of the production equipment and technology of the textile and garments' industry varies across different operations within the industry, such as spinning, shuttle weaving, knitted weaving, dyeing and printing, and garment assembly. Although efforts to upgrade the equipment have mainly concentrated on textile enterprises, the technology of the garment industry has been generally upgraded much better than the technology of the textile industry, with nearly 100% of garment firms now upgraded (*Vietnam Economic Review*, March 1998). The leading operation in modernization is knitted weaving. Most of the out-of-date machines that were imported before 1986 from China, Czechoslovakia, and East Germany have been discarded, and all machines now in use are the ones that were imported after 1996. The equipment was imported primarily from Japan, Korea, Taiwan, and Germany. About 30% of these are machines of a new generation, with some being controlled by computers (VINATEX). All dyeing, printing, and finishing equipment was imported from abroad and belongs to state-operated enterprises. Some enterprises have invested in synchronous production lines by using many specialized machines to produce one category, such as shirts, jeans, etc. Almost all garment enterprises use a steam-ironing system. Since 1991, technology in the garment sector has been renovated. Production lines have been set up on a medium or small scale, consisting of 25–26 sewing machines with 34–38 labourers. Thus, garment enterprises are now capable of handling production, being stable within two days of product style changes. Some enterprises have used new technology and computers in some production functions, such as cutting. These changes help to enhance competitiveness of garment producers, most notably their ability to respond quickly to changing demand. However, the finishing stage—including processes such as ironing, pressing, and packaging—is considered to be of great importance, as it helps to increase the value added of the final product. There have been relatively few technology innovations at this production stage to ensure a high quality (IDRC, 2001).

Labour Dynamics

The Tanzanian textile industry during the late 1970s and 1980s was the largest industrial employer in the country, employing over 50,000 people. Since most of these plants have now been shut down or privatized, there is a fairly well-trained and experienced labour force in the textile sector readily available to work. Of course, certain re-training would be required, but the existing skills' base is something to build on. There is no textile institute in the country to re-train workers and keep them up-to-date with the dynamics of the textile industry.

Labour productivity in Vietnam has remained low in comparison with other Asian countries such as Korea, Taiwan, and Singapore. However, in recent years Vietnam's ratio of value added per worker has caught up with China (IDRC, 2001). This might be explained by increased training of workers in textile issues. Most of the cities and provinces have training centres for garment activities; however, learners can get only very basic techniques from them. In addition, large textile and garment enterprises have training sections to train workers for their needs. The most common forms of training are non-standardized, with short courses lasting normally 1–3 months (Manh, 1998).

Tariffs and Wage Rates

Apart from cotton lint, most of the inputs and activities in Tanzania's textile sector are imported and thus liable to taxes of various forms. All imported inputs such as fabric, dyes, and chemicals are subject to import duties depending on the product. Value-added tax (VAT) of 20% in Tanzania and 10% in Vietnam is applicable to all local and imported purchases (except locally purchased cotton lint). VAT is refundable on exports, and tax paid on inputs can be offset against local sales. There is a new Duty Draw Back Scheme[6] in place which allows exporters to claim the duty paid on inputs of the exported products. The scheme is relatively easy use, and refunds are usually obtained within one month of application. Both VAT and Duty Refunds are administered by the Tanzania Revenue Authority. The different import tariffs in the textile industry in the two countries are presented in Table 15.2. Overall, the textile tariff structures are comparable in both countries, with a more pronounced protectionist rate for final articles in Tanzania than Vietnam (25% vs 14%, respectively).

[6] Duty Draw Back Scheme is the refund of duties, taxes, and fees imposed on imported merchandise which is subsequently exported.

Table 15.2 Tariffs (percentages) in the textile industry in Tanzania* and Vietnam**

S/No	Product	Category	Tanzania	Vietnam
1	Lint/Fibre	Raw materials	5	5
2	Yarn	Semi-processed inputs	10	10
3	Grey cloth	Semi-processed inputs	10	10
4	Bleached cloth	Fully-processed inputs	20	12
5	Dyed & printed cloth	Consumer goods	25	12
6	Garments	Consumer goods	25	14
7	Dyes & chemicals	Semi-processed inputs	10	5

* Last sector tariff revisions made in 2005. ** Last sector tariff revisions made in 2009.
Source: WTO Tariff facility.[7]

In Tanzania, an employer has to pay a contribution to the pension fund for each employee. If the contribution is to the National Social Security Fund (NSSF), the payment is 10% of the basic salary; if the contribution is to the Parastatal Pension Fund (PPF), the payment is 15%. But the pension industry is now part of the liberalization process. Employers are also obliged to pay a payroll levy of 6%. An employee contributes 5–10% to the pension fund and pays his or her own income tax—pay as you earn (PAYE)—depending on basic salary (TRA 2008).

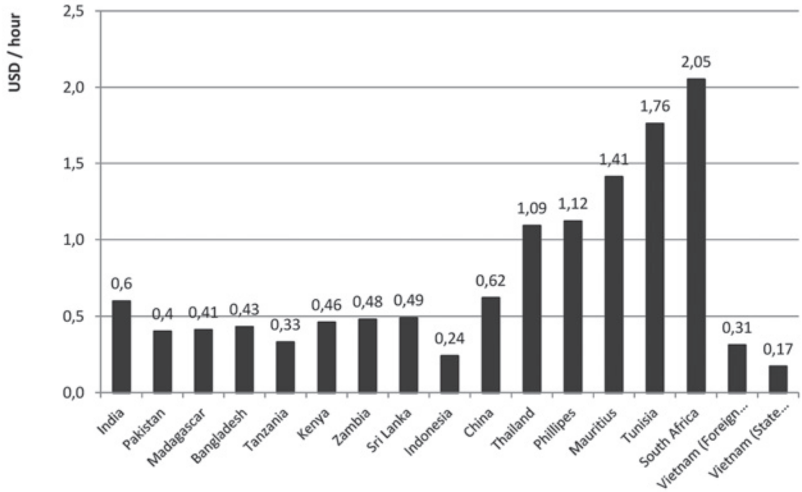
Tanzania implements a sectoral minimum wage policy, with different wages for different sectors and category of services rendered. The monthly minimum wage for the textile sector, as of 2010, was TSh 80,000 (53 USD), approximately 0.33 USD per hour (ATE, 2010). When compared with the 2010 international wages shown below for hourly labour cost in the textile industry, this is relatively competitive. However, the degree of wage competitiveness in Tanzania is less than that of Vietnam, which, even with its discriminatory minimum wage structure, averages lower for both state- and foreign-owned sectors than Tanzania[8] (Figure 15.3).

The execution of the *Doi Moi*[9] in Vietnam has been successful in reforming the taxation system in the country through rationalization of various

[7] Available at: http://tariffdata.wto.org/ReportersAndProducts.aspx [accessed 13 January 2012].

[8] In 2010, the minimum wage for domestic-owned enterprises was VND 450,000 (approximately 27.9 USD) a month. The monthly minimum wage in foreign-owned enterprises ranges from VND 710,000 to VND 870,000, based on geography and the cost of living.

[9] *Doi Moi* is the name given to the economic reforms initiated in Vietnam in 1986 with the goal of creating a 'socialist-oriented market economy', under which the state has played



Source: Association of Tanzania Employers (2010) and OECD (2010).

Figure 15.3 Comparative labour costs (minimum wage in selected countries, 2010)

petty taxes and levies that had previously undermined performance in the productive sectors, including textiles. Good examples include the Law on Corporate Income Tax, the amended Law on Value-Added Tax, and the amended Law on Special Sales Tax, all passed on 17 June 2003 in replacement of former laws dated 22 May 1997 and June 1990. There are also hundreds of decrees, circulars, and other regulations being issued by the government, various ministries, and agencies from time to time, with a view of guiding the implementation of those laws. According to the prevailing tax law system, foreign investors are liable to various forms of taxes, including corporate income tax, value-added tax, special sales taxes, withholding tax, import/export tax, technology transfer tax, foreign contractor tax, and personal income tax. The corporate income tax rate is now 28%, down from 32% (between 1997 and 2003), and is applicable to all legal entities regardless of the nature of ownership.

On balance, the burden of statutory contributions an employer has to make is higher in Vietnam than in Tanzania. For instance, according to the labour code and law on social insurance in Vietnam, an employer is required to contribute 15% and 2% of the basic salary to the social and

a decisive role in the economy without substituting for private enterprise and cooperatives' significant involvement in commodity production.

health insurance funds, respectively, for all employees with contract lengths of more than three months. An employee in Vietnam contributes a further 5% and 1% to the social and insurance funds, respectively. In addition, Vietnam's taxation system offers more incentives to investors than Tanzania's. For example, the tax rate of 10–20% is granted to new investments for a period of 10–15 years for the sectors where investment is encouraged—for instance, in locations with socio-economic difficulties. In addition, new projects may enjoy tax holidays for two years from the first profit-making year and 50% reduction for the following two to nine years, depending on the area of investment. VAT is levied on the added value of most goods and services generated during the process from the production to circulation to consumption phases. With respect to some categories, they are subject to a special sales tax.

The Textile Market

The per capita requirement for textiles in Tanzania is estimated at 10 million metres of cloth per annum. However, the current market for textiles is dominated by traditional African printed fabrics and imported second-hand clothing. The market for new garments is almost non-existent due to the predominantly poor and price-sensitive population. There is also a persistent problem of tax evasion on imported garments, the size of which is estimated to be almost 20 million USD per annum. Tanzania is uniquely positioned within Africa in that it has eight bordering countries (Rwanda, Burundi, DRC, Kenya, Uganda, Malawi, Zambia, and Mozambique), of which six are signatories to either the EAC[10] or SADC[11] trade protocols.

This gives a total regional market size of over 150 million people. In comparing production costs in relation to the neighbouring countries, Tanzania is comparable in most areas, with the exception of power costs. Tariffs in Kenya are approximately 20% cheaper while those in Zambia are even lower. However, Tanzania, besides having the largest availability of cotton in the region, also enjoys cheaper transport costs owing to its access to its ports, as well as the lower labour costs. Although the export of finished garments to the regional market would not seem particularly

10 The EAC is an intergovernmental organization with political and economic dimensions, comprising five countries in East Africa: Burundi, Kenya, Rwanda, Tanzania, and Uganda.

11 SADC is an inter-governmental organization established in 1980 with the goal to further socio-economic cooperation and integration as well as political and security cooperation among 15 southern African states.

viable—given the nature of these markets (they are similar to Tanzania's own domestic market)—the export of African printed fabric has proved to be very successful. Future trends will no doubt include backward linkages between South Africa, Kenyan, and Mauritian garment exporters sourcing their fabric and yarn from Tanzania in order to qualify for African certificates of origin for the US and European markets. By far the largest market for textiles is the US and Europe. Despite having preferential trade access to both markets through the African Growth and Opportunities Act (AGOA) and the Lomé Accords, Africa continues to represent a marginal portion of the world textile trade and can sell much more than current production. As production continues to shift towards low-cost centres in the developing world, African countries will receive much needed attention and investment in the textile sector. Tanzania, which has qualified for both AGOA and Lome preferential trade agreements, would stand to gain tremendously, as it has the potential to be one of the leading textile producers in the region.

In addition, Tanzania is party to a number of regional trade agreements such as the East African Co-operation (EAC) and Southern African Development Community (SADC) and is also a beneficiary of the Lomé Convention (access to the EC market), and the recently signed Africa Trade Bill (access to US markets). This offers market potential for the textile industry in Tanzania. The East African Community (EAC) was formed in November 1999 and nowadays comprises Kenya, Tanzania, Uganda, Rwanda, and Burundi. The combined population of the five countries reaches over 130 million, with a GDP at nominal value of around 65 billion USD (at purchasing power parity around 150 billion USD), and they cover a land area of 1.76 million square km. The East African Treaty provides for the gradual reduction of internal tariffs (currently between 0% and 10%) over a four-year period as well as the elimination of non-tariff barriers, the harmonization of external tariffs, and other areas of trade co-operation. The Southern African Development Community (SADC), of which Tanzania is a member, was formed in 1996. It aims at establishing a free trade area within 13 countries in Southern Africa. The agreement calls for the gradual reduction of internal tariffs within eight years of ratification (September 2000). Unlike the EAC Treaty, the SADC protocol does recognize the different levels of development of the member states, and Tanzania is classified as a Lesser Developed Country as opposed to Mauritius and South Africa, which are classified as Developed Countries, giving greater access to Tanzania to their domestic markets. There is great potential for South Africa and Mauritius textile mills, facing rising labour costs, to source inputs (cotton, yarn, and fabric) from Tanzania or even re-locate and still qualify for exports to the US and European markets. In fact, given the availability of cotton in Tanzania, it makes the country even more attractive.

Tanzania is a full beneficiary under the Lomé Convention to the European market, with zero quotas and full duty-free access to the EU. Currently, the majority of Tanzanian textile and yarn exporters are selling to the European market, with Italy, Spain, Portugal, Belgium, Germany, and the UK being the largest buyers. With regard to the US, the Africa Growth and Opportunities Act was voted and passed by the US Government in May 2000. The legislation, backed by the House of Representatives, granted more than 70 countries in Sub-Saharan Africa, the Caribbean, and Central America greater duty-free access to the US market. Under the terms of the agreement, the US extends duty-free, quota-free benefits to apparel made in Africa from US-produced yarn and fabric. Apparel made in Africa from African fabric receives the benefits up to a cap. The poorest countries in Africa receive all of the trade benefits, with no restrictions on the source of fabric for four years. However, the textile mills that are still operating are faced with an influx of imported fabrics, on which tax evasion is rampant. The bulk of these fabrics are imported at a declared price that is lower than the cost of fibre. False declaration is also prevalent to avoid the higher EAC tariff of 50% charged on khanga, kitenge, and kikoi. These imports are declared as printed fabrics, which attract a tariff rate of 25%. Under-declaration of quantity is also rampant among unscrupulous traders. Exporters of yarn, fabrics, and garments also face a difficult external environment due to the current recession in the EU and US markets. They have to contend with lack of economies of scale, high power tariffs, and high transaction costs compared with globally competitive producers in Asia. Mills such as Sunflag, A to Z, Morogoro Canvas, and Tabora Textiles are unable to compete in the cut-throat export markets. According to UNCTAD, total textile exports out of Tanzania declined from 278 million USD in 2008 to 261 million USD in 2010.

In Vietnam, the impressive success of the garment industry is to a large extent attributed to the favourable demand conditions associated with the opening of access to quota-regulated markets in 1992. Access to EU quota markets is widely perceived to have given a jump-start to Vietnam's textile and garment exports to the large markets of developed countries. Until the recent past, these quota-regulated markets played an important role for Vietnam, and their share of Vietnam's total global textile and garment export increased considerably from 22% in 1993 to 42% in 1998. Since late 1998, a new export trend has emerged. Vietnam's garment export firms have aggressively explored non-quota markets, most notably Japan, South Korea, Taiwan, and ASEAN. Exports to these non-quota markets are mainly done by foreign firms, mostly back to their home countries. Despite impressive export achievements, a number of weaknesses of the textile and garment sector have also been reported. First, it appears that Vietnam's textile and garment industry is still not fully ready to participate in the world market. In fact, Vietnam's textile and garment industry has never used up some categories of the granted quotas, owing to the absence of appropriate technology, the lack of some types of skilled labour, and appropriate business skills. Second, the slowdown or even decline in export growth of the garment industry in recent years (by 3.5% in 1998 and 4–5% in 2000) may indicate a vulnerability of Vietnam's garment industry in the face of shocks and fiercer international competition. In the domestic market, local production of garments has been playing an increasingly important role in satisfying local consumption. Domestic production mainly consists of household enterprises, as the majority of formal enterprises are still focusing on foreign markets.

Meeting local demand for textile products is still heavily dependent on imports, owing to the very limited capacity of the textile industry. Vietnam's textile industry produces only traditional (simple) products, by international standards, such as fibres, fabrics, canvas, and knitwear, and most textile products (except knitwear) target the low-income population in the domestic market. Imported goods play a dominant role in meeting demand for high-quality products. Because of obsolete technology, which results in low quality of domestic outputs, the textile industry has been losing the domestic market to imported products, which have considerably increased in recent years.

Role of the State

Tanzania adopted the free-market ideology with economic liberalization in the 1980s. Since then the philosophy of the government has been not to intervene in the demand and supply forces in a direct manner. However, the government supports the cotton and textile sector indirectly through general training and research. There are two research institutes located in the two cotton-growing zones. Ukiriguru Research Station serves the western cotton-growing zone, whereas Ilonga Agricultural Research Institute serves the eastern zone. Both research stations are under the Department of Research and Training in the Ministry of Agriculture, Food Security and Cooperatives. The two institutes primarily focus on plant breeding, entomology, plant pathology, soils and agronomy, farm management, and fibre technology. These research stations are considered to be performing moderately well, in the sense that they have successfully released new varieties and introduced sound pest control and agronomic practices. The achievements would be much better if funding was not a problem (Tanzania Gatsby Trust, 2007). However, there is no specialised institute for training activities in the textile industry. Operators have to finance in-house training for specific skills.

There also exists a cotton board, the Tanzania Cotton Board (TCB), which is responsible for overseeing the cotton sector and advising the government on appropriate measures to improve the sector. For a period during Tanzania's implementation of Structural Adjustment Programmes (between 1986 and 1992), there existed little to no linkage between cotton production and the textile industry. The marketing of cotton was left in the hands of private buyers and the cooperatives, which were already weakened by economic reforms. After the Board realized that the sector was not performing as expected, in collaboration with other key actors it formed the Cotton Development Trust Fund (CDTF) to handle various issues—research and new variety development, chemicals, extension services, and promotion—by facilitating farmers to attend exhibitions at Dar es Salaam International Trade Fair. CDTF intervention aims at improving cotton productivity. There is no special state organ for handling textile matters and for ensuring that there is synergy between cotton production and the textile-manufacturing sector. However, since 2006 the government has taken steps to rectify this anomaly. An inter-ministerial committee for cotton and textile development has been formed under financial facilitation from Tanzania's GATSBY Trust, to provide guidance and a platform for engagement of various stakeholders in the sector. It draws members from the TCB; the Ministry of Agriculture, Food Security and Cooperatives (MAFSC); the Ministry of Finance and Economic Planning (MFEP); the Ministry of Industries, Trade and Marketing (MITM); and the Tanzania Investment Centre (TIC). The committee meets every three months to discuss obstacles in the cotton and textile value chain, and especially the issues of value addition on cotton and the backward linkages of the textile sector. This inter-ministerial committee is in line with the ambitions of the Agricultural Marketing Policy, which recognizes that there is a poor linkage within the marketing, processing, and production chains in traditional cash crops and promises to deal with it by laying down strategies that will address this problem.

In addition, in an endeavour to attract more investors into the textile and garment sector, Tanzania established export-processing zones (EPZs) in March 2003. In February 2006 the EPZ Act was amended to strengthen supervision of the programme and to improve the incentive package. EPZs in Tanzania offer both fiscal and non-fiscal incentives. These include exemption from corporate tax for ten years; exemption from withholding tax on rent, dividends, and interests for ten years; and remission of custom duty, VAT, and other taxes on raw materials and goods of capital nature related to production in EPZs. Other fiscal incentives under the EPZ Act include exemptions from taxes and levies imposed by local government authorities on products produced in EPZs and exemption from VAT on utility and wharfage charges. Non-fiscal incentives include the following: exemption from pre-shipment or destination inspection requirements; unconditional transferability of profits, dividends, loyalties, etc.; lower port charges compared with other cargo box rates (transit cargo); access to an export credit guarantee scheme; and allowance to sell 20% of goods to the domestic market. However, EPZ eligibility requires an investment to be new, exports to be at least 80% of goods produced or processed, and annual export turnover to be not less than 100,000 USD.

Identified locations for EPZ development include Dar es Salaam, Coast Region, Tanga, Mwanza, Kilimanjaro, Arusha, Manyara, Kagera, Shinyanga, Mtwara, and Kigoma. Textile and garments is one of the sectors targeted by EPZ investment. Out of ten companies licensed as EPZ operators by 2006, five were in the textile and garments' sector. However, stakeholders in the textile sector complain of unfavourable investment conditions in the EPZ. They argue that the EPZ policy of Tanzania has failed to deliver the expected results. NIDA has withdrawn from the EPZ, while Star Apparel has closed shop. There are currently only two garment factories operating in the EPZ.[12]

Unlike Tanzania, Vietnam has a very large state company, the Vietnam National Textile and Garment Group (VINATEX). The company has five major tasks: (i) investing, producing, supplying, distributing, importing and exporting of goods and services in the field of textile and garments; (ii) setting up joint venture and business co-operation with both domestic and foreign companies; (iii) developing and expanding both local and overseas markets as well as assigning member companies to penetrate into

12 The two remaining textile companies in the EPZs are the African Pride Textile Millls and Kibo Trader Textiles, both of Dar es Salaam.

potential markets; (iv) upgrading technological applications, conducting research and application of the latest developed technology, and renovating equipment according to the development strategy; and (v) providing training and refresher courses for managers and technicians as well as skilled workers. VINATEX operates several import—export companies and produces a wide variety of textiles and garments, with the capacity to produce over 23 million square metres of fabric per year. VINATEX has expanded its trading relationship to more than 400 companies in 65 different countries and regional areas. The company also plans to increase its investment in order to meet a production capacity of between 300 and 400 million square meters of fabrics, and between 65 and 80 knitted products, and 250 million garments in 2010. In order to meet these targets, VINATEX is considering the promotion of intensive as well as extensive investment operations.

In addition, unlike Tanzania, Vietnam has an Institute of Textile Technology (VNITT) which is a centre for research, consulting services, and continuing education, with a focus on helping the textile industry improve performance and global economic competitiveness. Like Tanzania, Vietnam established EPZs with the aim of integrating Vietnam into the global capitalist economy. Guiding the laws is Decree No. 36/CP-issued by the government on 24 April 1997 and setting out regulations on EPZs, industrial zones (IZ), and High-Tech Zones (HTZs)—and then Circular No. 08/KHDT—issued by the Ministry of Industry on 29 July 1997 and providing guidance for implementation of the list of industries which are encouraged or limited or prohibited from investing in the zones. The application procedures for a new enterprise in the EPZ are similar to the ones applicable to the rest of the country, but characterized by simplified procedures and expedited processing of applications. Although they have to pay the same VAT, investors in EPZ enjoy profit tax incentives more favourable than those offered to investors outside. As far as EPZs are concerned, manufacturing operations therein pay only 10% corporate income tax, after a four-year tax exemption commencing from the date profits are realised. Service operations bear a rate of 15%, with two-year tax holiday. As for IZs, corporate income tax rates applicable to enterprises therein vary from 10%, to 15%, to 20%. The rate of 10% together with two-year holiday and two-year reduction is given to producers with export rates of more than 80%. The rate of 15% is applicable to producers having an export rate of less than 80%. Service operations in IZs bear the tax rate of 20%. Further advantages are seen for enterprises investing in HTZs: they will enjoy up to eight years of corporate income tax exemption and a tax rate of 10% thereafter.

Conclusion and Recommendations

In comparison with Tanzania, Vietnamese success in realizing gains from the textile industry can be attributed to its ability to successfully capture export markets, especially for textile and garment products. On the contrary, most of Tanzania's operators in the textile and garment industry seem to be content with the domestic market, which is characterized by a low purchasing power. Moreover, demand in the domestic market follows agricultural cycles in the country. Sales increase immediately after crop harvesting seasons and drop during lean seasons.

The difference in performances between the countries is explained, firstly, by the approach adopted in the economic liberalization process. In Vietnam this was a slow process, with the state retaining direct involvement in the production and marketing of textile products, whereas Tanzania adopted an 'eyes on, hands off' approach, with the state pulling out quickly and haphazardly—something that resulted in the closure of several textile mills. Secondly, the difference in performance may be explained by the historical background of the textile industry in the two countries. In Vietnam, the textile industry goes back as far as the 1870s, while for Tanzania the industry is a mere 50 years old. It may also be inferred that the success of Vietnam's industrialization process is associated with the lack of a multi-party democracy, which gives the government the opportunity to design and implement long-term strategies without worrying about being voted out of office if some strategies are associated with short-term misery for some people.

Furthermore, the positive impact of gradual economic development, with an emphasis on resisting the urge to embrace free-market reforms haphazardly, has been instrumental in exploiting Vietnam's comparative advantage based on the low costs of its hard-working labour.

Tax evasion has been cited as one of the biggest problems in the textile industry in Tanzania. The best way to control the high incidence of tax evasion is to impose a specific rate of import duty in addition to the *ad valorem* rates contained in the EAC CET. The specific rate should be charged on a per kilogram basis. All imports should be weighed at the point of entry. Furthermore, the false declaration of products can be countered by imposing a tariff rate of 50% together with a specific rate on all printed and dyed fabrics made of silk, wool, cotton, man-made filaments, man-made staple fibres, etc. In this regard, Tanzania can learn from Vietnam by lowering even further the tariff levied on textile inputs, so as to curb evasion and boost productivity and production, which would in return potentially provide an enhanced revenue base of both intermediate and final products for the tax authorities to exploit.

Measures to revive the industry in Tanzania could also benefit from the abolition of certain local government taxes on cotton lint sold to textile-spinning mills. This is similar to the incentive granted to the cashew processors in Tanzania and lint and yarn importers in Vietnam. Specific details need to be worked out in consultation with the Cotton Board. This measure would be aimed at ensuring that the textile mills purchase lint at an internationally competitive price. They are currently charged a premium in view of the fact that cotton lint sold domestically is treated as a VAT-exempt supply, while exports are zero-rated under the VAT Act. As an alternative, the government can zero-rate VAT on domestic sales of cotton lint.

Low textile productivity in Tanzania is a by-product of infrastructural, labour, and technological constraints. There is a strong need to ensure consistent power supply to the industry to reduce costs associated with frequent power interruptions, which affect manufacturing in general in the country.

For the textile and garment industries to remain sustainable and competitive in both countries, considerable investment is required both in upgrading machinery and also in improving the skills and expertise of management, technicians, and operatives. To address quality and efficiency problems, it is recommended that factories in both Vietnam and Tanzania be given a 'health check' by competent textile specialists, who will be able to assess the requirements of each plant in terms of machinery and skills' requirements. A training needs analysis should be conducted across the industries to assess what the industrialists need and are looking for in their technical staff. Tanzania would do well to establish a textile-focused training institute similar to Vietnam's VNITT, to impart knowledge on diversifying production and on management and organization methods, as well as to promote innovation in final products.

Both countries would benefit from periodic and timely productivity audits, which could accurately assess the current level of efficiency and also make recommendations on targeted in-factory productivity training, including the introduction of computerized management systems and industrial engineering techniques.

Finally, a standards bear should be established in Tanzania and tasked with defining standards, accrediting relevant training courses, and maintaining links with international textile organizations, universities, and vocational schools. This should also go in hand with facilitation of in-plant training systems, communication of best practice, and provision of technical resources such as training and operator manuals.

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PART FIVE

COMPARING CAMBODIA AND UGANDA

16

Agricultural Policies and Performance in an African and Asian Poor Agrarian Society: Uganda and Cambodia Compared

André Leliveld & Han ten Brummelhuis

Introduction

Apart from a few exceptions, explanations of the development success of newly industrializing economies in Southeast Asia (Malaysia, Indonesia, Philippines, Thailand, and also India and Vietnam) have until the early 2000s been notably silent on the role of agriculture in their successful industrial development. Yet, more recent studies have pointed out that selective government interventions in agriculture have been a major determinant in the development success of the Southeast Asian region (e.g. Jenkins & Lai, 1991; Rock, 2002; Cummings *et al.*, 2006). The Tracking Development project also concludes that the single most important distinction between Southeast Asian and African development strategies can be observed in this area. In Southeast Asia, and mostly in Malaysia and Indonesia, macroeconomic stabilization has been paired with a concern for 'shared growth' through agricultural and rural development (Henley, 2012; Van Donge *et al.*, 2012).

This paper tracks the agricultural development paths of the country pair Cambodia and Uganda in the last two decades and aims to assess whether the differences between Southeast Asian and African countries also apply to these two late-developing countries, which at the end of the 1980s, after two decades of civil strife and terror, were still "poor agrarian economies" (Dorward *et al.*, 2004). Since the 1990s the governments of both countries have repeatedly emphasized—at least on paper—the importance of developing the agricultural sector for poverty reduction, and several policies have been formulated which should lay the basis for pro-poor agricultural growth. Basically, both countries adopted a market-led development model for the agricultural sector and the economy in general, a model which is in sharp contrast with the more directive agricultural policies implemented in both countries in the 1960s and 1970s and in the successful second-tier industrializing countries.

This paper will further try to explain the divergences in the agricultural trends of both countries. Therefore, the focus will be on the agricultural policies and the political framework in which these agricultural policies were executed. The second section compares agricultural production and productivity between Uganda and Cambodia and identifies major similarities and divergences. The sections thereafter will present an explanation of the most striking data and observations, with a focus on the explanation of the divergences that can be observed after 2005.[1]

Trends in Agricultural Production in Cambodia and Uganda

The point of departure of our analysis is the time series on agricultural production presented in Figures 16.1 and 16.2, in which two findings are important.[2] First, we can observe a remarkable convergence of the trends of agricultural production in both countries between 1961 and 2005. But since 2005 this convergence has become a divergence. The growth of

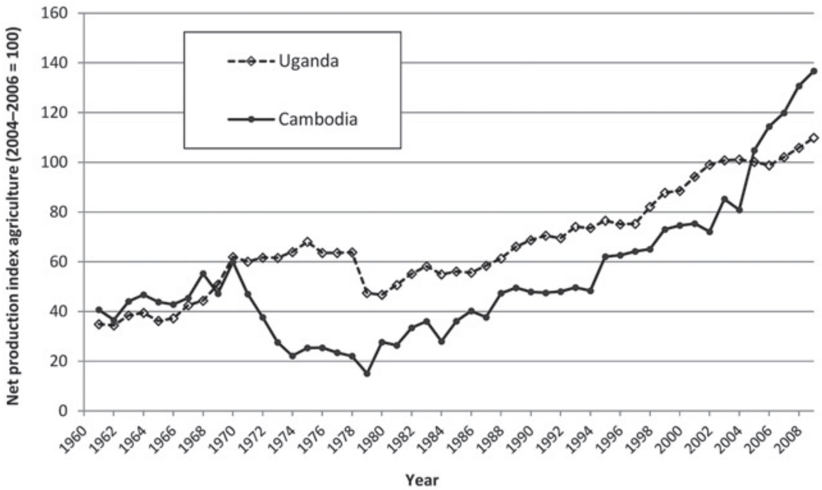
[1] We would like to acknowledge the contributions of Kristina Chhim and Dezi Ngambeki in formulating ideas and collecting data in, respectively, Cambodia and Uganda. We further value Jan Kees van Donge's and Roel van der Veen's critical comments and suggestions on earlier versions of this chapter, and we thank the participants of the Fourth Tracking Development Conference (The Hague, 15 December 2011) for their useful input.

This paper uses secondary data and literature on agricultural policies and agricultural development in Uganda and Cambodia. For both countries, we also used information collected in interviews with former and present agricultural policy-makers. These interviews were conducted in March–May 2009 and 2010. Generally, academic literature as well as publications in journals on agricultural policies and performance are more readily available for Uganda than for Cambodia.

[2] We are well aware of the statistical complexities in connection to FAOSTAT-based aggregate indices, but the FAOSTAT indices allow at least a consistent comparison of agricultural sectors in which different crops dominate—namely, rice in Cambodia, and plantains, maize, cassava, and coffee in Uganda. For the sake of consistency, we also used FAOSTAT data for the graphs in the Appendix. In this paper we are interested in the long-term trends in agricultural production; comparison between FAOSTAT data and national data shows that the trends are more or less the same in both datasets.

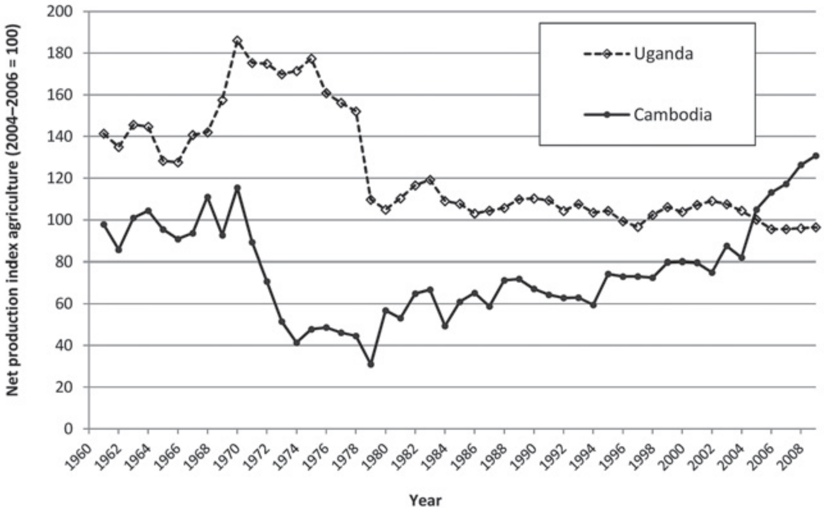
agricultural production in Uganda almost stagnated, while Cambodia showed an accelerating growth, overtaking Uganda in 2005. Figure 16.2 shows that, in contrast with Cambodia, Uganda's increase of agricultural production is insufficient to keep pace with population growth (more than 3% per year on average). Since the early 1990s, the daily calorie intake also shows a rising trend in Cambodia and a declining one in Uganda, although it is still sufficient in the latter country. Although this paper focuses on an explanation of the divergences between Cambodia and Uganda since 2005, we need some historical knowledge about agricultural policies and production in the period before 2005 to explain the present.

Uganda has always been presented as excellent for the development of a high-performing agricultural sector because of its favourable agro-climatic conditions. Ugandan agriculture is mainly rain-fed, and rainfall in most parts of the country is plentiful and allows for double cropping, in particular in the Central and Western districts, where about 55% of the population lives and most agricultural production is located. Ugandan farming systems are characterized by mixed cropping, combining plantains (*matooke*), cassava, millet, sorghum, sweet potatoes, beans, or maize with one or two export crops like coffee, cotton, cocoa, and tobacco. More



Source: FAOSTAT.

Figure 16.1 Net production index agriculture Cambodia and Uganda, 1961–2009 (2004–2006 = 100)



Source: FAOSTAT.

Figure 16.2 Net agricultural production per capita index Cambodia and Uganda, 1961–2009 (2004–2006 = 100)

recently, cattle-raising and milk production have become increasingly important in Ugandan agriculture. Although Cambodia has a greater potential for irrigation, its agro-climatic conditions seem less favourable than those of Uganda. The Cambodian soil is not of excellent quality. Cambodian agriculture is essentially a monoculture in which paddy rice dominates. Rice production predominantly takes place along the Tonle Sap and the rivers, where 90% of the population lives. Rice production is mainly rain-fed, allowing for a single harvest per year. Double cropping is realized in areas where full water control or irrigation is possible—14% of the rice-cultivated area (USDA, 2010). Though rice farming is dominant, *chamcar* cropping also exists, in which the farmer grows non-rice cash crops on the river banks, such as maize, sugar cane, tobacco, cotton, pumpkin, water melon, soy bean, sesame, or mung bean.

Ugandan as well as Cambodian agriculture is basically smallholder agriculture, in which low-cost inputs and traditional, labour-intensive farming techniques are applied. During the colonial period, the British decided not to develop large-scale plantations in Uganda, with the exception of tea and sugar estates, but introduced cotton and coffee together under a 'forced system of cultivation'. Since the state was quite active in the promotion and control of export crops, almost all peasants were in close contact with state officials. Strong state involvement in agriculture in Uganda continued after independence in 1962. Government agencies played a major role in the selection of crops to be planted, the marketing and regulation of prices of export crops, the development of research and extension services, and the processing and marketing infrastructures—the latter dominated by the Indian minority in Uganda, a legacy of the colonial period. During the same time, in Cambodia, the French used large estates for rubber and commercial rice production, and these plantations form the origin of Cambodia's un-Asian system of large land concessions. The 'rice peasantry' was kept more or less untouched by the French, a policy that was continued by the state after independence in 1954. Cambodia had become the third rice exporter of the world in the 1960s. But the development of agriculture had never been the object of systematic policy efforts by the colonial and the first post-colonial government. This partly explains the lack of market orientation of Cambodian farmers in the early period after independence.

In the 1970s, the violent conflicts in both countries caused a dramatic fall of agricultural production. In Cambodia, the Khmer Rouge drastically reorganized social land economic life and forced people into new rural arrangements. A period of international isolation and internal terror started, in which Cambodia lost more than one and a half million people from a population of about seven million. In Uganda, the consequences of Idi Amin's rule became notably visible during the last two years of his rule, 1978–1979. The origin of the breakdown of the agricultural sector had started as early as 1972 with the expulsion of 92,000 Asians, which hugely affected the agricultural marketing and processing system. The loss of lives due to the conflict in the Amin period between 1972 and 1979 is estimated at 500,000 people from a total population of almost 12 million people.

After the fall of Pol Pot's and Idi Amin's regimes, in both countries in 1979, the trend in agricultural production in the 1980s was upward but at the same time erratic. In Cambodia, the new government of the People's Republic of Kampuchea (1979–1989)—installed by the Vietnamese—tried to re-organize rural life according to the Vietnamese socialist model. In theory, rice cultivation fell under a centrally planned production system, and a model of collective cooperation (*krom sammaki*) was introduced. However, in practice, farmers often made their own decisions and the *krom sammaki* was performed half-heartedly and tolerated many exceptions.[3] During the Vietnamese period, Cambodia succeeded in raising its agricultural production: new rice varieties were introduced, the technical agricultural capacity of the government was improved, and the Cambodia-IRRI-Australia Project (CIAP) was established to fulfil the specific need for a rice research service. In Uganda, the government took up some of its previous role in agriculture, in particular in the marketing of export crops, but at the same time was restricted by the structural adjustment programme (SAP), which was introduced in 1981. The rise of agricultural production in the early 1980s in Uganda was short-lived, however, because a country-wide civil war resumed from 1983 onwards. Most farmers reduced the production of export crops and retreated into self-sufficiency subsistence agriculture, growing food crops such as cassava, whose tubers remain under the soil and whose harvest time is extremely flexible (Mijumbi, 2000: 5–11).

The growth in agricultural production resumed after Yoweri Museveni and his National Resistance Movement (NRM) took power in 1986. The SAP, which was reluctantly adopted in the early 1980s, was fully implemented in Uganda from 1987 onwards. In this process the agricultural sector was largely privatized and deregulated, and a market-led development model for the agricultural sector was adopted. Until the mid-2000s, Uganda had realized a substantial increase in agricultural production, far beyond levels that were realized in the period 1960–1987 and notwithstanding continued civil strife in the north until 2006.

However, a huge variation underlies this growth. Until the mid-1990s, the emphasis in agricultural production was mainly on the cultivation of plantains (*matooke*) in the central and western parts of the country. From the mid-1990s onwards, the dairy, maize, and cassava sector became the main drivers of agricultural growth (Figures 16A.1–16A.4 in the Appendix).[4] The production of the major export crop, coffee, has been erratic (Figure 16A.5 in the Appendix). Several attempts to diversify Ugandan agriculture by promoting the production of non-traditional, high-value export crops such as vanilla, silk, flowers, and red peppers only partly succeeded or were a complete failure. The rise in agricultural production was mainly driven by expanding land use, and not by raising productivity, except for the cassava and dairy sector (see Table 16A.1 in the Appendix). Farmers'

3 This can be explained by the traumatic experience farmers had with the collective model imposed on them by the Khmer Rouge in the late 1970s.
4 See, for an analysis of the boom in the dairy sector, Kjær *et al.* (2012).

yields were 13% to 49% of potential yields found on research stations, and yields of most major crops have been stagnant or declining since the early 1990s (Deininger & Okidi, 2001; Nabbumba & Bahiigwa, 2003). Few purchased inputs are used on smallholder plots, with only 1% of plots using chemical fertilizer and 6.3% reporting the use of improved seeds (Goller & Rogerson, 2010).

In 1985, while Cambodia was under Vietnamese influence, Hun Sen became prime minister. In 1989, he announced the withdrawal of the Vietnamese from Cambodia, but in contrast with Uganda, Cambodia had to go through a lengthy period before it reached political stability and could escape from its international isolation. After the Paris Peace Agreements of 1991, Cambodia could count on an international commitment to end the civil war, but only with the 1993 elections was a fragile political stability achieved. Hun Sen became prime minister again and his party, the Cambodian People's Party (CPP), has won all subsequent elections.[5] From 1995 onwards, Cambodia realized substantial increases in its agricultural production. Like Uganda, Cambodia had also adopted a market-led development model for its agricultural sector and its economy in general. The most substantial success was the increase in rice production. The production and productivity figures increased dramatically between 1991 and 2010 (Figure 16A.6 in the Appendix), catalysed through area expansion, a considerable extension of the nation's irrigation infrastructure, the increased use of improved, high-yielding rice varieties, and the intensification of the crop cycle through the introduction of double-cropping in the main wet season (Agrifood and CamConsult, 2006; USDA, 2010). Rice farmer productivity in Cambodia rose spectacularly from 2.12 MT/ha in 2000 to 2.97 MT/ha in 2010 (MAFF, 2012). However, levels of yield and cropping intensities in rice production have historically been low and remain low compared with similar ecosystems in neighbouring countries.[6]

A remarkable divergence in the agricultural production trends of Cambodia and Uganda can be observed from 2005 onwards. Cambodia's trend not only starts to rise more steeply than that of Uganda, indicating higher growth rates, but one year later also outperforms Uganda, where

[5] After 1993, peace was not fully restored in Cambodia. In 1997 a short violent period disrupted the country again when Hun Sen successfully challenged his co-prime minister and assumed full power. In 1998, Hun Sen won the elections and the country finally achieved political stability.

[6] For example, in Cambodia paddy yields averaged a mere 2.0 tons per hectare between 2002 and 2004, in contrast to 4.7 tons in neighbouring Vietnam and in Indonesia, and 6.2 tons in China (Agrifood and CamConsult, 2006).

the rising trend has almost come to a halt since 2004. Whereas in the case of Cambodia, agricultural growth (i.e. growth in rice production) has gained momentum, agricultural growth in Uganda seems to have run out of steam, something that was already observed in the early 2000s (Dijkstra & Van Donge, 2001: 842). The latter situation applies to all major crops in Uganda; only for the cattle population and milk production can some growth still be observed. To understand this divergence, we need to go into more detail in the history of the design and implementation of agricultural policies in both countries and the political economy in which these policies have been executed. Therefore, we now focus on government policies and investments in agriculture.[7]

The Design of Agricultural Policies under Yoweri Museveni and Hun Sen

Both Museveni's and Hun Sen's governments faced an immense task to reform agriculture, after the preceding conflict period had left the economy devastated and the government bankrupt. The rural areas of these poor agrarian economies can be typically characterized by a daunting set of problems, which included high variability in weather and agro-climatic conditions (particularly in Uganda), poor physical infrastructure, poor human health, the lack of a well-developed and diversified monetary economy, thin markets of agricultural inputs, outputs and finance, and a business environment characterized by weak information on prices, new technologies, and potential contracting counterparties. In addition, both in Cambodia and Uganda, climatic variation between seasons can cause production to fluctuate above or below domestic requirements, resulting in huge fluctuations in market prices. Moreover, the social relations of production had been shaken to their foundations during the conflict period, in particular in Cambodia, where two experiments in centrally planned production had distorted and broken down the existing social fabric of production in rice agriculture. Such was the background against which Museveni and Hun Sen started to rebuild their countries. This

[7] More recently, large-scale foreign investment in arable land has increased significantly in both countries, with mixed effects on smallholder agriculture and agrarian structures (see Borras & Franco, 2011, 2012; DanChurchAid, 2011; Grainger & Geary, 2011). The role of foreign land acquisition in agricultural performance in Cambodia and Uganda is, however, beyond the scope of this paper.

section describes the process of design of agricultural policies in Uganda and Cambodia. Their implementation is the subject of the next section.

In Uganda, the subsequent Museveni governments have emphasized the importance of developing agriculture, on paper, in budget speeches and in presidential speeches. For example, a 1996 review of the first decade of NRM rule emphasized that the "clarion call by the NRM government to all Ugandans was: produce more, grow more food, more tomatoes, more ginger, raise more animals . . . to increase production" (Mugaju, 1996: 38). In 1987 and the years thereafter, agricultural policies and subsequent reforms in the sector were part of and in line with the general economic policies for macroeconomic and financial stabilization as outlined in the Economic Policy Reforms. The NRM government adopted trade liberalization, removed all restrictions on foreign importation, abolished import taxes, and licensed free foreign exchange bureaus, which used foreign exchange rates determined by market prices. The goals and objectives of the agricultural policy reforms were to increase incomes and improve the quality of life of poor subsistence farmers, through increased productivity and an increased share of marketed production. Household food security was to be improved through the market rather than through emphasizing household self-sufficiency, and gainful employment was to be generated by market-chain activities of input supplies, production, procurement, and product distribution, coordinated by the market mechanism of supply and demand. The controls on farm prices of the crops of coffee, cotton, tea, and tobacco were removed. By 1994 the marketing and export of domestic foodstuffs were completely in the hands of private entrepreneurs, local food traders, and exporters of cotton, coffee, tea, and tobacco. This phase of agricultural policy reforms also included investments in physical rehabilitation of processing and marketing infrastructure of coffee, cotton, tea, tobacco, and sugar. In 1992, the National Agricultural Research Organization (NARO) was created to restructure research and extension services, which were reduced from 15,000 to 3,000 extension officers. The World Bank recommended a unified extension service to replace the training and visiting/demonstration system, which largely made agricultural specialists obsolete. By 1994, Uganda's economic and agricultural production structure had been put entirely under market-led coordination with most barriers in exporting, importing, and domestic markets removed under various policy reforms. The government's economic role had become limited to the creation of an 'enabling' macro, legislative, and institutional environment for private sector-led growth.

A further benchmark in the agricultural policy of Uganda was the launch of the Plan for the Modernization of Agriculture (PMA) in 2001, a plan fully backed by the president and the technocrats in his government, mainly vested in the Ministry of Finance, Planning and Economic Development (MoFPED). The PMA vision was poverty eradication through a profitable, competitive, sustainable, and dynamic agricultural and agro-industrial sector. Agricultural transformation was seen to start by increasing the productivity per unit area through the adoption of high-yielding, pest- and disease-resistant crop varieties, the use of appropriate crop and animal husbandry practices, maintenance of soil fertility through use of organic and inorganic manures, and the development of soil water management skills. The PMA's major strategies included the deepening of local government's decentralization for efficient service delivery to the grassroots, thus allowing the private sector to lead supply of planting materials, inputs, seeds, artificial insemination, irrigation, and credit to farmers. It encouraged small farmers' food security and incomes to be market-led through household specialized production rather than household self-sufficiency. PMA decentralized agricultural research and dismantled both the NARO research system and the direct extension system of training and visit. It also created a new extension service, namely the National Agricultural Advisory Services (NAADS), through which agricultural service providers could be hired by subsistence farmers. It was supposed to reach the local level of all approximately 1080 sub-counties, which it finally did around 2007.

Up to 2006 the political agenda of the president and the NRM, including their agricultural policy, corresponded with the agenda of the technocrats in the government and the major donors. That is, the state was to refrain from interventions in the productive sectors, including agriculture, and to focus on policies directed at the promotion and maintenance of macroeconomic stability, the provision of social services, and the creation of an enabling legislative framework. But this started to change in 2006, when, as the first multi-party elections since 1986 drew closer, political concerns of gaining popularity in the rural areas became more urgent, and the president became more impatient with the fact that the PMA was not fast enough in showing results on the ground. Hence, more direct and visible interventions were needed. The NRM 2006 election manifesto focused on Prosperity For All (PFA), transforming Uganda from a poor peasant society into a modern and industrial society. The manifesto emphasized the importance of continued liberalization and privatization, but also expressed views that were more pro-interventionist, particularly in the area of rural development, where change agents were to be introduced: "A trained cadre shall be appointed to drive and motivate development at each parish—it shall act as proactive catalyst for the much desired social economic transformation of Uganda" (NRM 2006, cited in Joughin & Kjaer, 2010: 70). The NRM won the elections and Prosperity for All (PFA) was launched in 2008. A new structure for the Prosperity for All programme was established under the president's office, running in parallel with the secretariats of NAADS and PMA under the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF). Officers from MAAIF were directed to perform PFA work (Joughin & Kjaer, 2010: 70). In this way, the "government appears to be moving away from a model in which the technocrats have some faith, and which evaluators have given a qualified thumbs up, back to a more *dirigiste* model, the full implications of which are not yet known" (*ibid.*) This had strong implications for the implementation of agricultural policy in Uganda and the way agricultural policies reach farmers, as will be shown in the next section.

In contrast to Uganda, it took the Cambodian government almost ten years before it committed itself unconditionally to agricultural development. Between 1989 and 1993, agricultural policy was more or less part of general economic policies, in which the Cambodian interim government built upon the reforms which were set in motion in 1989. Agricultural production could be sold by producers at market prices, and full liberalization of the general economy and the agriculture sector in particular was envisaged. In 1994 the Cambodian government received an Enhanced Structural Adjustment Facility (ESAF) from the IMF to implement its reforms plans. The reforms encompassed several measures for agriculture. The ban on rice exports was lifted in December 1995, sound commercial practices for rubber companies were introduced, rubber pricing policies were changed, rubber estates were allowed to export their produce directly rather than through government trading corporations, and in May 1995 a ban on timber exports was issued for environmental reasons as well as to encourage the development of higher-value-added exports. In 1994, the National Programme to Rehabilitate and Develop Cambodia (NPRD) for the first time identified agriculture and the improvement of rural living conditions as a central feature of development policies. It also expressed its commitment to rely basically on market forces, both to stimulate agricultural growth and to ensure food security.

Until 1998, agriculture was not an attractive field for the Cambodian elite to acquire wealth or resources. Further, the slack performance of the Ministry of Agriculture, Forestry and Fisheries (MAFF) and its poor investments in agriculture were also an "outcome of the fact that [donor] technical assistance for strategic preparation of sector priorities in these areas [agriculture] has been much less than that received by the health and education sectors" (UNDP, 2003: xi). MAFF had a permanent shortage of funding. Most decisive was that in the First Parliamentary Period, MAFF was led by a high-ranking FUNCINPEC official, but FUNCINPEC ministers had hardly any real executive power over their ministry.[8] Their subordinates were *de facto* commanded by the Cambodian People's Party (CPP) ministers and depended on informal relations of loyalty that went back to the 1980s. Most FUNCINPEC officials had just returned from years of exile outside Cambodia and were unfamiliar with the new administrative and socio-political circumstances moulded through the realities of life under the PRK/SOC (People's Republic of Cambodia/State of Cambodia). The CPP did not give them a chance to win the voters' sympathy through a successful fulfilment of public tasks, which it considered a CPP prerogative. Only some accumulation of personal wealth was tolerated to bind FUNCINPEC to the existing system. Soon after their assumption of office, FUNCINPEC ministers and secretaries of state complained bitterly "that their own civil servants kept them in ignorance of what was going on" (Hughes & Conway, 2004: 23). In other words, the long period of inaction or the poor implementation should, despite the presence of well-formulated plans, be explained in terms of the rivalry between the two main political systems. FUNCINPEC had the formal positions, but the CPP had the real power.

The year 1998 marks the turning point. In that year CPP leader Hun Sen acquired the position of an unchallenged Prime Minister. He no longer had to concentrate on the CPP's power struggle with FUNCINPEC. The conditions were created that enabled a more effective approach and a higher public investment in agriculture, especially in an increase of rice production. The government's increased interest in agriculture was probably more informed by the prospects of an attractive income for the political elite by selling local products on the international market than by a concern for the fate of Cambodia's rural poor. While enduring the

[8] FUNCINPEC is a royalist political party in Cambodia. FUNCINPEC is a French acronym for *Front Uni National pour un Cambodge Indépendant, Neutre, Pacifique, et Coopératif*, which translates to "National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia". Before the 2008 election, FUNCINPEC and the Cambodian People's Party formed a coalition government, although FUNCINPEC's significance has decreased steadily since 1998, when it had an equal relationship with the CPP in the coalition.

negative effects of the domestic political crisis in 1997 and the impact of the Asian financial crisis of 1997–1998, the government had realized its urgent need for new revenues. Agriculture had a great potential.

The greater concern for agriculture and the increase of MAFF's budget went finally hand in hand with a shift in donor interests. Since 2000, efforts to develop a poverty reduction strategy, in which agriculture was a priority, have been strongly encouraged by international agencies such as the World Bank, UNDP, and WFP. This is in contrast with Uganda, where such a shift in donor interests did not take place until 2010. In Cambodia, the donors provided significant conceptual input and technical assistance, which is reflected in the Royal Government of Cambodia's (RGC) Second Socioeconomic Development Plan for 2001–2005. This plan explicitly focused on Cambodia's agricultural potential as a source of economic growth and poverty reduction. The Cambodian government acknowledged that "the slow growth of agriculture [during the 1990s] is of special concern, not only because it held back the general growth rate, but also because it meant little progress of income for the vast majority of the population" (RGC, March 2001: 16). In addition, and also in contrast with Uganda, Cambodia became less dependent on donor funding by having access to extra-governmental funds for agricultural and rural development investments (see also below, and Kheang in this volume).

In the last decade, the ruling party felt the pressure to address problems of livelihood and mitigate the damage in agriculture—caused by severe floods in 2000 and the drought two years later—because of the first communal elections in February 2002 and the national elections a year later. It had to demonstrate its concern for its potential voters in the rural areas. The overwhelming success of the CPP—98.58% of the commune council seats—confirmed that its rural development strategy of agricultural commitment was very useful in drawing political loyalty from voters. In 2002–2003 and 2003–2004, when dry-season rice cultivation was threatened by drought, high-ranking party officials frequently visited their constituencies to 'donate', for example, a water pump and gasoline (financed by MOWRAM, the Ministry of Water Resources and Meteorology) to rescue the crops.[9] Interestingly, these officials came not necessarily from MOWRAM or MAFF. The Minister of Foreign Affairs and the President of the Supreme Council of the National Economy were equally concerned to

[9] See *Reaksmey Kampuchea* of 6 February 2003, 4 January 2004, 13 January 2004, and 16 January 2004.

donate equipment to drought-affected communes. One wonders whether those officials could do this from MOWRAM resources.

Around 2002–2003 the grave problems of Cambodian agriculture and especially of rice production were seriously brought into MAFF's focus. In their attempts to attract as many votes as possible for the upcoming national elections of 2003, CPP government officials showed a new interest in rural and agricultural development, such as the rehabilitation of roads or the construction of irrigation facilities. Important was the example of the Prime Minister himself. Once more designated by his party as the PM candidate for the Third Parliamentary Period (2003–2008), he fully committed himself to the creation of a development zone west of Phnom Penh, in several districts in the provinces Kandal (his own constituency) and Kompong Speu. The main idea of this project originated from himself. To prove their loyalty to the higher officials and to increase their promotion chances in the new parliamentary period (2003–2008), government officials obviously felt motivated or even pressed to follow the shining example of 'their' Prime Minister and to do, within the limitations of their means, 'good works' to attract voters in their own constituencies.

In the new agricultural policy, the new CPP minister of agriculture Chan Sarun played an exceptional role. Being an official of MAFF since the 1980s and after that rector of the Royal University of Agriculture, he had the technical knowledge to develop a more effective agricultural policy, which was aimed at "reforming the whole sector according to market principles" (RGC, 1999: 55). It seems that he applied a much smarter hand to getting control over MAFF's inner-ministerial networks and subordinating line ministries than his predecessor. Newspapers portrayed him as a well-qualified, well-intentioned, and solicitous advisor not only towards the farmers but also towards his own staff.[10] He initiated the regular general meetings of the Provincial Departments of Agriculture (PDA) and insisted that they were used for sharing agricultural experiences and best practices as well as for deepening the knowledge of the provincial officials of the policy of MAFF and of new technologies. In 2007, for example, he discussed their experience with the promotion of the use of SRI (Systematic Rice Improvement) among the farmers of their province. SRI is a set of improved management practices in rice cultivation, which

[10] *Reaksmey Kampuchea*, 9 February 2006, 11 February 2006, 21 February 2006; *World Investment News & Far Eastern Economic Review*, 17 March 2003.

allows an increase of yields together with a reduction of seed and water requirements. It therefore promised greater profitability. The minister recommended that all officials follow the progress of SRI seriously and that they train farmers in the new technology by building a trustful relationship with them on the basis of their own profound knowledge. They should organize SRI demonstration fields to make the possibilities and advantages clearly visible to all (MAFF, 2008).

The key idea behind the agricultural policies that were formulated in both countries can be phrased in terms of 'agricultural modernization'. In the Ugandan and Cambodian policy plans this agricultural modernization is understood as the development of the technical conditions of agricultural production—that is, the growth of output and productivity through 'high input—high output' farming, connected with commoditization: the process of development of commodity production, markets, and divisions of labour.[11] In other words, individual farms are supposed to shift from (diversified) subsistence-oriented and extensive low-productivity production towards more specialized, high-productivity production oriented towards the market. To induce this process of agricultural modernization, both countries liberalized factor and output markets, and privatized research and development centres, extension services, and agricultural marketing organizations. In line with structural adjustment recipes, the role of the government in agriculture has been reduced to creating an 'enabling environment'—that is, pursuing macroeconomic and political stability, a clear legal framework (in particular on land tenure), and conducting public investments in rural infrastructure and social services that benefit the rural population. This striking similarity had much to do with the fact that neither Cambodia nor Uganda had much freedom in policy choices immediately after the conflict period. Confronted with a devastated economy and a bankrupt government apparatus, the market-led model for agricultural transformation was actually chosen 'by default', a 'choice' further determined by international donors who at the end of the 1980s and the beginning of the 1990s refused to invest any further in government interventionist policies in agriculture.

Despite the limited policy space in both countries, the political conditions have been conducive for formulating agricultural policies, although it took more time in Cambodia than in Uganda to put agriculture on the

11 See Bernstein (1990) for mapping the use of 'agricultural modernization' in agricultural policy plans since the introduction of Structural Adjustment Programmes.

national agenda. However, we see also an opposing development. In the early 1990s, the Cambodian Ministry of Agriculture was a victim of a stalemate between two political parties, which obstructed progress in the formulation of agricultural policies. Only after Hun Sen and his CCP party took full power and a competent CCP minister could be installed was this stalemate broken. Since then, policy formulation has become much more effective, as well as its implementation (see below).

In Uganda, we see a diverging movement. Whereas during the 1990s there was a strong coalition between President Museveni, his NRM, and the technocrats in the ministries—sharing similar views on the direction agriculture had to take—more lately, since the introduction of multiparty politics in 2006, President Museveni has moved away from his technocrats. He even created alternative parallel policy frameworks which have been superimposed on existing frameworks after he had won the elections of 2006. It is clear that the existence of a parallel structure does not contribute to a cohesive and consistent agricultural policy design. This is a first reason why Uganda's record in agriculture has been more dismal since 2005 than before, while in Cambodia the record has been steadily improving.

The Implementation of Agricultural Policies under Museveni and Hun Sen

Notwithstanding the limited agricultural policy space of both governments, we should investigate to what extent and how the policies have been implemented and whether additional factors can be found which can explain the divergence in agricultural performance between Cambodia and Uganda in the last half decade. We will look at two important issues: (1) how the policies on paper translated into public expenditure on agriculture; and (2) how agricultural policy reached the farmers at the local level.

Public Expenditure on Agriculture

In Uganda, as we have seen, initial political intentions to promote agriculture were strong, at least on paper, but implementation often failed. One of the reasons was that the agricultural sector has never taken up a large share of public expenditure. In an early evaluation of the first decade of NRM rule, it was noted how, although the sector constituted about half of GDP, the corresponding budgetary provision was only 4.7% in 1991–1992 and 3% in 1994–1995 (Mugaju *et al.*, 1996); and in 1997 it was below 2%. In recent years, there has been an increased government focus on production, and agriculture has taken more space in public debates in Uganda. The Background to the Budget 2008/2009 states that "[I]n the medium term additional resources will be allocated to interventions that increase production and productivity for both farm and non-farm activities so as to increase employment and consequently incomes of rural households" (MoFPED, 2008: 48). However, despite all the rhetoric and despite the fact that the Ugandan government has signed the Maputo Declaration and the so-called CAADP principles (one of which stipulates that 10% of annual spending should be allocated to agriculture), the share of funding for the sector (broadly defined, including forestry and fisheries) fell from 8% of the national budget in 2001–2002 to 3.7% in 2008–2009. In the 2009–2010 budget this share jumped again to 4.4%, the highest share for several years (Joughin & Kjaer, 2010: 72).

Joughin & Kjaer (2010) mention several reasons why the allocation to the agricultural sector has been low in Uganda. The first reason is the pressure from the donors to prioritize the social sectors, particularly health and education. The relations between MoFPED and MAAIF present a second reason. Technocrats in MoFPED strongly believe that MAAIF cannot live up to the discipline of increased funding. Moreover, the wage bill had a disproportionally large share in the Ministry of Agriculture's recurrent expenditures, which left only limited funds for non-wage expenditures (World Bank, 2010: 18).

The third reason is the policy consensus from the 1990s among the president, the technocrats in his government, and the donors that agricultural production should be left to the private sector, although there are differing views in Uganda as to the roles and responsibilities of the state in relation to promoting economic growth. The president, the permanent secretary of the MoFPED, and a team of technocrats around him became proponents of liberalization. Today, there is a large group of public officials, mainly in the Treasury, who believe in the market model. Even though at the political level (see Prosperity for All), a move back towards a more pro-government view can be identified, it seems as if a core group of technocrats is still in favour of the market model, which has affected releases of funds to agriculture. In MAAIF, by contrast, genuine pro-market enthusiasts are harder to find: "Observations based on experiences as an Advisor in the Ministry suggest that this interventionism probably stems from officers' perceived status of key people. 'Agriculture' is something they 'do'. Many have never really accepted the rhetoric about the market and the private sector" (Joughin & Kjaer, 2010: 74).

In Cambodia the figures on public expenditure on agriculture are not more striking. Between 1994 and 1998, the part of the national budget that was actually expended on the agricultural sector was minimal: it rose slightly from 3.4 million USD in 1994 to 4.4 million USD in 1998, in spite of the much higher reservations in the national programme of 1994. Not until the Second Parliamentary Period (1998–2003) did the annual expenditure rise significantly. It even doubled in the Third Parliamentary Period (2004–2005) to 37.5 million USD, and in 2007 public expenditure on agriculture increased to 50 million USD (Hang, 2008). However, investments in agriculture were basically lower than in health and education, although in the short period from 2004 to 2007 spending on agriculture more than doubled. Even if we assume that this trend has continued, the absolute investment in agriculture is not impressive—and does not indicate any substantial difference from Uganda. For 2010, it is mentioned that 1.7% of the budget is reserved for agriculture. If we add to this the 0.7% for water sources and the 1.7% for rural development, then the most favourable estimate is 4.1% of the total budget (Ek, 2010).

The reasons allocation in Cambodia to agriculture were low were partly the same as in Uganda. Donors were convinced that activities should be left to the private sector, and the elite had no immediate interest in agriculture. The last point should, however, be qualified and can demonstrate an important difference between the two countries. As mentioned above, the Cambodian leaders have felt themselves forced to support agriculture and infrastructure for political reasons. They had a strong motivation to strengthen the position of Hun Sen and the CPP and have done this with 'extra' resources that are not reflected in the formal budget allocations (Hughes, 2008: 72; Un Kheang, in this volume). We assume therefore that a substantial amount has been invested in informal ways, in ways that are very difficult to measure in a reliable manner.

The Politics of Agricultural Extension: NAADS versus CEDAC

The level of public expenditure on agriculture is not a sufficient reason to explain why Cambodia has been able to attain substantial increases in rice production and productivity lately, whereas in Uganda agricultural growth has almost come to a halt. Our hypothesis is that this is also related to the way in which agricultural policy reaches the farmers at the local levels and how this has been shaped by politics, more in particular relations of political loyalty. We use the examples of the agricultural extension organizations, NAADS in Uganda and CEDAC in Cambodia, two important interfaces between the government and the farmers, to investigate our hypothesis.

Uganda's NAADS (National Agricultural Advisory Services) is a semi-autonomous body with a mandate to develop a demand-driven, farmer-led agricultural service delivery system targeting poor subsistence farmers, with emphasis on women, youth, and people with disabilities.[12] Cambodia's CEDAC (Centre for Study and Development in Agriculture) was set up in 1997 as an NGO to develop sustainable agriculture and development in Cambodia. Since 2002 CEDAC is the largest NGO in Cambodia involved in farmer training and extension services. This is mainly due to the introduction in 2000 of a cultivation technique called 'System of Rice Intensification' (SRI), which has expanded over the country in the years thereafter in collaboration with the government and other NGOs.[13]

NAADS and CEDAC (in particular its SRI programme) have become the major extension services in their respective countries, and it is not surprising that a great number of peasants managed to benefit from them. Evaluations on NAADS have mentioned that a larger share of agricultural crops is marketed and that diversification has increased (World Bank, 2007: 25–27). Direct participation in the programme was associated with a larger positive impact on overall agricultural revenue per adult equivalent. Overall participation was associated with an average increase of 32–63% in gross agricultural revenue per adult equivalent (Benin *et al.*, 2011). It is, however, not mentioned how many farmers were selected and according to which criteria.

A study on SRI shows that average SRI farmers on average have produced about 1.16 tons per hectare more than farmers who followed conventional cultivation methods, increasing the average yield to 3.5 tons per hectare. SRI farmers were also able to reduce their use of chemical fertilizer by about 50% compared with conventional practices, and they saved about 55 kg seeds per hectare in comparison with non-SRI farmers (Yang, 2008: 3). Another recent evaluation reported that farmers who just adopted three to five of the twelve practices recommended by the SRI realized at least a 50% increase in yield on average (Gonsalves & Prom, 2009).

12 See the NAADS website: www.naads.or.ug.
13 See the CEDAC website: www.cedac.org.kh.

More recently though, NAADS has also become a subject of severe criticism, both in publications and local newspaper articles.[14] For CEDAC such critical voices are not to be heard. If we compare NAADS and CEDAC, four major differences stand out which may explain why CEDAC has become more successful in translating agricultural policies towards the farmers than NAADS: (1) the approach to farmers, (2) the organizational set up, (3) the selection of crops, and (4) the role of political leaders.

NAADS is criticized for using a top-down approach and being ill-informed about farmer's practices. The majority of the farmers experienced the NAADS policies as alien. Most NGO service providers lacked relevant skills and knowledge, and no adequate information on the marketability and production requirements of possible enterprises was collected (Kyomugisha, 2008). Farmers often had no clear idea of the opportunities NAADS offered them, since they have always been told what to do (Egulu & Ebanyat, 1999: 20–22). They disliked being trained by service providers in a classroom-like setting, and officials tended to blame farmers for disregarding their advice and "having unrealistic expectations" (Watala, 2010). Farmers were not aware that they had to pay back to the group account 70% of the input they received. The auditor general castigated officials for "spending most of the money on workshops not attended by farmers and doing little practical training in the field". Farmers sometimes had the feeling that the choice for a certain crop was forced upon them. Why should they grow cassava; why ground nuts? The question was often of no interest to them but based on the experts' view of the market. The gap between farmers and the policy-making elite seems evident: "Even the most educated do not understand what PMA is—it is an elitist programme not completely owned by Ugandans" (Munyonyo, 2004).

Unfortunately, we have not such detailed information about local agricultural practice in Cambodia. Although in Cambodia critical opinion is more suppressed, a more productive relationship between government, farmers, and NGOs seems to exist. In Uganda we deal with a state initiative that stimulates private enterprise; CEDAC and other NGOs in Cambodia cooperate closely with the government. MAFF officials of different levels increasingly participate in CEDAC's events, workshops, and farmers' association activities. Although CEDAC does not work on such a national

[14] A few examples: 'NAADS named worst programme', 11 January 2010; 'NAADS coordinator suspended over office abuse', 6 November 2009; 'Janet [Museveni] calls for probe into NAADS funds', 19 October 2009; 'NAADS farmer gets fake, expensive spray pumps', 3 June 2009; 'Biggest percentage of NAADS funds wasted', 1 March 2010.

scale as NAADS, the difference is telling. An organization that appears to spend the largest part of its sources on salaries of officials versus an organization that operates much closer to the village level.

The NAADS activities are scattered over a series of crops. Such a fragmentation of experience, knowledge, and research appears in a lesser degree in a rice society. Such a concentration on one crop forms also a difference between both societies. The domination of rice in Cambodian agriculture sets different conditions for the success of agricultural policies. First, the social organization of rice cultivation may have undergone some changes under socialist influence, but its techniques have been the same for more than 14 centuries. Cultivation is done within family units, with modest forms of water control, and peasants survived self-sufficiently in relative autonomy (Pillot, 2007: 495–6). Second, rice cultivation is not only the major occupation of Cambodians; it is part of their identity. 'Eating rice' is the general word for having food, and a 'rice peasant' is more respected than a person who grows cassava, maize, or potatoes—crops considered with some contempt (Prom, 1996: 20). Ugandan farmers, in contrast, have historically become more used to the introduction of new crops. Third, since rice dominates consumption as well as export and is storable for a long time, it offers a logistic advantage. Technological and economic efforts can concentrate on one crop. In addition, Cambodian rice-growing has been able to benefit from regional experience, especially the International Rice Research Institute (IRRI). In Uganda, on the other hand, an increase of agricultural productivity is much more laborious since research and the development of better varieties are spread over several crops and regions.

NAADS is also seen as selective and does not reach all the farmers. It is not targeted on whole villages, as CEDAC is—only on groups of people. Several households are—and feel—excluded, since the people who participate in NAADS no longer communicate with them (Interview in Masaka). Although NAADS now covers all the sub-counties of the country, it certainly does not reach the critical mass of the farmers. There has been a public outcry that in recent years: since NAADS selects six farmers per parish, only rich supporters of the NRM are chosen (Bekunda, 2009). Another criticism says that "only people with convertible assets (such as a cow) or external sources of funding were benefiting from NAADS" (Kavuma, 2010). There is no support for the development of an enterprise, since NAADS places more emphasis on selection of enterprises than on building up the capacity of farmers' groups to handle and make profit (Kyomugisha, 2008).

Last but not least, the role of political leaders has been very different. The rapid expansion of SRI in Cambodia is to a large extent due to the cooperation between NGOs and the ministry.[15] In January 2005, the minister of agriculture set up a national SRI secretariat hosted in MAFF's Department of Agriculture and Agricultural Land Improvement (DAALI) with the technical support of CEDAC. During frequent visits to farmers or lower ministry units, the minister has always been committed to encouraging people to improve agricultural production by trying, applying, and promoting this new technique (*Reaksmey Kampuchea*, 27 January 2006, 9 February 2006, 11 February 2006). Provincial and district officials of MAFF have been instructed by the minister to take care of the progress in their area and especially of the selection of appropriate rice seeds and the proper implementation of SRI (*Reaksmey Kampuchea*, 6 January 2006). Meanwhile, all PDAs have been requested to arrange in a short time frame that every commune conducts at least one SRI demonstration field (MAFF, 2008; Yang, 2008).

This contrasts sharply with the leading role of President Museveni, who has created a confusing and contradictory parallel structure within NAADS, with the main aim of benefiting NRM farmers. His role is less convincing than Hun Sen's 'shining example', although both are inspired by a similar motive to show their father-like, benevolent concern for the population's welfare.[16] Scepticism about Museveni's approach is openly formulated: "Our revolutionary and visionary [Museveni] is continuing with his Prosperity for All (*Bonna Bagaggawale*) countrywide tours . . . [and] has already covered almost 80 percent of Buganda and probably more than half of the country". Each time his attention is attracted on his way to various venues of his rallies and meetings, "he has stopped and handed . . . envelopes. Not a bad thing to do during an ordinary tour but very unpleasant for a prosperity-for-all campaign. And in here lies Uganda's problems". The author continues: "The head of state, and I know this from my State House contacts, spends about Shs 500 million [= 250,000 USD] everyday he drives or flies out of Entebbe. This money he spends on fuel, welfare, envelopes, etc., is the taxes we pay" (Nganda, 2010). It is less probable

[15] The number of farmers applying SRI in Cambodia increased from 40,000 in 2005 to more than 60,000 in 2006. In 2007 more than 82,000 farmers had already applied the SRI method, and it was expected that their number in 2008 would increase to more than 100,000 (MAFF, 2008; Yang, 2008).

[16] A recent poll indicated that 89% of the Cambodian population agrees with Hun Sen's policies, while in Uganda Museveni got 68% of the votes in the February 2011 elections.

that this happens in Cambodia. Besides the dubious role of the president, officials in Uganda may approach farmers with the promise that they will improve their enterprise if they sign a particular paper. In fact, they sign for receiving 100 kg while they will actually get only 30 kg; or the price of the seeds is inflated, or the delivered pigs are not vaccinated. In one of the districts we visited it was reported that the political representatives claim straight away part of the money from the Prosperity For All programme; for them, "prosperity means money for the politicians".[17]

Who Benefited from the Agricultural Policies?

The success of the agricultural policies of the early developers in the South-east Asian region (notably Malaysia, Indonesia, and Thailand) became particularly manifest in its positive effects on the income and welfare of poor rural people. As pointed out in this chapter, Cambodia and Uganda followed a different route in their agricultural policies. The question becomes then to what extent these policies benefited poor rural people.

The figures in Table 16.1 show that Uganda has been quite successful in bringing down rural poverty: from 60% of the rural population in 1992 to 27% in 2009. In Cambodia rural poverty has also declined but less spectacularly. Recent figures for Cambodia are not available, but Tong (2009) suggests that owing to the global recession, poverty increased again in 2009. These figures appear paradoxical, however: whereas Cambodia has outperformed Uganda's agricultural production and productivity, Uganda appears more successful in reducing rural poverty. What can explain this paradox?

First, agricultural policies in both countries take only a small part of the total development expenditures. The effects of agricultural policies on farmers' incomes and welfare should therefore not be overestimated. The

Table 16.1 Poverty headcount ratio at rural poverty line (percentage of population)

Year	1992	1997	2000	2002	2005	2009
Uganda	60	49	37	43	34	27
Year		1997			2004	2007
Cambodia		40			38	35

Source: World Development Indicators 2011.

[17] Field visit to Namutumba district in March 2010.

effects of other rural development policies have, up to now, become much crops, profiting from emerging linkages within a growing economy.

Fourth, incomes of rural households are not necessarily agricultural incomes. Non-farm income may constitute a large part of a rural household's income, particularly among the poorer strata. In Uganda in particular, staple-food-oriented households tend to rely more on non-farm income sources, with the exception of households producing maize (Benin *et al.*, 2008). Furthermore more visible in Uganda than in Cambodia because of the length of the time frame of these policies. For Uganda, development finance became more and more available for education, health, or infrastructure from the early 1990s onwards, whereas massive development aid entered Cambodia only at the beginning of the 2000s. In Cambodia a large part of the decline in poverty can therefore be explained as a peace effect—namely, as an increase in economic activity after the resumption of stability, and not as the result of a focused strategy (Engvall, 2010).

As mentioned above, Ugandan smallholders have been much longer exposed to market forces than their Cambodian counterparts. They produced export crops besides food crops for subsistence. While some Cambodians provided labour for the French rubber and rice plantations, the majority were smallholders who produced rice for subsistence. More recently, the experiment in collectivist agriculture in the 1970s and the socialist planning of agriculture under the PRK/SOC in the 1980s destroyed functioning agricultural markets, which had to be rebuilt before any substantial effect on income and poverty could be observed.

Third, Cambodia's monoculture in rice may turn into a double disadvantage. Depending on only one crop, which is also internationally traded, Cambodian farmers' incomes are vulnerable to regional economic fluctuations in the (world) market price of rice. Their Ugandan counterparts, in contrast, not only in most cases grow a mixture of crops, which makes their income less dependent on one crop, but also grow crops such as plantains and cassava, which are less vulnerable to international price shocks. Moreover, the diversified production systems adopted by Ugandan farmers offer more opportunities to switch from low-income-generating crops to high-income-generating, a considerable number of rural households (39.3%) get their main source of income from non-farm activities (UBOS, 2006). In Cambodia, remittances and household businesses are alternative income-earning opportunities associated with a clearly positive effect on the welfare of rural, landless households (Engvall, 2010). Although we do not have convincing figures to prove this, we suggest that differences in access to non-farm income offer a significant explanation of differences in rural poverty rates in Uganda and Cambodia.

Conclusions

To explain the divergence between Cambodia's and Uganda's agricultural growth paths in the last seven years, we have focused on the role of agricultural policies. Immediately after the end of their violent conflicts, both countries' governments had little policy space. Both countries were bankrupt, which made them dependent on foreign aid. With a donor agenda strongly embedded in the Washington and post-Washington consensus, there was little policy space to choose for active interventions in productive sectors. This is not to say that the political conditions have not been conducive for formulating agricultural policies. In both countries, agriculture has been high on the national agenda for political reasons, although it took more time in Cambodia than in Uganda. But the policy space for active interventions was limited and both governments therefore chose more or less by default for a market-led development model.

In the 2000s, policy spaces increased in both countries, but a diverging development can be observed. As pointed out above, in the early 1990s, the Cambodian Ministry of Agriculture was a victim of a stalemate between two political parties, which obstructed progress in the formulation of agricultural policies. But since 2005, after Hun Sen and his CCP party took full power and a competent CCP minister could be installed, this stalemate has been broken. Since then, policy formulation, as well as its implementation, has become much more effective. In Uganda, we see an opposing movement. Whereas during the 1990s there was a strong coalition between President Museveni, his NRM, the technocrats in the ministries, and the donors, sharing similar views on the direction agriculture had to take, more lately, since the introduction of multi-party politics in 2006, President Museveni has moved away from his technocrats. He even created alternative parallel policy frameworks, which have been superimposed on existing frameworks, after he had won the elections of 2006. It is clear that the existence of a parallel structure does not contribute to a cohesive and consistent agricultural policy design and is an important reason why Uganda's record in agriculture has been more dismal since 2005 than before. For Uganda, Bazaara's (1997: 297) observation in the late 1990s is still valid: "the key issue in Uganda is not really less or more state intervention but rather the transformation of the state so that it can become an effective manager of the economy for productive accumulation".

In addition, to explain the divergence in agricultural performance, we had to seek for other rather slight differences in the politics of implementation. Both countries have managed to achieve substantial improvements in agricultural production since the late 1980s. We concluded that the rise in agricultural production has been mainly the result of a peace dividend and the farmers' response to market liberalization. From the middle of the last decade, however, we can observe a substantial divergence: Cambodia's agricultural production and productivity started to increase steeply, while Uganda's stagnated. This divergence cannot be explained by changing market conditions only. On the contrary, as in Cambodia, food prices in Uganda have also risen sharply in the last few years, owing to the increasing demand for Ugandan products from within the region (southern Sudan, western Kenya, Rwanda, eastern Congo). This should have been an incentive for farmers to produce and to market more food. Our analysis suggests that the divergence can partly be explained by a subtly different role of politics in the design and implementation of agricultural policies in both countries. The reasons the policies to improve agriculture were more effective in Cambodia than in Uganda can be summarized as follows: (1) the CPP enhanced its control over MAFF and integrated it within its informal network of powerful influences; (2) the Cambodian government became interested in rice as a new source of income; (3) a change occurred in the attitude of donors, and as a consequence more funds became available for agriculture; (4) a productive cooperation with NGOs was initiated; (5) a competent technocrat as Minister of Agriculture was able to deal with the government, party, and NGOs at the same time; and finally, (6) agriculture became an area to demonstrate concern for the welfare of the people (the 'shining example' of the Prime Minister gift-giving and the use of 'extra' budgets).

The differences become most visible in reasons 4, 5 and 6. Cooperation between NGOs and the government was more often aimed at the same objectives. We also assume that the qualities of an agriculture minister who was closely linked to the Prime Minister was essential. Uganda, on the other hand, changed its minister of agriculture eight times in more than 23 years of NRM rule (Gyezaho, 2009). The sixth reason points to a subtle but crucial difference in political leadership. Both Hun Sen and Museveni are inspired by a similar motive to show their concern for the population's welfare, and to win votes by showing this concern, but this is done in subtly different ways. Museveni selects NRM farmers and gives them a privileged treatment by handing out envelopes and creating a confusing and contradictory parallel structure within NAADS. Agricultural reform projects are increasingly used by the NRM, and Museveni in particular, to exchange material resources for political loyalty. These selected farmers are, however, most likely to be local elites who will be able to mobilize votes for Museveni (Joughin & Kjaer, 2009; 2010). These political interventions should be seen in the light of the introduction of multi-party politics. In the elections of 2006 and 2011, Museveni was seriously challenged. His concern for keeping power led to a strengthening of patronage politics, including a mobilization of votes through local elites who receive patronage in the form of appointments as model farmers. Comparable political processes take place in Cambodia (Hughes, 2003; Slocomb, 2010), but they are not identical. The Ugandan way contrasts with Hun Sen's crypto-royal 'shining example' that is supposed to inspire the path to modern development. Hun Sen distributes gifts like roads, bridges, schools, and water pumps. Officials are, within the limitations of their means, motivated to follow this 'gift-giving' example of 'their' Prime Minister and to do the 'good works' that attract voters in their own constituencies. Here we can notice a cultural difference with Uganda. For Cambodian patrons, gift-giving is good in itself, which is based on the traditional notion of a meritorious benefactor (Hughes, 2003).

How do these conclusions fit in the general conclusions of the Tracking Development project? This paper has shown that agricultural policies do matter, that the political conditions in which policies are formulated and implemented can make a difference, although in the case of Cambodia and Uganda the margins for making a difference through government policies have been much smaller than between second-tier industrializing countries like Indonesia and Malaysia, and their African counterparts. That explains why the effect of these policies may have been less visible in Uganda and Cambodia than among the early developers. This also raises the question of what elements have been missing in Ugandan and Cambodian agricultural policies that made the agricultural policies in the other early developing Southeast Asian countries so successful. Although substantial differences can be observed between Southeast Asian countries, the core of the government interventions has been in the area of food production, more specifically in a rice modernization programme including production, distribution, and subsidization of fertilizers to farmers, and heavy investment in rural infrastructure. This resulted in a relatively effective agricultural extension system for a standardized Green Revolution package of seeds, fertilizers, and pesticides, a high-yielding rice variety breeding programme, subsidization of rural credit programmes, and stabilization of rice prices around the world price (Rock, 2002; Cummings *et al.*, 2006; Van Donge *et al.*, 2012).

Some of these successful policies can be traced as well in Ugandan and Cambodian policies. In Cambodia, an agricultural extension system for rice is developing and it is, as pointed out above, increasingly successful. Generally lacking in the agricultural policies of both countries are measures aimed at an effective supply of inputs, the stabilization of food (farm gate) prices, and subsidies to major inputs. Moreover, the farmers in Uganda and Cambodia are fully exposed to highly volatile input and output markets and the vulnerabilities that come with this. The question should be raised whether agricultural policies which only aim at market liberalization—as applied in Uganda and Cambodia—create sufficient conditions to bring the agrarian economy to a higher level of intensive agricultural production. Recent insights on poor agrarian economies suggest that markets cannot solve all the coordination problems that exist in poor agrarian economies. Liberalization lets the market do it itself. This tends to be more slow and fragile, highly path-dependent and susceptible to political economy processes of rent-seeking and to shocks (Dorward *et al.*, 2004; Oya, 2010). Policy-makers in Indonesia and Malaysia may have understood this *avant la lettre*.

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Appendix

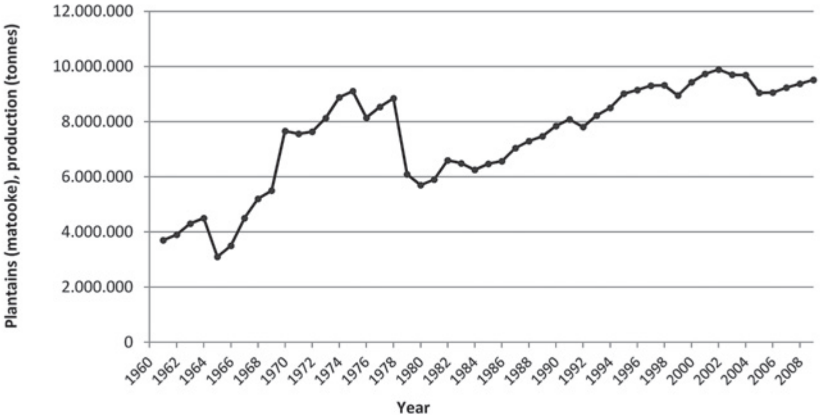

Figure 16A.1 Plantains (*matooke*) production, Uganda, 1961–2009

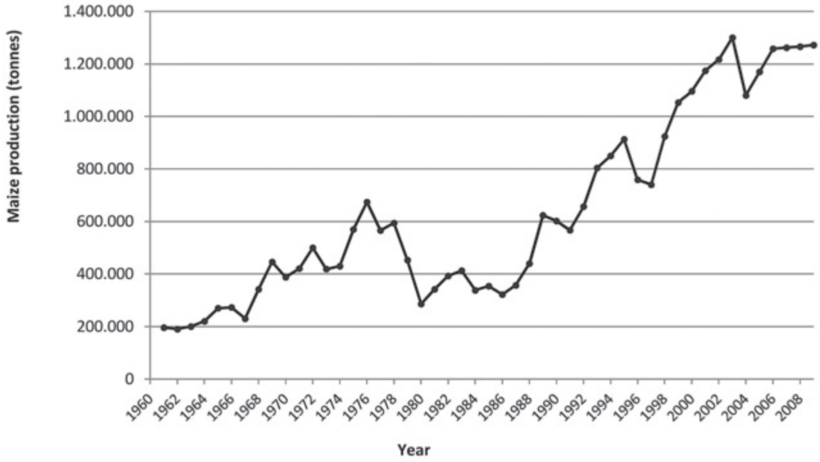

Figure 16A.2 Maize production, Uganda, 1961–2009

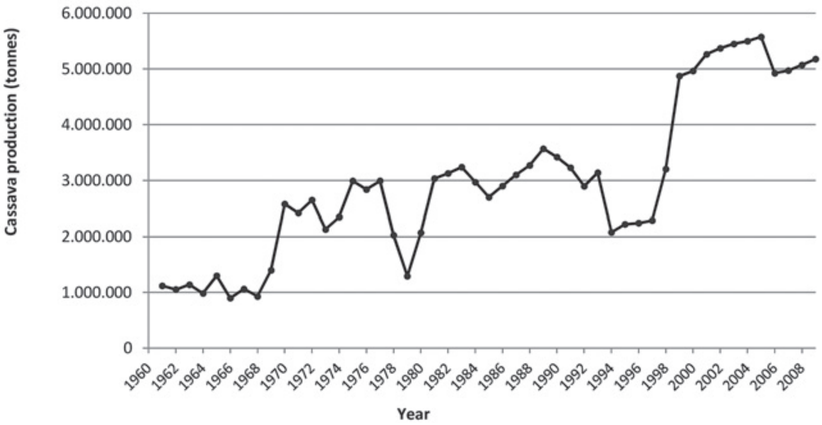

Figure 16A.3 Cassava production, Uganda, 1961–2009

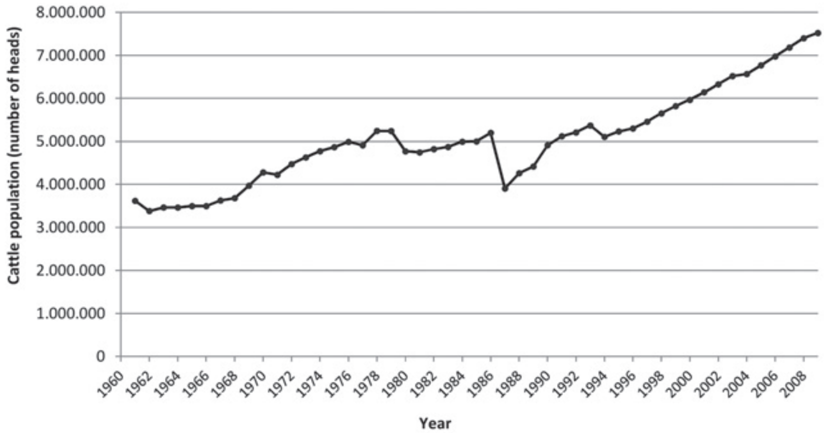

Figure 16A.4 Cattle population, Uganda, 1961–2009

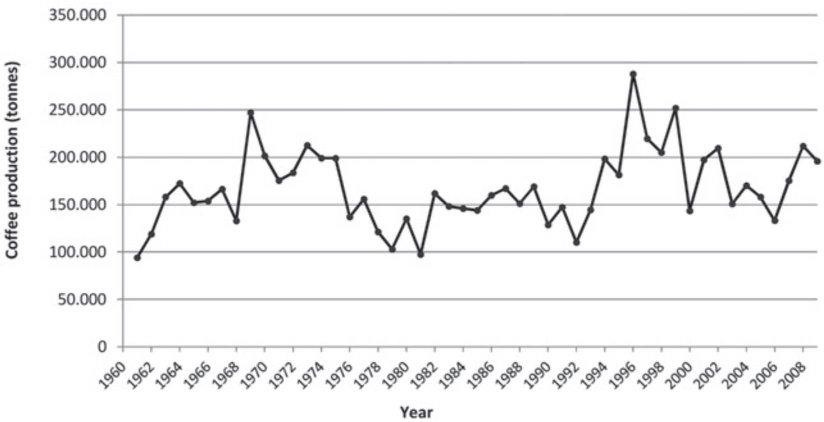

Figure 16A.5 Coffee production, Uganda, 1991–2009

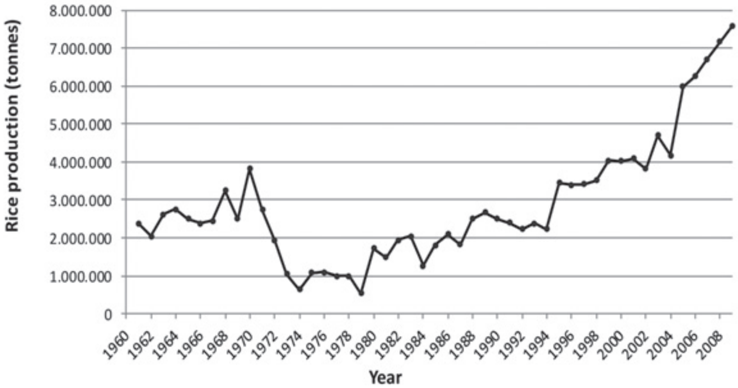

Figure 16A.6 Paddy rice production, Cambodia, 1961–2009

Table 16A.1 Uganda: average yields, selected crops (tonnes/ha)

Units	Crop	1970	1980	1985	1987	1992	1997	2002	2007
t/ha	Coffee	0.73	0.60	0.69	0.71	0.73	0.68	0.59	0.70
	Cotton	0.30	0.30	0.10	0.20	1.15			
t/ha	Bananas	7.73	4.85	5.34	5.53	5.35	6.04	6.00	5.50
	Cassava	4.79	2.12	4.75	4.00	13.60	16.00	15.00	15.14
	Sweet Potatoes	3.53	27.18	22.14	19.68	7.50	4.90	5.33	3.83
t/ha	Maize	1.29	1.77	1.66	1.68	1.44	0.83	0.87	0.87
	Millets	1.13	1.64	1.60	1.59	1.60	1.27	1.48	1.67
	Rice	–	1.71	1.86	1.75	2.60	2.68	4.27	4.01
	Beans	0.49	0.59	0.79	0.80	0.75	0.35	0.70	0.49
	Groundnuts	0.97	0.73	0.67	0.82	0.79	0.46	0.70	0.68

17

Rhetoric and Reality of Rural Road Building: Two Tales from Cambodia and Uganda

Kheang Un

Reviewing official development policy documents of Cambodia and Uganda offers the impression that the two countries are committed to rural bias policies in terms of rural infrastructural development with the objective of achieving poverty reduction. This chapter explores the extent to which such rural policies have been translated into actual investments by examining the rural road sector. The chapter is structured as follows. First, it reviews the theoretical debate on the correlation between rural road development and poverty reduction in rural areas. Second, the chapter examines conditions of rural roads in Uganda and Cambodia. Third, it analyzes patterns of financial allocations for the construction and maintenance of rural roads via government channels and informal mechanisms. Although financial investment in rural roads in both countries is limited, the rural road sector in Cambodia appears to benefit from informal investment funded by the ruling party. It should be noted that, owing to limited data, this chapter does not attempt to offer a conclusive demonstration of whether Cambodia's rural roads are in better condition than those in Uganda. However, of interest to this chapter are the trends in rural road development when they are considered from the point of view that infrastructure development is political. Therefore, differences in patterns of funding in Cambodia and Uganda derive from the divergent responses by the two countries' ruling parties and leaders to changing political circumstances, as well as from the leaders' commitments to rural development.

Rural Roads and Poverty Reduction

Transportation networks, telecommunications, and electricity are critical ingredients for economic development. Theoretical debate and empirical analysis show that roads are among the top three variables (with telecom and electricity) that have the strongest impact on economic growth and poverty reduction (Fan & Rao, 2004). In many instances, infrastructure barriers pose greater challenges than trade barriers. In predominantly agrarian countries where the rate of poverty is high and most people's livelihoods depend on agricultural activities, investment in rural road networks can be "a key win-win ingredient" for growth inclusive of the poor (Calderson & Serven, 2004). Research by the government of Vietnam and the World Bank indicates that "for every 1% of GDP invested in Rural Transport (RT), poverty is reduced by 1.5%" (World Bank, 2009).[1] The effect is further accentuated if a country's exports require extensive road networks.

The contribution of rural roads to a country's sustainable, equitable, and inclusive economic development partly derives from rural road infrastructure's complex, direct and indirect webs of mutually beneficial interactions. Expansion in rural road networks helps reduce production and transaction costs, and correspondingly raise production output, for these road networks help improve access to inputs, extension services, and technology, conditions that facilitate the adoption of high-input/high-yield crop production (Dorosh *et al.*, 2009: 17). Rural road networks also improve farmers' access to larger markets, which in turn leads to greater demand for produce and correspondingly higher production. Furthermore, better road access indirectly links to improved production and reduced poverty accrued from improved access to public services such as schools, health clinics, water, and extension services. Research in the two countries covered in this chapter suggests a positive correlation between rural road development and economic growth and poverty reduction. In Cambodia, research shows that better access to roads promotes rural markets and generates off-farm income and business opportunities, which in turn provides additional capital for investment in agriculture, leading to increased diversification of agricultural production (World Bank, 2009).

[1] It should be noted that since poverty is a multidimensional condition, the ability of the poor and the very poor to benefit from road improvements depend on a number of exogenous factors: access to land, credits, and overall economic conditions. On this discussion, see Hettige (2006).

A 2006 survey conducted by the Asian Development Bank following the completion of road construction projects showed that "49 percent of the respondents indicated that their lives improved over the previous three years due to easy access to social services and improved road access" (Asian Development Bank, 2010b; Fitzgerald & Sovannarith, 2007)

A household survey conducted in Uganda indicates that feeder roads offer higher rates of return than main roads because the former help reduce transport costs by 50% from the farm gate to the market, which correspondingly raise farmers' income by as much as 10% (Fan & Rao, 2004: 10; World Bank, 2007: 166). Investments in feeder roads show "a benefit-cost ratio of about 7"—and translating this to poverty reduction, investment in rural roads ranked second to agricultural R&D (Fan, 2007). Overall, across the world, road density was one of the major determinants of the likelihood of a household moving out of poverty (Royal Government of Cambodia, 2007: 8).

Road Conditions and Funding Patterns for Roads

It should be noted that both Cambodia and Uganda have poor road networks, deriving from geographic and climate constraints and years of negligence due to civil wars and absence of funding. Cambodia had a total road length of 39,718 km, of which 33,005 km were rural roads by 2009 (Asian Development Bank, 2010a: 2). In the last two years, the total length of roads has been expanded, and the total length of rural roads has increased to 39,931 km, an extension of 6,926 km.[2] Following major rehabilitation efforts since the mid-1990s, 40% of the network is in good or fair condition, while 52% is in poor condition.[3] Uganda has a total road network of 70,746 km, most of which is in poor condition. Community access roads constitutes 35,000 km of the country's total road length (Raballand *et al.*, 2009: 16). Thus, by 2009, Cambodia's rural road network constituted 83% of the country's total road network, while in Uganda the rural road network constituted only 49%. Investment in Uganda over the past ten years has improved road conditions, as evidenced by the proportional increase in the conditions of district roads from fair to good

2 Ministry of Rural Development, Data on Rural Roads Obtained from all Provincial Working Groups, October 2011.

3 World Bank, *Transport in Cambodia*. Available at: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPREGTOPTRANSPORT/0,,contentMDK:20458706~menuPK:2066305~pagePK:34004173~piPK:34003707~theSitePK:574066,00.html [accessed 18 January 2012].

condition from 15% in 1990 to 65% in 2007 (*ibid.*: 17). However, only 10% of the community access roads are considered to be in good or fair condition (Magidu *et al.*, 2010: 5).

The governments of both countries have emphasized the significance of rural road networks in their development plans. Such emphasis is stipulated in key development documents such as the National Strategic Development Plans for Cambodia and Poverty Eradication Action Plans for Uganda.[4] In response to the 2007 World Bank's Country Economic Memorandum, the government of Uganda has committed to increasing its spending on infrastructure. In March 2008, the government of Uganda announced a Ten-Year District, Urban and Community Access Road Investment Plan (2008/2009–2017/18) with a total budget of 1,594 billion shillings, of which 953 billion was designated for district roads. Over the years, donors have funded up to 65% of the infrastructure projects in Uganda (World Bank, 2007: 184). Despite donors' financial assistance to Uganda's road sector development, for the medium term (2008/09–2012/2013) the plan faced a shortfall of 365 billion shillings (Raballand *et al.*, 2009: 32). Currently, "a backlog of approximately 8,900 km of district roads, 3,600 km of urban roads and some 35,000 km of community access roads are without appropriate financing" (*ibid.*: 17). The Cambodian government's public investment programme for the transport sector for 2010–2012 was 485.4 million USD, of which 340.7 million USD came from external development partners while the government could mobilize only 18.2 million USD. This situation left 126.4 million USD (or 26.1%) unmet (Royal Government of Cambodia, 2010: 5). Out of the total allocation for the transport sector, the road sector receives 410.2 million USD. Since the government of Cambodia could allocate only 13.2 million USD, external partners contributed 300.5 million USD. This leaves a 96.4 million USD funding gap (*ibid.*: 7).

In an effort to promote local democratic, effective, transparent, and accountable development with the objective of alleviating poverty, both Uganda and Cambodia have implemented decentralization. The local councils play a role in the construction and maintenance of rural roads. In Cambodia, the Ministry of Rural Development, through its line departments, is responsible for the "national rural road maintenance budget and for determining its allocation" (Asian Development Bank, 2010b: 3).

[4] Royal Government of Cambodia, *National Development Strategic Plan, 2006–2010*; The Government of Uganda, *National Poverty Reduction Plan*, 2006–2010.

Additional funding for rural roads comes from commune/*sangkat* development funds, which amount to approximately 21,000 USD per year[5] for each commune/*sangkat*, of which one third is marked for administration and two-thirds for infrastructure development. Roughly 80% of these allocated funds for infrastructure are used for road maintenance and construction (*ibid.*: 5). Currently, commune councils are facing budget constraints. Besides commune/*sangkat* funds and income generated through local service delivery, commune/*sangkat* have not been given the legal power to raise local revenues or to manage local resources such as forests and land (Rusten *et al.*, 2005).[6]

In Uganda, as a result of decentralization implemented in 1997, central ministries devolve their power to local councils and provide budget support through conditional and unconditional grants to ensure effective delivery of targeted services—health, education, and roads. More specifically, the Decentralization Act stipulates that local councils are responsible for the provision of rural services, including "the construction, rehabilitation and maintenance of rural roads" (Manyak & Katono, 2010: 9). The amount of budgetary allocation to local governments is high, constituting 35% of total government budget in 2001/2002. A large share of these allocated funds has been used for administrative purposes and salaries. To fill the financial gap left after the centre-to-local transfer, local governments are legally empowered to raise specified taxes and fees and to issue licenses.

The Politics of Rural Infrastructure Developments

Since the start of the reconstruction process for Uganda in the late 1980s and Cambodia since 1993, both countries have received large amounts of official development assistance (ODA) from foreign donors. The total amount of ODA for Uganda was over 20 billion USD from 1986 to 2009[7] and for Cambodia over 12 billion USD from 1993 to 2010. Much of this assistance was for infrastructure development. Despite the large amount of ODA inflow, both the Cambodian and Ugandan governments, given their low levels of revenues, face financial gaps in all areas, particularly in rural infrastructure. However, this section will demonstrate that

[5] This amount increased from the original allocation of 9,000 USD.
[6] See also Romeo & Spyckereller (2004) and Blunt & Turner (2005).
[7] The World Bank, Data. Available at: http://data.worldbank.org/indicator/DT.ODA.ALLD.CD [accessed 27 March 2012].

Cambodian ruling elites, unlike their Ugandan counterparts, have mobilized and maintain slush funds for investment in rural infrastructure. Arguably, the differences in financial mobilization in the two countries are contingent on peculiar political conditions as well as leaders' commitment to rural development. These specific political contexts and forms of patronage politics have influenced the elite's commitment to certain investment priorities.

Like many developing countries, whether authoritarian or democratic, the politics of Cambodia and Uganda are dominated by neo-partrimonialism. Therefore, to focus on 'formal politics', or for that matter on government policies, as Chabal & Daloz (1999: xvii) warn, "would be to limit our analysis to the world of shadow". Neo-patrimonialism constitutes a distinctive attribute of regimes in poor countries, wherein the chief executive, also known as a 'Big Man', maintains his power through personal patronage rather than ideology or a political programme. The political parties of such 'Big Men' depend not on ideology or a programme, but on their ability to maintain patrimonial networks. Patronage relations include: (a) exchange of material rewards within the state sector and market realm for personal benefits; (b) the constitution of personal relations as the pillar of political institutions (the result of which is the concentration of power); (c) the formal political and administrative system resting on relationships of loyalty and dependency; and (d) the 'Big Man' continuing to reward his supporters either to maintain power or political legitimacy (Bratton & van de Walle, 1994: 458–9). O'Donnell contends that in new democracies clientelism, and more generally particularism, has "deep historical roots", is "extremely influential, informal, and sometimes concealed ... [and] vigorously inhabits most formal political institutions" (O'Donnell, 1996: 43). When neo-patrimonialism subsumes state institutions, then "personal alliances do what impersonal laws and institutions are supposed to do in the West" (Neher, 1994: 952). In this context, politics and political and financial mobilization hinge on personalized and often vertical linkages, causing political actions to operate under informal and unregulated conditions (Chabal & Daloz, 1999: xix).

It should be noted that patron—clientelism is a dynamic concept, transforming itself with changes in domestic and international economics and politics. In the era of globalization, patronage resources and networks are increasingly and intricately tied up with the world economy, linking native entrepreneurs to foreign capitalists, and government institutions and officials to those of multilateral institutions. New forms of interactions offer patronage networks new opportunities for collusion, producing new patterns of resource extraction, domination, and distribution. Furthermore, neo-patrimonial networks are also transformed when countries embark on democratization, either through exogenous or endogenous pressure. Like many developing countries in the "third wave of democratization", Cambodia and Uganda have become "stuck" between outright authoritarianism and a fully-fledged democracy: a stage that is termed "hybrid democracy" (Levitsky & Way, 2002). In a hybrid regime, elements of democracy—liberal constitutionalism and regular, free and fair, competitive multi-party elections—coexist with illiberal elements of neo-patrimonialism. National and international political legitimacy rests on electoral victory, which largely depends on elite manipulation of patronage networks linking new political elites to traditional figures who possess close ties to voters. "[T]he vote emerged as a critical political resource in the hands of the masses, a resource which", Rothchild and Chazan state, "could be traded for material rewards of all kinds" (Rothchild & Chazan, 1998: 152), or obtained through ethnic and regional appeals.

The interlocking of neo-patrimonialism with politics and a market economy results in increased levels of crony capitalism and corruption, as state actors and non-state actors collude in parallel economies in which state officials act as "privileged partners in the management of economic exploitation" (Lemarchand, 1998: 163). There is a broad consensus that neo-patrimonialism and its associated corruption and parallel economy render the state unable to provide inclusive development policies and public services, conditions that generate profound and permanent inequality and insecurity (*ibid.*: 165–6; Hickey, 2003).

Hybrid democracy sustained by neo-patrimonial politics generates zero-sum game politics because those in power fight to maintain their interests and networks. This is particularly apparent when opportunities to accumulate wealth in developing countries are limited outside of the state apparatus and state-perpetuated capitalism. Therefore, holding public office and control of the state is an avenue to wealth and power (Huntington, 1968: 66). Analyzing the political benefits of controlling and having access to state offices in the developing countries, Christopher Clapham (1985: 40) writes:

> control over the state is the one central thing—indeed the main thing—which politics is about; where the state provides a source of power and wealth entirely disproportionate to that available from any other organized force within the society, the quest for state power takes on a pathological dimension. . . . Control over the state is a prize which can be fought for, and therefore is.

Clapham's analysis is relevant to the political contexts of Cambodia and Uganda. Given years of war, inefficient economic management of past regimes, and international isolation—and despite a decade of economic liberalization—the private sectors of both countries remain small and underdeveloped. As such, control of the state is crucial because it is the conduit to most resources.

Although neo-patrimonialism often inflicts social costs such as inequality and monopolies, it can, in some instances, produce aggregate positive benefits such as political stability and public services (Kelsall, 2011). In other words, it is not patrimonialism *per se* that is bad for development, but rather the way in which patrimonialism is structured and interacts with political processes. In a neo-patrimonial regime in which elites are vulnerable, they focus on short-term patronage politics and discard long-term growth policy. On the other hand, highly centralized and confident neo-patrimonial regimes may possess the potential for its leaders to promote sustainable development for a number of reasons. First, leaders of highly centralized, confident neo-patrimonial regimes, whose elites can behave like 'stationary bandits', may believe that they have a stake within the society and thus engage in coordinated long-term investment plans and natural resources' extraction linked to regional and global economies. In contrast, insecure, decentralized patrimonial regimes, whose elites act like 'roving bandits', tend to engage in unplanned, unregulated, uncoordinated exploitation of natural resources. This extraction involves decentralized actors and processes that are geared toward short-term gain, in the belief that one should get one's hands on the resources first before other people do.

Second, although the elite engage in rent-seeking and the government in rent creation, under political decentralization rents can be made efficient so as to create positive learning, innovation, or capital accumulation. Third, under political centralization, as in the case of Indonesia under President Suharto, rents and rent-seeking can be made to conform to leaders' political interests and vision of inclusive growth. Elite's rent-seeking and government rent creation increased productivity in some sectors of the economy, whose fruits of growth were then channelled back to rural areas (Khan & Sudaram, 2000).

It is imperative to ask again: if rural road investment is important for growth, why then have the Cambodian elites managed to spend more money on rural road than the Ugandan elites? The answers to this question, as the following pages illustrate, lie in the nuances of understanding the threats and incentives that Cambodian and Ugandan elites face and the political and institutional conditions of the two countries.

During the 1990s and early 2000s, political factionalism, widespread corruption within the coalition government, and political violence and instability led many researchers to reach rather pessimistic conclusions about Cambodia's future and whether sustainable and broad-based growth would be an illusion (Un, 2005; Hughes & Conway, 2003). Around the same time, at the inception of Tracking Development, Uganda seemed to be moving in the right direction, characterized by "authoritarian developmentalism" (KITLW/ASC, 2005: 16), while Cambodia up to that point appeared to be "unstable, politically directionless". But with changes in Uganda and Cambodia since the early-2000s, the directions of development in both countries appeared to have reversed. While Cambodia appears to be moving in the direction of patrimonial developmentalism, Uganda seems to be following common patterns of African neo-patrimonialism where politics and party formation are based on region, ethnicity, and a system that prevents the emergence of a centralized developmental patrimonial state.

Cambodia under centralized neo-patrimonialism saw increased investment in rural areas in terms of infrastructure, agriculture, and education by both the government through the official budget and by leaders of the dominant political party—the CPP—from slush funds accumulated through rents. Using these funds, the CPP and its *de facto* leader—Hun Sen—invested an unknown (but generally believed to be substantial) amount of money in rural areas. Why was there a shift toward neo-patrimonial centralized developmentalism in Cambodia? Why was there a transformation from a broad-based, developmental policy orientation toward ethnic, regional-based politics in Uganda? The answer to these questions lies within the political leaders' responses (visions and strategies) to political challenges they faced and in their countries' political and social structures.

In developing countries like Cambodia and Uganda, electoral victory depends on a political party's ability to capture votes in rural areas. Furthermore, in developing countries, less progressive parties are less popular among urban voters. Under competitive authoritarianism,[8] the ruling

[8] Competitive authoritarianism refers to coexistence of autocratic governments and formal democratic institutions—existence of formally empowered legislatures and courts, independent media outlets, meaningful elections. Although there is a certain level of political manipulation/intimidation by elites, these institutions are able to exercise a certain real power. Moreover, political elites need these institutions for internal and external legitimacy. See Levitsky & L. Way (2002).

party can lose an election if opposition parties are courageous, united, active, and effective in organizing their electoral campaigns. In developing countries under competitive authoritarianism, the city serves as "the continuing centre of opposition to the political system" (Huntington, 1965: 433), given its relatively high level of freedom, diverse economic activities, a better-educated public, and multiple sources of protection made possible by the cities' linkage to international organizations and Western embassies. Urban voters are more sophisticated and inclined to support parties with progressive agendas aimed at addressing such issues as corruption, unfair treatment of small businesses, high gasoline prices, low wages, lack of economic development, and unemployment. Situated at the centre of power and wealth, most urban voters are well aware of widespread inequities in wealth and power that disproportionately favour leaders of the ruling party, their associates, and family members. Thus the urban electorates have been able to resist any ruling party's attempts at coercion and cooptation (Hughes, 2003: Chapter 8; Rubongoya, 2007). The ruling parties under competitive authoritarianism therefore need the support of rural voters to withstand the pressure of opposition parties and maintain their legitimate control of the state. Conversely, the opposition parties' electoral victory depends on their ability to penetrate the hinterland. Huntington also argues that ruling parties in the developing world generally secure their support in the countryside through both "fair means and foul" (Huntington, 1965).

This observation holds true for the Cambodian and Ugandan contexts. It should be emphasized that foul means alone will likely fail to ensure voters' support for the ruling party in the context of competitive authoritarianism and the existence of relative political and civil liberty, and strong linkages to and leverage from Western powers, as evidenced by their level of dependency on international aid (Levitsky & Way, 2009). Therefore, electoral success for the ruling and opposition parties relies on their ability to respond to voters' preferences or to appeal to voters' religious or sectarian interests to capture support from rural inhabitants, who constitute approximately 80% of the total population in both Uganda and Cambodia.

During the 1993 United Nations'-sponsored elections in Cambodia, the CPP relied on two strategies. First, it relied on its claim to be the party that helped liberate Cambodians from the murderous radical Khmer Rouge regime. Second, it used violence and intimidation against opposition parties (i.e. the National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia—FUNCINPEC) and their supporters. The CPP expected that a population—economically distressed, politically oppressed, and psychologically traumatized by years of economic hardship, civil war, and dictatorial rule—would not cast protest votes against the well-armed ruling party. Surprisingly, the 1993 election results indicated that voters confidently ignored CPP threats and propaganda to cast a protest vote against the CPP. CPP/Hun Sen's determination to maintain their domination verses FUNCINPEC/Ranariddh's desire to equalize, if not to tip the unbalanced power, led to a pre-emptive coup in 1997 by Hun Sen. This violent coup undermined both the national and international legitimacy of the Hun Sen government. The United Nations responded to the event by voting to leave the Cambodian seat at the UN General Assembly vacant, and the Association of Southeast Asian Nations (ASEAN) voted to postpone Cambodia's entry into the regional association until a satisfactory political settlement could be reached.

Leading up to the critical election in 1998, Prime Minister Hun Sen began to invest in rural infrastructure to increase his party's chances for electoral victory. After a period of political deadlock and protests organized by opposition parties following the 1998 elections, Hun Sen was able to exploit the rift within the opposition camps and strike a deal with Prince Norodom Ranariddh, whereby Hun Sen became the sole chief executive of the government. Since then, Hun Sen/CPP have made a fundamental shift away from the use of violence towards material inducements to win the "hearts and minds" of rural voters and to undercut competition from opposition parties. This was the beginning of the development of mass patronage politics, wherein the CPP organized central government officials, state institutions, and national and provincial businesses into a complex, development-oriented-machine politics.

The consolidation of power by Hun Sen and the CPP meant that the once decentralized neo-patrimonialism became centralized. Within centralized neo-patrimonialism, the state under Hun Sen/CPP is capable of ensuring that government officials cannot withhold the proceeds from rent-seeking activities for themselves. Nor does Hun Sen allow rent-seeking activities of government officials to jeopardize sectors that are crucial to the country's economy, such as the garment industry. Although rent-seeking exists within the garment sector, the processes are centralized and predictable, allowing investors to operate with predictability and profitability (Hughes & Un, 2007; Ear, 2011). Furthermore, Hun Sen/CPP ensures that a significant portion of rents must be channelled up to the top leadership, for servicing party patronage-based development projects.

One might ask why should Hun Sen, after managing to thoroughly marginalize the opposition, embrace a process of fairly broad-based legitimacy-building through development? There may be two reasons. The first is that Hun Sen is learning from other Asian leaders; perhaps he looks over the border to Vietnam and other Southeast Asian countries like Malaysia. Uganda's Museveni has less successful examples on his door-step (aside from the recent case of Rwanda).[9] In fact, it is no exaggeration to state that Prime Minister Hun Sen counts as one of the few contemporary leaders in Cambodia with a clear vision for development. In part because of historical circumstances and political culture and in part through strategic political design, Hun Sen's vision for developing Cambodia has been carried out via patronage-based politics.

Hun Sen/CPP's version of rural development strategies are based on patronage-machine politics which originated in the 1980s under the People's Republic of Kampuchea/State of Cambodia (PRK/SOC), the official name of the country in those years until 1991. However, the current machine politics is imbedded with new messages and inducements that reflect Cambodia's neo-patrimonial state and the phenomenon of crony capitalism. The old PRK/SOC strategy of the 1980s and early-1990s was known as *choh moulthan* ('going down to the base'). In that period, groups of party cadres were sent to the countryside to bring party propaganda in an effort to raise people's revolutionary spirit to fight the return of the Khmer Rouge and to build socialism. During the period leading up to the 1993 elections, the CPP set up 'working groups', whose members visited local communities warning people not to vote for the opposition parties, which the CPP portrayed as nothing but Khmer Rouge in disguise (Frieson, 1996).

Since 1998, the CPP have retooled the working groups—known as the Party Working Groups (PWG)—transforming them into development agents hierarchically and systematically linked to the CPP's networks of patronage and the state structure. The PWG's structure includes party leaders, central government officials, local leaders, and big businesses. These working groups serve as mechanisms channelling centrally controlled resources and personnel to local communities. These resources are acquired mainly from contributions from government officials and big businesses. It is a CPP rule that across government ministries and agencies a portion of proceeds generated through rents has to be reserved for electoral campaigns. This is known as "black box money" (Un, 2005; So,

9 The author thanks Tim Kelsall for this observation.

2009). The PWG raises "millions of dollars" annually to develop local infrastructure projects (Pak, 2011; 132).

Two major groups of businessmen and women are *oknha* and advisors. *Oknha* is a title given to business tycoons who contribute 100,000 USD to national development. However, this amount is not a one-time contribution; rather, it is an initiation fee cementing them with Hun Sen/CPP-led neo-patrimonial networks. Cambodia has a total of 220 *oknha*, who own major export-import companies and 23% of the country's land (*ibid.*: 130). In addition to these *oknha*, less influential businessmen/women who donate an initial fee of 50,000 USD, followed by regular contributions to the PWG, can be awarded the title of 'advisor'. Some senior officials have around 100 advisors (*ibid.*: 132). These *oknha* and advisors are regularly seen accompanying Prime Minister Hun Sen's tours of rural areas, during which they publicly make their pledges to Hun Sen, promising to pay for rural infrastructure development.[10] This machine politics systematically permeates, supersedes, and in some cases operates parallel to state institutions, engaging intensely in rural infrastructure development, building schools, roads, and irrigation systems. In many instances, PWGs cooperate with local governments and civil society organizations to build rural infrastructure, including roads.

In many local areas, CPP's financing of roads and other infrastructure in rural areas is two to four times higher than the local Commune Council funding. It could be argued that many of these projects are rural-biased because infrastructure funded by the CPP is in line with the lists of investment requests drawn up by the Commune Investment Plans. In many instances, it is interesting to note that within a system wherein accountability and transparency within the government is low, elements critical to effective and responsive development exist within the PWG. The party's finances are considered 'hot money', in the sense that misuse of such funds means severe punishment from party bosses, creating conditions that ensure the funds reach intended targets (Pak, 2011: 148).

Therefore, as I argue elsewhere, "[d]espite persistent poverty, the majority of Cambodians, particularly those who are from rural areas, now see the state under CPP control as a 'predatory state' that has been transformed into a welcome 'service state'" (Un, 2008: 2). The amount of CPP's funding for rural infrastructure is unknown. However, surveys of voters revealed people's satisfaction with CPP's funding of rural infrastructures.

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10 For details, see Un (2005).

A rural voter justified his support for the CPP: "In my district, we now have roads, a pond and a reservoir. These are the CPP's achievements" (Doyle, 2008).

This statement corresponds to the International Republican Institute's surveys, which show broad popular support for the CPP due to its rural development policies. The number of the electorate who consider that Cambodia has moved in the right direction increased from 60% in 2006 to 82% in 2008 and then dropped slightly to 79% in 2009 and 76% in 2010.[11] The overwhelming majority of respondents who voiced positive approval of the country's direction (73% in 2008; 76% in 2009 and 78% in 2010) cited the CPP's achievements in infrastructure building—namely roads, schools, health clinics, temples, and bridges (International Republican Institute, 2009). Furthermore, it is interesting to examine Prime Minister Hun Sen's own vision of rural development. In his public speeches, Hun Sen regularly reminds his audience of his humble farming background—an upbringing that makes him sympathetic to farmers. He also often states that as long as he remains Prime Minister, there will be no tax on farmers.[12] His public statements are more than rhetoric. Prime Minister Hun Sen, the paramount patron of Cambodian neo-patrimonialism, has sponsored large and very visible projects such as schools, roads, and inter-district irrigation networks.

A letter sent to a local newspaper voicing approval of Hun Sen's development schemes (allegedly written on behalf of the pro-Hun Sen Pagoda Boys) underscores the importance of personalizing such projects.[13]

> Even though Samdech Prime Minister Hun Sen was not born in the Royal family, he leads the country better than other kings. It can be said that in Khmer history, none of the Cambodians kings has been able to do things like Samdech Prime Minister Hun Sen. Were there any Khmer leaders including Cambodian kings in all generations, who have built more schools than Samdech Hun Sen? Samdech Prime Minister Hun Sen is the only person who has built more than 2,000 schools.

[11] Such slight decrease results from the economic slowdown caused by the global financial meltdown and economic recession.

[12] Hun Sen's critics argue that his publicly stated pro-farmer position is inconsistent, given the many instances of land grabbing from poor Cambodian farmers under the Prime Minister's watch.

[13] Leaders of the association denied that the letter had been written by a member of their organization, after a FUNCINPEC parliamentarian called on the Ministry of Interior to arrest members of the group for allegedly maligning present and past Cambodian monarchs. See Chandara (2003).

> Even the Ministry of Education alone cannot do that. The whole Ministry of Education is a 'nobody', spending millions of dollars each month, but building nothing. How many schools has the Ministry of Education built so far? Without Samdech Prime Minister Hun Sen, Cambodia would have no schools. The Ministry of Water Resources is useless. Samdech Prime Minister Hun Sen has built dams, water dikes [for irrigation]. The Ministry of Public Works is also useless because it has not built any roads or bridges, but Prime Minister Hun Sen has.[14]

The exact number of roads built by the Prime Minister and other CPP leaders is unknown. However, one can make the inference that since 'the Big Man' stresses the importance of rural infrastructure development projects, government ministries, agencies, and their leaders make every effort to mobilize funds to build roads and schools on behalf of Prime Minister Hun Sen. Other ministries/ministers used budgets allocated for their ministries to build rural roads which were then named after Hun Sen.[15] This reflects how Cambodia's political establishment responds to Prime Minister Hun Sen's view on the urgency and expediency of rural infrastructure development. In a sample of six communes, Pak documented that PWGs have invested on average 3.76 times more than local councils on development projects; of these funds, road construction received second priority after school construction (Pak, 2011: 146–7).

The political trajectory in Uganda is different from that of Cambodia and consequently has a different impact on rural and pro-poor development. The NRM banned political parties from being actively involved in elections from 1986–2005. Although the government often employed harsh and repressive measures against any attempt to introduce political parties (Makara, 2006: 62), under the surface political and social forces with political aims to promote party pluralism persisted. Thus, across this period there were confrontations between 'movementists' and 'multi-partists'. Having faced pressure for a multi-party system from multi-partists and donors, and challenges to his leadership from within the NRM for leadership transfer, President Museveni through political manoeuvring successfully had the parliament pass new legislation that simultaneously introduced a multi-party system and an unlimited term for the presidency, thus allowing him to continue to run for the office indefinitely (Trip, 2004: 8; Makara, 2006: 64–5). Respected

14 Roum Rik (pseud.), 'On Behalf of the Pagoda Boys' Association Phnom Penh', and 'More on Ruom Ritt', *Phnom Penh Post*, 9–22 May 2003.

15 Author's interview with an official at the Ministry of Rural Development, December 2011.

former NRM leaders known as the "historicals" protested against Museveni's clinging on to power. Some of these historicals challenged Museveni's leadership from within the NRM, while others left the movement to form new political parties. President Museveni's most serious contender is Dr. Kizza Besigye and the political party he led, the Forum for Democratic Change. These developments produced a competitive authoritarian regime.

Since the late 1990s, within the context of this struggle, the rare achievement of national unity has slowly given way to sectarian and ethnically based cleavages. As challenges mounted from within the top NRM leadership and the opposition parties, Museveni's leadership style and personality turned around dramatically. Citing Miria Matembe, former Ethics and Integrity Minister, Commack writes: "Somewhere down the road around 1997, he started to be less tolerant, you could see that he was no longer listening; no longer interested in openness" (Cammack, 2007: 8). Joel Barkan similarly concluded: "There is little likelihood that the Museveni of 1986 and the Museveni of 2004 would recognize each other; they are two different people" (*ibid.*: 10). Political appointments took the form of a "regional and ethnic character". Since 2004 almost all members of the President's cabinet and army officers are comprised of people from the Western region and Baganda (Green, 2008; Trip, 2004: 16).

Museveni/NRM has faced political challenges that could seriously affect his hold on power under competitive authoritarianism. This is evidenced by the declining numbers of votes he received in Uganda's presidential races, from 75% in 1996 down to 59% in 2006. In the 2011 presidential election, Museveni won re-election with 68% of the votes, followed by Kizza Besige with 26%. However, the elections were marred by irregularities (Rice, 2011).

Like Hun Sen, Museveni employed neo-patrimonial politics to maintain legitimate control of the government through electoral politics, albeit in a different way. Museveni resorted to the strategy of using tribal politics, a strategy he once deemed damaging to the unity, stability, and progress of Uganda. Ugnada's historical precedence reflects that a typical political party was, as Mahmood Mandani notes, "regional in its formation, and whose politics was regional in its articulation" (Mamdani, 1976: 205). The exploitation of predominance of tribalism and regionalism allows Museveni to court support from chiefs and regional leaders. As a result, Museveni does not need mass-based patronage in order to win votes.[16] The predominance

[16] D. Muwolobi, Irish Embassy. Interview with author, Kampala, 1 July 2009.

of tribal and regional-based patronage means that President Museveni does not feel a sense of urgency for broad-based development to win votes.

Museveni's efforts, based on regional and tribal allegiances, to consolidate power negatively affect the process of decentralization and consequently inclusive pro-poor rural development. The politicization of tribal politics is exemplified by the recent proliferation of new districts in Uganda. Districts are the core administrative unit for Uganda's decentralization. Citing Goloopa Mutebi, Green writes that "much of the applause heaped on the [LC] [local council] system in its juvenile days was precipitate. Ten years after the system had been established country-wide, it has begun to show signs of atrophy and possible technical decline" (Green, 2008: 16). The number of districts climbed from 33 in 1986 to 112 by 2010 (Semakula, 2010), many of them being ethnically based districts. The largest one-time expansion was 23 districts, occurring in 2005 when President Museveni mobilized support for a constitutional amendment to abolish the presidential term limit. The government's justification for the creation of additional districts was, according to Local Government Minister Adolf Mwesige, that they could provide more effective administration and better service delivery (Geyzaho, 2009). Other benefits could derive from decentralization, such as lessening ethnic conflicts and reducing distance of travel to district offices by local people (Manyak & Katono, 2009: 6). However, judging by the rapid proliferation of the number of districts, compounded by Museveni's increasing use of patronage-based politics and divide-and-rule tactics, the reason underlying the increase in the number of districts was Museveni's strategy to stay in power. Increasing the number of districts allowed him to create political jobs at the sub-national government for his supporters—women parliamentarians and resident district commissioners (Cammack, 2007: 47). More districts means more spending on salaries and administrative expenses, which inversely decreases funding available for service delivery and infrastructure development at the local level.

The district council is the contact point between the central government and local government, donors, and national and international nongovernmental organizations. Among many aspects of its delegated power was the power to oversee public land. Therefore, it is a potential source of money and power (Green, 2008: 6). Supporters of the creation of new districts want to have access to government positions, the sources of wealth and employment which are scarce in developing countries where private sectors remain underdeveloped.

In Uganda, the management of local development funds is non-transparent despite decentralization's stated objective of promoting transparency and accountability. These conditions, as a number of studies show, cause much of the funding allocated for rural development to fail to reach its intended local development activities. Decentralization, Susan Steiner points out, generates "wide scope for corruption, patronage, clientelism, and elite capture" (Steiner, 2006: 17). Therefore, the recent proliferation of districts "threatens the viability of local government" (Cammack, 2007: 47). The Second National Integrity Survey found that corruption perception is high at 58% for District Tender Boards. This is because awarded tenderers are members of politicians' inner circles or proxy companies operating on their behalf (Steiner, 2006: 17–19).

Another government decentralization policy that is short-sighted and aimed at winning elections is the abolition of the Graduated Tax.[17] Although in some cases, collection measures appeared to be harsh and the tax level unfair, the Museveni government's decision to abolish the Graduated Tax in 2005 was taken to pre-empt the opposition party from using it as a campaign issue. Local governments depend on the Graduated Tax for a wide range of sources of expenditure, including salaries for locally recruited staff who play a critical role in local service delivery, such as providing agricultural services and maintaining roads (Cammack, 2007: 33–37).[18] The absence of an alternative source of revenue to compensate for the loss of the Graduated Tax deprived local governments of resources for local development, leaving "districts financially paralysed" (Muriisa, 2008: 91).[19]

There exists a constituency development fund of 6,000 USD to each parliamentarian for investment in their constituencies. President Museveni also mobilizes resources from government officials and business and redistributes them among MRN parliamentarians for political campaigning (Tangris & Mwenda, 2010: 38).[20] However, an important difference between Uganda and Cambodia is the absence in Uganda of centrally structured, party-financed development projects that operate parallel to the state structure and target rural areas.

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17 Graduated tax is tax levied on men 18 years of age and older and mature women with income.

18 The author's field research in Uganda in November 2011 confirms this assessment.

19 The author's field visits to district offices in November 2010 reaffirmed this situation.

20 David Booth, Overseas Development Institute, personal communication, 23 June 2010.

Conclusion

It should be reiterated that, given incomplete data, this paper does not attempt to provide conclusive evidence on whether Cambodia has better rural road networks than Uganda. However, a clear trend emerges that Cambodia appears to have placed a much higher priority on investment in rural roads than Uganda. There are two factors underlying these differences. First, even though government spending on rural roads in both countries is low, Cambodia's rural road infrastructure has received more attention and benefits from its top leaders. More specifically, Cambodia's infrastructure has benefited from the ruling Hun Sen/CPP financing, while Uganda's infrastructure does not benefit from NRM financing. Hun Sen/CPP's spending on rural road infrastructure derives from the following sources. The party's leader, Hun Sen, employs patronage-based development, using mobilized resources from government bureaucracies, bureaucrats, and businesses to add to the state's official budget for rural road development. The CPP's development of such a strategy is an effort to win votes in the midst of competition from the opposition parties, as an alternative to the ineffectiveness of intimidation and violence in garnering electoral support and partly because of Hun Sen's emphasis on urgency, expediency, and broad-based development.

In Uganda, following the introduction of multi-party democracy, Museveni/NRM, instead of turning to mass-based patronage, has employed ethnic and regional-based patronage. This strategy has undermined the effectiveness of local governments, as resources have been thinly spread following the proliferation of districts and the abolition of the Graduate Tax. Hun Sen/CPP's vision and strategy appear to be more broad-based and pro-rural than those of Museveni.

One could argue that the divergence in development patterns between Uganda and Cambodia lies in the different ethnic composition of the two countries. While Cambodia is ethnically homogenous, Uganda is ethnically diverse. Although the nature of ethnicity could be the root cause of different responses by the Ugandan government, this topic is beyond the scope of this chapter. Democracy promoters should be mindful of a country's social and historical conditions when pushing for democratization. It is imperative to note that the turning point in the divergence of the two countries' paths emerged following Hun Sen's and Museveni's responses to challenges of multi-party elections encouraged by donors. While the Cambodian elite adopted broad-based, pro-rural development policies, Uganda pursued ethnic- and regional-based appeals. The different strategies have a common root, which is the leaders' perception of risks to their grip on power. In the final analysis, if current trends persist in both countries, then Cambodia may stand a better chance of becoming a new Asian tiger than Uganda has of becoming an African lion.

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18

(Re-)building Educational Systems as a Contribution to Growth and Well-Being: Comparing Uganda and Cambodia

Leang Un

Introduction

Within a decade after the end of colonialism, both Cambodia and Uganda experienced severe political instability, social upheaval, and civil war. These developments not only affected their economic growth but also social services such as education. Peace and political stability, coupled with foreign assistance, for Uganda in the late-1980s and Cambodia in the early-1990s, provided new opportunities for the two countries to develop their economies. Arguably, Cambodian economic performance in terms of reduction of poverty rate and increase of GDP per capita has been slightly better than that of Uganda, especially since the mid-2000s. By 2010, Cambodian GDP per capita was almost double that of Uganda; in addition, the poverty headcount ratio at 1.25 USD per day (Purchasing Power Parity) as a percentage of total population in Cambodia was lower than in Uganda. In Uganda, the population living below this poverty line was reduced from 51.5% in 2005 to 37.7% in 2009, while in Cambodia it fell from 40.2% in 2004 to 28.3% in 2007.[1] Further, from the available data, while Cambodia has seen a steady decline in rural poverty, currently at about 34%, Uganda has seen an increase in rural poverty, now reaching 41.7% of the rural

[1] World Bank data. Available from: http://data.worldbank.org/indicator/SI.POV.DDAY [accessed 20 January 2012].

population. The divergence between the two countries is also reflected in their different positions on the Human Development Index, with Cambodia ranked 124, higher than Uganda, whose rank was 143, out of a total of 169 countries in 2010.

This chapter acknowledges that causes of economic development or the lack thereof are multidimensional. One of the preconditions for economic take-off, as Tracking Development illustrates,[2] is rapid, inclusive, and pro-poor growth investment in rural areas. Neo-liberalism stresses the role of economic institutions, a business-friendly environment, and good governance as important ingredients of economic development. This chapter, however, examines new factors, arguing that a better mix of qualified skilled labour force in Cambodia is an important factor in partially explaining the different levels of economic development between Cambodia and Uganda.

This chapter, in examining the role of the Cambodian and Ugandan states in fostering economic growth via a deliberate provision of human resources through their education systems, focuses on educational policy design, resource allocation, and educational policy and resource implementation. The chapter is divided into two sections. The first examines education and economic development in Cambodia and Uganda after the end of their civil wars. The second section focuses on the role of the state and the donor community in educational provision, examining policy design, resource allocation, and educational policy and resource implementation. At the end, conclusions are drawn.

Education and Economic Development in Cambodia and Uganda in the Post-Civil War Era

In examining the relationship between education and economic development, I will not employ any statistical method but examine the changes in educational progress and economic development in both countries. The examination of this relationship is based on Endogenous Growth Theory, which stipulates that economic growth in the long term is driven by the accumulation of knowledge and that human capital has an increasing rate of return while physical capital has a diminishing rate of return (Barro, 2002). In the context of post-conflict countries such as Cambodia and

[2] For more information, see http://www.institutions-africa.org/trackingdevelopment_archived/home.html.

Uganda, where the human capital stock has declined, investment in education is even more important for economic development.

Educational investment in general, however, will not automatically boost economic development. To reap the greatest potential from an investment in education, it is important to ensure that educational provision corresponds to a country's stage of economic development, labour market, and level of technological development. If the labour market and economy are unable to absorb graduates, they will remain under-utilized or, even worse, unemployed. Finally, if the education system is not able to produce the appropriate mix of qualified human resources for the labour market, the economy will continue to perform below its potential.

Although Cambodian and Ugandan economic development since the end of their respective civil wars has improved steadily, their overall performance remains far from satisfactory, as manifested by a high rate of poverty, inequality, and narrow economic base. These problems are attributed partly to both countries' inability to link their education and training policies to the needs of their local labour markets and economies. On the one hand, their current labour markets and economies are characterized by rapidly growing urban economies with emerging, but still small, low-tech industries and expanding services sectors. On the other hand, their current labour markets and economies are determined by their under-developed rural and largely agrarian economies. These characteristics require education that places emphasis on basic education and technical and vocational education and training (TVET) over higher education. Within higher education, improvements in science-related fields would provide more positive returns to the economy compared with the social sciences, business, humanities, and arts.

However, this article further finds that the overall performance of the educational provisions in Cambodia and Uganda remain poor in terms of the three aspects described. The primary completion rate and quality of education, measured in terms of pupils' proficiency in mathematics and literacy, are very low in both countries, especially in poor rural areas. The education system at post-basic level cannot meet the need for skilled labour forces in TVET- and science-related fields. Both in Cambodia and in Uganda, there is a small percentage of the labour force with TVET qualification compared with other East Asian countries. In Cambodia and Uganda, this percentage is only 1.1 and 0.3 respectively, compared with 20, 14.9, and 9.4 in Vietnam, Malaysia, and Indonesia respectively. There is also a shortage of highly skilled workforce in science and engineering, manufacturing and construction, health and welfare, and agriculture[3] compared with other Southeast Asian countries. In Cambodia and Uganda, the enrolment in these fields is only 26.6 and 16.4% of the total enrolment, compared with 32.9, 45.3, and 53.2% in Indonesia, Malaysia, and Singapore respectively. Specifically, even if agriculture is so crucial to their economies in terms of its contribution to GDP and the labour force it employs, the enrolment in agricultural study is very low, at less than 4%.[4]

The adult literacy rate in Cambodia in 2008 was 78%, slightly higher than in Uganda in 2010, which was only 73%. Further, the quality of education in Cambodia is improving, albeit slowly. By 2008, about 50% of Cambodian primary pupils achieved proficiency in literacy and numeracy, compared with 39% in 1995 (UNICEF, 1995; MoEYS, 2006; 2008). In contrast, in Uganda, the attempts to improve the quality of education seem to have stagnated. The percentage of primary pupils achieving proficiencies in literacy and numeracy declined from 31.8% in 1996 to 30.3% in 2006 (UNEB, 1999; MoES, 2007). There is an even more worrisome sign that, as the results of the 2009 primary exit examinations revealed, pupils' performance in all districts and municipalities of Uganda declined (Butagira & Natabaalo, 2009). Moreover, Cambodia has a slightly better skilled workforce compared with Uganda. The annual enrolment in TVET institutes in Cambodia now represents 30% of new entrant labour force, compared with only 5% in Uganda (MoES, 2006; ADB, 2008). Also, Cambodia has relatively more student enrolment in science and engineering, manufacturing and construction, health and welfare, and agriculture in higher education institutes than in Uganda. It should be noted that while Cambodia saw an increase in tertiary student enrolment in science and engineering and manufacturing and construction from 15.1% in 2001 to 18.7% in 2004, Uganda saw a decrease in enrolment in these disciplines from 15.0% in 1999 to 10.5% in 2004.[5] Also, while the enrolment in agriculture, as a percentage of the total enrolment in higher education, in Cambodia increased from 3.3% to 3.8%, in Uganda the enrolment even declined

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3 Disciplines are classified by UNESCO in its statistical database. This system is adopted since it is best suited for comparative purposes as the national data classification systems of Cambodia and Uganda are not comparable.

4 Available at: http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx; http://www.tvet-vietnam.org/tvetpercent20inpercent20vietnam_briefpercent20overview_080908.pdf [accessed 20 January 2011].

5 Available at: http://www.tvetvietnam.org/tvetpercent20inpercent20vietnam_briefpercent20overview_080908.pdf [accessed 2 June 2010].

from 2.9% to 1.6%,[6] despite the fact that there is a report that the highest employment rate is found among agriculture graduates (Kirumira & Bateganya, 2003).

The Role of the State in Educational Development in Cambodia and Uganda

The poor educational outcomes in Cambodia and Uganda and the relatively better educational outcomes in Cambodia compared with Uganda have been, at least in part, the result of government policies and actions. The findings of this chapter indicate that in general the states of Cambodia and Uganda are ineffective and inefficient in designing educational policy to suit the prioritized skilled workforce needed by the local labour markets and economies. The two states are also ineffective and inefficient in allocating resources in line with their policy objectives and in implementing educational policy and resources to achieve their policy objectives. However, it notes that the Cambodian state is relatively more effective and efficient than the Ugandan.

Policy Design and Resource Allocation

Immediately after the end of their civil wars, both countries allocated a very low share of public expenditure to the education sector, at around 10%, and since the late 1990s the share of the education sector started to increase steadily in both countries. However, since the mid-2000s, while Cambodia has sustained its increase of public expenditure on the education sector, Uganda has appeared unable to do so. In Cambodia, the share of education in the total public expenditure increased from 16.2% in 2000 to 19.2% in 2006 and further increased to 20.9% in 2010. In Uganda, it increased to 26.0% in 1999/00, but started to decline steadily to 15.4% in 2008/09 and further to 14.9% in 2011/12, according to the recent budget allocation plan (Ear, 1997; SAPRIN, 2002; ADB, 2009; MoFPED, 2009; MoEYS, 2005).

Further, while Cambodia could sustain its policy's priority on primary education (the allocation to this sub-sector out of the total public spending for education sector increased from 62% in 2004 to 76% in 2008), in Uganda, the priority given to primary education fluctuated with a current

[6] Available at: http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx?ReportId=168 [accessed 18 October 2010].

downward trend (the allocation to this sub-sector out of the total public spending for education sector decreased from 66.9% in 2002/03 to 59.7% in 2006/07 and further decreased to 41% in 2007/08) (Talemwa, 2010; Policy and Operations Evaluation Department, 2008; Baguma, 2009; MoYES, 2004).[7]

In post-basic education, Cambodia was able to give priority to TVET over higher education, while in Uganda higher education was given more priority over TVET. In Uganda, during the late-1980s and early-1990s, Makerere University alone accounted for 78.3% of the budget allocated to post-secondary education (Eisemon, 1993). In the late 1990s, there was a drop of budget allocation to higher education from over 20% to around 3.5% out of the total budget allocated to the education sector, as the priority at that time was given to primary education. The percentage share of higher education was equal to the share of TVET. However, when the priority given to primary education was reduced, which increased resources for other sub-sectors, budget allocation to the TVET sub-sector remained unchanged, while the budget allocation to higher education out of the total public expenditure on education increased from 3.5% in the late-1990s to 9.9% in 2003/2004 and to 11.7% in 2006/2007. In Cambodia, the priority given to TVET was reinforced with the establishment of the Ministry of Labour and Vocational Training (MoLVT) in 2005. Since then, more attention has been given to this newly established ministry, according to the senior officials at MoLVT, as reflected in an increase of government spending of more than 250% between 2006 and 2009.[8]

What drove the different policy designs and resource allocations in Cambodia and Uganda? As we shall see, in Cambodia and Uganda, policy design and resource allocations were much influenced by the struggle of politicians to stay in power, and the different political playing fields and their connections to electoral politics led to different policy design and resource allocations.

Immediately after the end of their civil wars, both countries had similar challenges to increase their public spending on education. The end of civil war did not bring genuine peace to Uganda and Cambodia, as the Lord's Resistance Army and the Khmer Rouge still carried out military attacks

7 Talemwa (2010), Policy and Operations Evaluation Department (2008), Baguma (2009) and MoEYS (2004; 2005).

8 Personal conversation, 12 January 2010.

against respectively the Ugandan and Cambodian governments.[9] In Cambodia, the situation was intensified by the coalition politics in which the two main political parties CPP (Cambodia's People Party) and FUNCINPEC (National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia) fought to control the state through every possible means, resulting in military fighting in July 1997 in Phnom Penh, the capital of Cambodia, followed by several political strikes and demonstrations. This on-going struggle forced both governments and their ruling elites to allocate a large percentage of public expenditures to the military at the expense of social services such as education, not only to ensure security, but also to maintain themselves in power.

Since the late-1990s, when peace and security was achieved and regular elections had been held, the legitimacy of the ruling elites no longer depended on maintenance of security alone, but on the overall improvement of the country. Consequently, we see an increase of budget allocation to the education sector and the renewal of the role of education in economic development.

In Uganda, after a decade of peace, in 1996 the first presidential elections were held. In his campaign manifesto, President Museveni promised to provide universal primary education to all Ugandan children through the abolition of the school fee. After winning the elections, he fullfilled his promise by increasing the budget to education in general and primary education in particular. However, it is important to note that despite the priority given to the education sector and basic education since 1996, the result of the presidential elections in 2001 and 2006 revealed that Museveni's support from voters had declined over time. This development showed that there were factors other than development of the education sector in general and basic education in particular—factors such as ethnicity—that were appealing to voters. Consequently, President Museveni changed tactics in an effort to win the next election, moving from a performance-based strategy to "divide and rule" and, at times, ethnic-based strategy. This change in tactics certainly affected the education sector.

This was reflected in the increased number of Uganda's administrative units—the districts—from less than 40 when Museveni first came to power in 1986 to 112 in 2010 (Semakula, 2010). An examination of the characteristics of the newly established districts reveals that they were carved out along

9 For more detail on the history of Cambodia and Uganda, see Chandler (2000) and Ofcansky (1996).

ethnic lines. Using both quantitative and qualitative analysis, Green (2010) argues that district creation has functioned as a source of patronage and has helped President Museveni to continue to win elections. This situation negatively affected policy design and resource allocations as these no longer depended on real needs and situational analyses, but were influenced by politicians' motivation in attempting to use public resources to maintain political power. In the context of lacking extra resources, the budget for the education sector was cut in order to meet the increasing needs of the general public administration, as politicians attempted to provide jobs in exchange for political support within the public sector.

In addition, within the education sector, priority for basic education was replaced by secondary and higher education, while the TVET subsector remained marginalized in the policy process. This was to fulfil President Museveni's campaign promises to provide universal post-primary education and training, made during the presidential campaigns of 2006 and 2011. The change was also a reflection of Uganda's historical focus on higher education and an unrealistic development plan inspired by grandiose political visions to attract votes. The vision was to improve the country's competitiveness, with the goal of reaching the level of a middle-income country through promoting science and technology, innovation, and ICT, despite the fact that the size of its industry was very small and the level of foreign direct investment in high-tech industry was very low.

In contrast to Uganda, Cambodia has recently moved away from pure politics to maintain power to long-term development policies (as manifested by the fact that legitimacy is achieved through performance-based evaluations rather than enforced through political violence and intimidation). Also in contrast to President Museveni, Prime Minister Hun Sen's popular support has increased steadily since the 1998 general elections, especially in rural areas. Surveys indicate that these victories resulted from the improvement of social services such as education. This situation also gives more political incentive for ruling elites, especially Prime Minister Hun Sen, to focus on education in general and basic education in particular, such as building more schools, as many rural people still lacked access to education owing to the constraints on the supply side. TVET has also received much attention, as it helps to attract votes from the urban poor in Cambodia.

Educational Policy and Resource Implementation

Although policy and resource availability appeared to have influenced enrolment rate, a more refined educational outcome—measured in terms of completion rates, adult literacy, and distribution of educational provision among different social groups—depended more on how effectively and efficiently the policy and resource were implemented. It is argued in this section that poor educational outcomes in Cambodia and Uganda (and their various educational outcomes) are not limited to policy priorities and availability of resources, but also lie within the poor quality of implementation and their different quality of implementation.

Poor Quality of Policy and Resource Implementation in Cambodia and Uganda

Although Cambodia moved away from politics to policy formulation and resource allocation that reflected local needs, Ayres (1999; 2000) argues that their implementation remained within the environment dominated by a (neo)traditional system of governance and administration, characterized by culturally entrenched notions of hierarchy and power found in patron—client relations. Uganda has experienced a similar political trajectory (Mwenda & Tangri, 2005). A neo-traditional system of governance and administration had several negative consequences, affecting implementation processes aimed at achieving the desired policy objectives.

First, there was an unreasonably higher proportion of non-teaching staff compared with teaching staff. Despite reform attempting to reduce the percentage of non-teaching staff in Cambodia after a decade of implementation, the proportion of non-teaching staff remained almost the same at 22% in 1999–2000, compared with 21.5% in 2007–2008 (EMIS, 1998/99; 2007/08). A possible reason for the difficulty in achieving higher levels of re-deployment of non-teaching staff into teaching roles was that the Ministry of Education, Youth and Sport (MoEYS) was unable to reduce the substantial proportion of non-teaching staff who were deputy directors appointed through patronage, not only at the school level but also at the district and provincial levels (Geeves & Bredenberg, 2004). In Uganda, the proportion of non-teaching staff even increased, especially since the mushrooming of new districts, a consequence of the attempt to build political-client support based on ethnic division. Further, in some districts, there are two education offices: one is responsible for urban schools falling within municipality council offices of education, and the other is for rural schools under district offices of education which employ the same number of staff. This situation led to high transaction costs, a waste of both effort and resources, without producing any improvement in management and supervision, as the offices have unclear and duplicated responsibilities.

Further, the recruitment of staff based on loyalty and bribery, as in the case of Cambodia where FUNCINPEC attempted to get supporters into state positions (dominated by the CPP since the fall of the Khmer Rouge in 1979), led to the recruitment of incompetent officials (Robert, 2002: 536). This situation hindered the state's ability to establish a meritocratic bureaucracy, which led to low capacity among its bureaucrats. The lack of capacity among bureaucrats led to piecemeal reforms, which were unable to produce significant changes. While the new general curriculum attempted to integrate technical and practical skills to prepare graduates for meaningful participation in the labour market, the implementation of the curriculum was constrained by the old national system of examinations in which these skills were not assessed. Therefore, officials at MoEYS did not force or encourage schools and teachers to teach these skills.

Finally, public administration based on patron—client relationships was open to and tolerant of corruption and misbehaviour, such as absenteeism among teachers and school directors. Within this relationship, the political clients and the state's bureaucrats were protected by ruling elites through a ceremonial inspection system. In this context, the bureaucrats learned that corruption and misbehaviour went unpunished, and therefore they acted accordingly. In Cambodia, this was compounded by their low pay and the requirements to contribute in cash to their patrons for their political projects to attract votes, which then forced them to be even more creative in practising corruption. For instance, despite the fact that access to education was supposed to be free, teachers and schools still continued to demand substantial contributions, usually illegal, from pupils and parents. Such practices resulted in high rates of non-enrolment and school drop-outs due to parents' inability to pay. This was also true in the case of Uganda, although to a different degree. Despite the public outcry, both governments were unable to fully punish those involved in such activities.

In another case, the low capacity among bureaucrats led to a substantial wastage of resources through wrong policy design, and thus the state was unable to expand and improve the quality of education. In Uganda, a resource wastage was found in its national policy on ICT. It was found that "[t]he challenge for Uganda is to step up her efforts in building information and communication technologies, especially in the rural areas... It is only when every village has access to communication technologies that the local populace will be enthusiastic to participate, and eventually gain a competitive edge in the job world".[10] Consequently, much of the money

[10] *The New Vision*, 'Help rural people access to ICT', 2 June 2009.

was channelled to buy expensive equipment such as computers, TVs, DVD players, and LCD projectors and to organize training workshops on how to use this equipment. Interestingly, my fieldwork noticed that most schools had no electricity to use this equipment. Further, this ICT knowledge had no practical applicability in rural areas. In a lesser degree, this situation was also found in the Cambodian case.

Another aspect of wastage of resources is that there was a portion of the budget that was paid to ghost teachers, non-teaching teachers and non-performing school directors, ghost pupils, and even ghost schools.[11] In Uganda, the reason underlying such practices given by a school teacher was that schools received more capitation grants from government, school directors were paid a higher salary, and grants were provided according to the enrolment numbers.[12] However, the practice—especially in the case of Cambodia—was not only a result of individuals seeking financial gain, but also due to pressure from central government and donors to see increases in enrolment. The World Bank (2003) also notes that result-oriented development agendas adopted in the late 1990s lacked a focus on the process how inputs were used to produce results. Consequently, the magical results were created to satisfy both donors and policy-makers.

In both countries, the wide distribution of the existence of ghost pupils and ghost teachers was the product of opportunists within both the ministries of education and schools. The success of dealing with these issues was limited, once educational reform was not clearly separated from electoral politics. Recently, in Uganda, school directors were recruited into the National Resistance Movement through the Ministry of Education in order to mobilize political support (Kiggundu & Magomu, 2009). In the case of Cambodia, the majority of school directors and government officials were members of the CPP. Therefore, it was difficult for the ruling elites to carry out administrative punishment of school directors and government officials who were involved in the scandal. This was because corruption and political interest in attracting and retaining loyalty provided no incentive for the government to establish an effective management, supervision, and inspection system. The situation left much leeway in implementation in the hands of the frontline service provider. When

[11] Ghost teacher, ghost pupil, and ghost school in the Cambodian and Ugandan contexts refer to their existence in the official record, but without actual presence. For further information, see Eriku (2010); Bategeka *et al.* (2004), Hallack & Poisson (2007), Reinikka & Smith (2004) and Sam & O'Toole (2010).

[12] Personal conversation, 27 July and 2 August 2009.

measures were taken, they were directed only against a few who did not support the ruling party.

The lack of effective management, supervision, and inspection systems also led to an unequal distribution of teachers in both countries, where poor rural schools were negatively affected the most. While there was a shortage of teachers in poor rural areas, especially of qualified and experienced teachers, there was a small surplus of teachers in urban schools. In Uganda, Mukisa *et al.* (2009) argue that the unequal distribution of qualified teachers was a large challenge for improving the quality of rural education, as about half of the rural teachers were under-qualified and the percentage of teachers without training was high in rural areas. On the other hand, the majority of teachers with Bachelor of Arts or Science degrees were found to be employed in urban areas. In Cambodia, teachers with experience of less than 5 years accounted for 52.2% and 25.3% of the total number of teachers in remote and rural areas respectively, compared with only 13.9% in urban areas (EMIS, 2007/08).

In Cambodia, more and more qualified and experienced teachers found large urban schools to be a good place for doing business to earn extra income.[13] Anecdotal evidence showed that many teachers bribed officials and school directors so that they could be transferred to larger urban schools. This situation even forced teachers to be creative in generating more income through whatever means possible to recoup their expenses.[14] In Uganda, in addition to bribery, the differences in teacher quality and experience between urban and rural schools were compounded by central officials' interference. School management teams revealed that qualified and experienced teachers were placed at (large) urban schools because these officers had their children and relatives studying in those schools.[15] In addition to this, the use of mother-tongue language, especially in the lower primary schools, made deployment very difficult from one surplus region to another, as Uganda consists of a variety of ethnic groups with different local dialect (Mulkeen & Cheen, 2008).

The inability of the government to allocate teachers more equitably throughout the country affected teachers' productivity. In Cambodia,

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13 In Cambodia, selling lesson notes, snacks, and private tutoring in urban schools are commonly practised as urban parents are able to afford them in comparison with rural parents.
14 Personal conversation, 17 September 2008.
15 Personal conversation, 29 May 2009; 19 September 2008.

while urban teachers did not fulfil their required teaching hours, rural teachers taught over the required teaching hours and received overtime teaching allowances. Although this was not negative, this resulted in a manipulation of the system. Owing to the wide acceptance that there was a shortage of teachers in rural areas, school directors usually reported overtime teaching in order to get the allowances (Kong, 2008).

The attempt to build political clients within the state bureaucracy and corruption also led to lower enrolments in TVET and higher education in the fields of science, engineering, manufacturing, construction, and technology. Owing to attempts to co-opt their political clients and to corruption, states were unable to dictate that their public higher education institutes provide only courses that could supplement what the private sector was unable to provide. Instead, the government allowed their public higher education institutes to compete with the private sector for private, self-sponsored students to enrol in their institutes only in the field of humanities, arts, social sciences, and business, and therefore neglected to invest in other critical areas such as science, engineering, manufacturing, construction, and technology, areas that were needed by their local labour market and economy.

The low coverage of TVET was due not only to a lack of capacity on the part of private and public providers, but, more importantly, to the inability of both governments (although to different degrees) to create supportive policies and mechanisms and to promote equal value between TVET and the academic stream. Both countries were also unable to upgrade university entrance standards so as to channel students to enrol in TVET. The director of the Cambodian National Polytechnics Institutes argues that "Cambodia's industrialization vision and process does not go hand in hand with the development of its skilled labour and this is the reason why Cambodian industrialization is lagging behind its neighbouring countries" (Barber & Cheng, 2010).

In fact, Cambodia could have expanded its coverage—it did give more priority to the TVET sub-sector—if all the efforts to deliver TVET were consolidated. However, efforts to deliver TVET were fragmented. In the same year as the creation of the MoLVT, the MoEYS launched a new curriculum policy for upper-secondary schools, which included elective vocational training into grades 11 and 12. Recently, another new department called the Vocational Orientation Department was established. This development reflected an attempt by MoEYS to retain some resources and responsibilities, so as not to have them all transferred to the MoLVT.

It was also an attempt on the part of MoEYS to attract new resources to implement the new curriculum and programme. The resource competition intensified, as a senior government officer at MoLVT noted:

> During the education sector working group meeting, the task of advocating for more support on TVET to provide relevant training to youth so that they can be [fully] employed after graduation is very hard. First, we need to lobby donors, as they are mostly focussed on basic education, and second, we need to lobby MoEYS so that we are not seen by our colleagues as trying to steal away the existing resources.[16]

This competition resulted not only in fragmentation of effort but also in a waste of resources owing to high transaction costs.

In Cambodia, the lack of institutional integration in terms of shared common development goals resulted from the state's weakness. A weak state is not only a consequence of the subordination of formal structures to informal networks, but also a matter of the pursuit of personal interests. Hughes & Conway (2004: 23) noted that "such networks should not be perceived as working consistently in the support of the CPP. Rather, they often conflict, as different individuals and groups within CPP and the state attempted to exploit different kinds of opportunities". This was compounded by the fact that the ruling elites intentionally co-opted their clients in various ministries in order to gain loyalty and political support with the ultimate goal of maintaining their power.

Cambodian Quality of Policy and Resource Implementation Was Slightly Better Than Uganda's

During the last decades, decentralization reform was introduced in many parts of the world with an expectation of improving the efficiency of public service provision and bringing services closer to the people. It also sought to promote popular participation, to empower local people to make their own decisions, and to enhance accountability. It is important to note that, in Uganda, basic services such as primary education were delivered within this changing context of governance, from centralization to high decentralization, through a local council system of local government with district as the main unit of sub-national government. In Cambodia, on the other hand, all social service deliveries remained mainly in the hands of

[16] Personal conversation, 12 January 2010.

the central government and were delivered through its local administration, even after the recent introduction of a decentralization process.

A study by the World Bank (2004) indicated that once patron—client politics is embedded in a decentralized mode of service delivery, it has more negative consequences than when it is embedded in a centralized mode. This can clearly be seen in the case of different educational outcomes in Cambodia and Uganda. The move from politics to policy under the centralized service delivery in Cambodia enabled the government to limit the growth of its civil service, therefore reducing the latter's wage share in spending on education. This in turn allowed Cambodia to have more resources for capital development, such as providing schools and classrooms and teaching and learning materials. On the other hand, the move back from policy to politics under the decentralized service delivery in Uganda led to an increase in its civil service and the latter's wage share in education spending, owing to the increase in the number of the state's administrative units—the districts. This in turn decreased the budget for capital development.

For instance, during the 1990s both countries faced similar shortages of schools and classrooms. However, since the early-2000s, most Cambodian villages have had primary schools within their boundaries, and the shortage of classrooms has rarely been mentioned as a serious issue, unlike the case in the 1990s (MoEYS, 2009). On the other hand, Uganda has continued to face serious shortages of infrastructure. In 2009, despite improvement, 38 sub-counties remained without a single public school. The inability to solve the issue of classroom shortages was also noted by donors. During an education workshop in 2010, a representative from the donor community pointed out that "[t]en years ago, the government raised the issues of a shortage of 50,000 classrooms. This year's workshop also dealt with the same problems of shortage which has now risen to 51,000" (Talemwa, 2010).

The higher availability of schools and classrooms in Cambodia than Uganda was the outcome not only of a higher availability of resources but also of its lower level of corruption. Although Cambodia had been ranked consistently as more corrupt than Uganda, the degree of corruption in school and classroom construction was lower compared with Uganda. The centralized mode of governance in Cambodia limited rent-seeking to the hands of fewer people than the decentralized mode of governance in Uganda, which allowed the scale of rent-seeking to increase because it involved tenders and people at many different levels of administration. In Uganda, due to attempts made by the ruling elites to gain political support from local politicians (a product of decentralization), there was a lack of political will to implement the mechanisms for effective accountability.

At the same time, this move from politics to policy and performance-based strategy to win the election also gave more incentive for the CPP and Prime Minister Hun Sen to speed up the development of the education sector, such as building more schools and classrooms because there was no political conflict over the legitimacy of the progress. On the other hand, the increase of the civil service in Uganda was to provide jobs for political support, rather than a real attempt to provide better services—as the performance-based strategy that President Museveni had adopted so far had not enhanced his legitimacy, owing to other factors such as ethnic division. This situation also did not provide any incentives for President Museveni and NRM's members to launch a school and classroom construction campaign. Consequently, the shortage of schools and classrooms in Uganda remained unresolved, which hindered its ability to expand the coverage of educational provision. It is important to note that the centralized mode of governance in Cambodia also allowed Cambodian elites to easily collect corrupt money, thereby having a large amount of funds for this political development project. In Uganda, corruption was decentralized owing to the state's decentralized mode of governance, a pattern that prevented President Museveni from having access to large amounts of slush funds that could be used for such political development projects.

The quality difference in Cambodia and Uganda also resulted from different modes of governance. For example, the centralized system of textbook distribution in Cambodia led to more availability of textbooks at the school level compared with the decentralized system of budget allocation to schools to purchase textbooks of their own in Uganda. Owing to corruption and other factors, textbooks were not purchased by schools in Uganda, which negatively affected the quality of learning.

In the TVET sub-sector, the striking difference was that the MoLVT in Cambodia had not attempted to take over all TVET institutes that were run by different ministries. The MoLVT recognized its lack of expertise at supervising specialized training institutes; therefore, it wanted to strengthen only its coordination role as a senior policy-maker envisions his ministry as "an orchestra leader working to get all the partners in the orchestra to use the same music and play together" (Pich, 2008). This situation allowed the TVET institutes in Cambodia not only to operate normally, but also to improve steadily. In contrast, Uganda transferred all TVET institutes that were under the responsibility of different ministries to be under the responsibility of the MoES. Although from a management perspective the transfer of all institutes to one ministry allowed for better coordination and thus efficiency, TVET in Uganda did not benefit from this transfer, as it did not involve creating the institutional capacity to perform these new responsibilities. The MoES lacked staff and expertise to carry out the tasks. After more than a decade of restructuring the TVET sub-sector, the MoES is still unable to fill all the vacant posts. By 2009, out of the 20 approved staff at the department of TVET, 7 posts remained vacant; and out of 7 approved staff positions at the directorate of industrial training, all of them were still vacant (MoES, 2009). Because of this lack of staff, Liang (2002) noted that senior managers were pre-occupied with day-to-day management and had little room or capacity to deal with their main functional areas of responsibility: policy, planning, and quality control (Liang, 2002).

The inability of the TVET to work properly was compounded by the fact that at the macro level, after more than 10 years of restructuring, specialized ministries still continued to seek all possible means to have the TVET institutes transferred back to their respective ministry through political intervention. In 2008, President Museveni ordered the MoES to hand back the medical college to the Ministry of Health, but the MoES protested (Kagolo, 2009). Consequently, the TVET institutes worked without any supervision. A local advisor on TVET issues noted: "When these institutes seek assistance from specialized ministries, staff at specialized ministry now says: you are not under my supervision, but under the MoES; therefore, you should go to MoES. But when these institutes turn to the MoES, the MoES has neither technical capacity nor the staff to assist these institutions, to say nothing about budget".[17] This situation has not been conducive to TVET institutes operating smoothly, let alone improving.

In higher education, Ugandan traditional institutions (one university consists of a variety of schools and faculties) led to more duplicated programmes in the fields of social science, business, humanities, and arts, which in turn led to lower enrolments in science-related fields. After the privatization of public higher education, their survival and expansion depends solely on fee-generating income, and this forces them to follow the education market to attract students rather than to study or offer what the economy or labour market needs in terms of skills. The departments simply created programmes in order attract students so as to earn money (Karamagi, 2004). In Cambodia, higher education institutes were

[17] Personal conversation, 14 August 2009.

more specialized (for example, the Cambodia Institute of Technology, Royal University of Agriculture, University of Medical Science, National University of Polytechnics), which produced less duplicated programmes; therefore, this resulted in a higher percentage of student enrolment in science-related fields.

Conclusion

Since the end of their respective civil wars, Cambodia and Uganda have shown a high level economic growth, averaging 7–8% per year, and have experienced improvement in every aspect of their societies. Given the two countries' past tragedies, this improvement has received widespread praise from donors as well as their own populations. However, despite their rapid rates of economic development, both countries still lag behind many other developing countries, as can clearly be seen in their low GDP (and per capita income) and high rates of poverty. This situation places both countries in the category of "least developed countries". Yet, both Cambodia and Uganda could exploit their economic openness, abundant natural resources, and energetic, active young populations to increase the size of their economies and foster growth through productivity improvement and diversification. However, the efforts to develop their countries have been hindered by the lack of appropriate mixed-skilled human resources, as their education systems have not been able to provide the increased, better-distributed and better-qualified, educated populations—the skilled workforce in TVET and the highly skilled workforce in science, engineering, manufacturing, construction, and technology—that their labour market and economies need.

The unresponsiveness of the two countries educational outcomes to the needs of the local labour markets and economies resulted from the ineffectiveness and inefficiency of their governments—a consequence of patron—client politics. This had negative consequences for policy design and resource allocations because, within this political context, policy design and resource allocations do not derive from local situational analysis but from the desire to maintain power through winning elections—leading to illusionary visions and misuse of resources. Policy and resource implementation were also negatively affected by patron—client politics. In patron—client politics, recruitment is based on tests of loyalty, on nepotism, and on corruption (rather than based on merit), which lead to incapable bureaucrats and an unreasonably high proportion of non-teaching staff, given the presence of unnecessary offices and administrative units.

Furthermore, states which are characterized by patron—client relationships tolerate corruption, which negatively affects policies and resource implementation. However, as this study demonstrates, assuming that all patron—client politics have equally negative impacts across all countries is misleading. The comparative analysis between Cambodia and Uganda reaffirms and adds new empirical evidence that once patron—client politics is embedded in a decentralized mode of service delivery, it has more negative consequences than when it is embedded in a centralized mode. In Uganda, basic services such as primary education are delivered within this changing context of governance, from centralization to high decentralization, through a local council system of local government, with district as the main unit of sub-national government. In Cambodia, on the other hand, all social service deliveries have remained mainly in the hands of the central government and are delivered through its local administration, even after the recent introduction of a decentralization process.

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PART SIX

SOME AFTERTHOUGHTS

19

Policy and Governance in Africa's Economic Transformation: Firm Findings and Remaining Questions

David Booth

Introduction

Over the 40 years starting in 1960, the economic growth and poverty reduction rates achieved in a set of Southeast Asian countries outstripped by a considerable margin what was achieved in a set of initially quite similar African countries. Tracking Development has told us why. All, or nearly all, of the differences in development outcomes between the African cases and their Asian counterparts may be explained by the timing and sequencing of the adoption of three policy features: macroeconomic stability; pro-poor, pro-rural public spending; and economic freedom for peasants and small entrepreneurs (Henley & Van Donge, this volume; Van Donge *et al.*, 2012). This is a very significant finding for two reasons.

First, it adds force and some much-needed additional clarity to a growing but still fragile consensus about the limitations of Africa's accelerated economic growth performance over the past decade. Overwhelmingly, the most important weakness in the pattern of recent growth in Sub-Saharan Africa, judged by the Southeast Asian standard, is neglect of productivity improvement in smallholder agriculture. Those arguing for a redefinition of the continent's development goals in terms of structural change and economic transformation will do well not to lose sight of this.

Second, Tracking Development's central finding sharply contradicts much of what has been for the last 30 years the prevailing diagnosis of Africa's lagging development performance—that the primary problem is institutional and its ultimate cause bad governance. In the light of Tracking Development's comparative studies, governance seems to matter less than the content of policy, or only in close association with the origin and implementation of particular types of policy. Crucially, Africa does not need to achieve 'good governance' before, and as a precondition for, development success.

Tracking Development's results are the more remarkable for not being based, like much other policy research in the development field, on unchecked inference from cross-national statistics. Making use of a clever method of paired comparison, they are grounded in detailed studies of the individual country experiences, which allows close interrogation of the hypotheses being advanced. The method allows multiple checks on the robustness of the conclusions reached and also ensures that we are told a good deal about causal mechanisms, about *why* the identified factors work in the way that they do. The method used settles some central issues in a way applied development research rarely does.

This chapter elaborates these claims about the significance of Tracking Development and goes on to specify more closely the implications of the findings for the broader field of comparative development studies. Addressing Tracking Development's headline story about the 'primacy of policy', it argues that this needs to be understood as a critique of formerly influential attitudes towards economic growth and governance reform. It should *not* be taken as closing debate on the governance factor in successful development.

Taking policy choice more seriously in the genesis of comparative development performances does not exclude the questions addressed by research on governance, but rather requires them to be more sharply focused. In this and other respects, Tracking Development's findings coincide with those of other current research programmes in the field of comparative development, including the consortium I coordinate, Africa Power and Politics (APPP), and the Danish-led Elites, Production and Poverty (EPP) project. These other initiatives share with Tracking Development the presumption that the 'good governance' agenda is misleading about the prerequisites for economic transformation in Africa. They also provide insights which help to answer the more refined questions about governance that arise from Tracking Development's insights. Finally, these programmes face a common challenge: their research has thrown up a set of further questions with extremely substantial policy implications to which it is impossible to give firm answers on the basis of current evidence.

The remainder of the chapter has four sections. The next section elaborates the argument just summarized about the significance of Tracking Development. After that, a section outlines the way recent research in EPP and APPP helps to answer the governance questions posed by Tracking Development. A section is then devoted to setting out the remaining challenges and unanswered questions. The final section offers a concluding argument.

Africa's Economic Transformation in Southeast Asian Perspective

Since the late 1990s, the performance of an expanding group of Sub-Saharan African economies has markedly improved, appearing to justify the speculation that the Asian 'tiger' economies are about to be matched by African 'lions' or 'cheetahs'. The new higher rates of economic growth have been reasonably sustained, are not entirely due to high commodity prices, and have been accompanied in at least some of the countries by reductions in aggregate poverty incidence (McKinsey Global Institute, 2010; Radelet, 2010). However, an emerging consensus among economists within and outside the region cautions against interpreting the recent upturn in growth as a development breakthrough. African growth is not yet accompanied by the structural changes, widely spread improvements in productivity, and enhanced technological capabilities that are associated with successful development. It certainly provides a more favourable context in which to tackle the fundamental challenge of economic transformation, but the challenge itself lies ahead. Now is the time to put economic transformation back on the continental policy agenda (Breisinger & Diao, 2008; Amoako, 2011; ECA & AU, 2011; Lin, 2011; Whitfield, 2012).

Tracking evelopment's emphasis on policies for agricultural transformation and peasant agriculture fits squarely within this emerging consensus and adds significantly to it. Although the ideas about agricultural productivity-growth as the foundation for wider structural change are far from new (Johnston & Kilby, 1975; Mellor, 1976; Lipton, 1977), they are endorsed in a particularly compelling way by Tracking Development's paired comparisons. These ideas are a useful corrective to the tendency of some of the new-structuralist literature (notably, Lin, 2011) to focus prematurely (in the African context) on industrial upgrading. Relatedly, the Tracking Development findings contribute some useful cautionary messages about the extent to which a transformative policy approach implies a more activist role for the state. The favoured forms of market intervention by states in successful Southeast Asian development experiences "involved investment, subsidy, and the supply of public goods (that is, the redistribution of resources), rather than regulation (that is the use of coercive power other than the power to tax)" (Henley & Van Donge, 2012: 3). This contrasts with the pattern associated with Northeast Asian state-led development, but Southeast Asia provides the more relevant model for Sub-Saharan Africa.

If one set of factors differentiating some of the contributions to the new consensus from others is about policy (sectoral emphasis, modes of state intervention), another is the extent to which serious attention is given to structures and institutions of governance. Much of this literature is strong on the economics of transformation but largely neglects the question of governance beyond the affirmation that more interventionist or 'developmental' states are required. To the extent that the question is addressed, the answers given rely on the now seriously threadbare claim that 1980s 'structural adjustment' measures and the subsequent hegemony of neo-liberal economic prescriptions by itself explains the failure of African states to assume a developmental character (see notably ECA & AU, 2011: Chapter 5). This is a rather serious deficiency, as failure to provide a realistic perspective on the politics of developmental governance in Africa has been the Achilles' heel of the opposition to neo-liberal economics ever since the earliest debates in the 1980s.

In this respect, the new consensus very much needs the contributions of Tracking Development and the other recent programmes that do have something realistic and evidence-based about governance options in Africa. The headline findings from Tracking Development place particular emphasis on the continuing failure of African leaders to adopt the three-legged policy approach which was critical to success in Southeast Asia. A first-level implication of this headline is that the reasons for divergent outcomes between Africa and Southeast Asia are not fundamentally about differences in geographical, historical, cultural, or institutional points of departure. Crucially, they are not rooted in any historically inherited divergences in governance structures. Thus, during the critical phase, successful Southeast Asian countries were no less 'neo-patrimonial' than their African comparators, and indicators of corruption were in several cases higher in Asia. In this respect, what Peter Lewis (2007) found in comparing Indonesia and Nigeria also applies to the other country pairs in the Tracking Development set.

This was also APPP's point of departure: neo-patrimonialism has been used for too long as a blanket explanation of Africa's development difficulties. Given experience in Asia, particularly as viewed by political economists such as Mushtaq Khan (Khan & Sundaram, 2000; Khan, 2007), we need a comparative analysis of African development episodes which enables us to distinguish between more developmental and less developmental forms of neo-patrimonialism. 'Good governance' as conceived over the last quarter-century is of no help at all in pursuing this objective, not surprisingly perhaps in view of its transparently ideological origins and drivers.

A second-level implication of Tracking Development is the need to explore a considerably refined question about governance structures in Asia and Africa. To the extent that pro-peasant policies and investments are demonstrably needed, what specific conditions, including governance conditions, are necessary and sufficient to get such policies adopted and then effectively implemented? The adoption of sound policies is obviously not self-explanatory, and effective implementation (or, to express it better, a correspondence between the theory and the reality of policy) cannot be taken for granted.

Tracking Development's published and unpublished outputs contain rich discussions of the antecedents of the rural-based development visions adopted by political leaderships in Southeast Asia. The factors discussed include the threat or actuality of mass rural insurgency under communist leadership, but also elite mind-set variables which shaped the way leaders responded to threats and crises. With reference to Africa, it is argued that the failure of countries like Nigeria to adopt sustainable development strategies grounded in rural transformation owes a good deal to 'flawed vision' arising from the intellectual background of key technocrats (Henley *et al.*, 2012). However, this may not be the end of the story.

The ideas in the heads of senior civil servants obviously matter, and they may be shaped as much by their professional backgrounds and the dominant intellectual currents of the day as by political logics. Nonetheless, technocrats are put in place and kept in place by politicians. Politicians select the kinds of technocrats whose ideas are consistent with their particular legitimation strategies and exigencies of survival. The influence may be mutual, but there is surely at least an elective affinity between the technocratic mind-sets that come to the fore at different moments in particular countries and the political rationalities of their political bosses. Lewis (2007) provides a convincing account of such an interaction in the Nigerian case, and Killick (2010) tells a similar story about Ghana.

With respect to policy implementation, Tracking Development research has shown that rural development programmes in successful Southeast Asian economies were characterized by a particular combination of "outreach, urgency and expediency" (Henley, 2010). As Henley summarizes:

1) The primary criterion by which policies and interventions are selected is the *number of people* to whom they provide direct material benefit . . .
2) At least at the beginning . . . development strategies do not involve meticulous long-term planning [but] establishing clear priorities . . . and acting on those priorities using the resources immediately to hand.
3) In successful developmental states, legal principles, administrative procedures, political rights, and ideological precepts all take second place to the goal of improving the material living conditions of as many people as possible, as quickly as possible. Achieving that goal may involve tolerating corruption, bending rules, and infringing rights. (*ibid.*: 1).

How these principles were put into effect and sustained calls for explanation. A satisfactory type of immediate explanation is provided in the Tracking Development accounts (this volume) of the role played by specialized technocratic organizations, which were afforded a kind of political protection that was not enjoyed by the public service at large. As we shall see presently, the theme of bureaucratic islands of effectiveness also figures in some of the comparative African research by APPP and EPP. However, once again, the first-level explanation poses even more sharply the second-level question. What were the political conditions which allowed such protection to be extended in the first place and then to be sustained in the face of challenges? Once again, we need answers which relate to the legitimation strategies of politicians under different sub-types of political regime.

In summary, Tracking Development findings do not close the door on research questions about governance; they prompt more such questions, in a sharper and more specific form. To what extent, then, has other recent research begun to address the issues thrown up by Tracking Development?

More Findings on the Governance Preconditions for Sound Policy

Until recently, international promotion of better governance in Africa has been hindered not just by the crudely ideological underpinnings of 'good governance', but also by the apparent lack of relevant social-science theory. In Andrews's apt phrase (2008), we have had "indicators without theory". There has been a massive volume of cross-country research, especially in the more quantitatively oriented economics and political-science journals, which ought in principle to have shed light on the relationship between economic and political institutions on the one hand and development outcomes on the other. In practice, this has established some rather general truths which are of very little use in guiding decisions about what to do and what to support in particular sorts of country context. It has been effectively critiqued by Rodrik (2007) and Khan (2007), among others, for choosing entirely the wrong level of generality (see Booth, 2011a).

In the last few years, this has begun to change. Responding to the widely recognized inadequacies of the conventional diagnosis of the governance problem in regions such as Sub-Saharan Africa, new multi-year research programmes have been designed with a view to discovering something to put in place of the orthodoxy—not, of course, a new set of universal precepts, but propositions about what has seemed to work and why in sub-sets of country contexts.

I want to illustrate this with reference to two of the most recent initiatives.[1] Like Tracking Development, both are led by research institutes in Europe and benefit from European development donor funding, but are run as research consortia with partners in Africa, Asia, and other OECD countries. They are:

- the Elites, Production and Poverty research programme coordinated by the Danish Institute of International Studies, Copenhagen (http://www.diis.dk/sw79386.asp); and
- Africa Power and Politics, led by the Overseas Development Institute, London, UK (http://www.institutions-africa.org).

These programmes have generated empirically grounded propositions about governance of the sort needed to complement the Tracking Development findings. Their conclusions are not yet fully refined, and this paper is not the place to explain them in detail. However, an outline of the major findings will serve my main purpose, that of establishing convergence and complementarity. These findings concern two distinct topics: the politics of economic success at the sector level; and the governance of public goods' provision at national and local levels. They share with Tracking Development an important methodological feature: systematic use of case studies and comparative analysis to single out salient variables and explore the forms of causality involved.

[1] Completed programmes which fit the description would include the Centre on the Future State, hosted by the Institute of Development Studies, and the Crisis States Research Centre at the London School of Economics in the UK.

EPP, my first example, began with a concern to root thinking about poverty reduction in Africa in a better understanding of the transformations taking place in productive sectors of national economies. It has undertaken studies of the interactions between national political elites and potentially successful productive sectors within and between a set of low-income African economies. In theoretical terms, it aims to improve upon the propositions about developmental states originally advanced with reference to Northeast Asia. As a methodological device, it takes advantage of the fact that performance within Africa offers interesting variability between sectors which is not well captured when the unit of analysis is countries. The case studies include both successful and unsuccessful examples in sectors of the economies of Ghana, Mozambique, Tanzania, and Uganda.

EPP's middle-range theory is a response to the question: 'what drives states to support the development of productive sectors?'. Three propositions are advanced:

- Ruling elites support the development of productive sectors when they perceive that this will help them to remain in power.
- Ruling elites choose policies and implementation arrangements as part of their strategies for maintaining power, in particular for maintaining ruling coalitions and/or winning elections. Such choices affect certain features of the policies that political elites choose, which sectors they support, and how capable they are of implementing them.
- Good economic outcomes depend on a) close relations between the ruling elite and the relevant productive entrepreneurs based on mutual interests between them; and b) the ability of the ruling elite to create pockets of bureaucratic capabilities to implement specific policies. (Whitfield & Therkildsen, 2011: 17, 18, 27)

The EPP researchers are able to offer a compelling account of the causal mechanisms, including the actors' choices and their rationales, which underlie the associations between outcomes and explanatory variables that they identify. Three particular features of ruling coalitions are shown to be relevant to the choices made: 1) the degree of vulnerability of the ruling elite; 2) the degree of fragmentation within the coalition; and 3) the size and type of financing to which the ruling elite have access (*ibid.*: 19ff). There is, of course, no direct read-across from this to what shapes ruling elites' interest in driving better development outcomes at the country level. However, the analysis is sufficiently rich in thinking about causal mechanisms to provide an excellent jumping-off point for theorizing about developmental and non-developmental national regimes.

APPP aims to illuminate governance for development at the macro level, although it has arrived at its propositions partly with research on the provision of public goods at the local level. As remarked earlier, the research began from dissatisfaction with 'good governance' and with the blanket attribution of African economic underperformance to an undifferentiated neo-patrimonial politics. The research agenda has been to discover mid-level generalizations about what context-sensitive governance improvement might mean in the African context, expressed initially with questions about whether and how to 'work with the grain' of social and political realities.

APPP comparative research has uncovered a pattern in which the best performing African states all employed a centralized institutionalized structure for managing economic resources and rents with a view to long-term interests (Kelsall, 2011a; 2011b). This core feature shaped the willingness and capacity of these regimes to choose policies (and technocrats) and design institutions to meet the needs of their situation. It made them more inclined to adopt a 'problem-solving' approach, rather than aping Western models (Booth, 2011b) or engaging in 'isomorphic mimicry' (Pritchett *et al.*, 2010). This type of structure is not currently favoured by donors in Africa, because it tends to conflict with the 'good governance' principle of an arm's length relationship between politics and business. It is, however, quite similar to the pattern observed during the early high-growth periods of the most ethnically diverse, and arguably most 'African-like' Southeast Asian countries, namely Indonesia and Malaysia.

APPP has been advancing its propositions in two interlocking sets. Regarding the investment climate and the conditions for economic transformation at the national level, the propositions are:

- Outcomes are better when those in power have both the incentive and the ability to centralize management of major economic rents, and to deploy them in a long-horizon time perspective. This has happened historically under dominant leaders and/or dominant political parties emerging from independence movements or internal wars. It has rarely if ever been the outcome of multi-party electoral competition.
- Such successes are not sustained in the absence of a) some mechanism ensuring that at least the politically most salient ethnic communities participate to some degree in the benefits, and b) institutionalized arrangements for managing personal leadership successions.

- A critical ingredient of both success and sustainability is the ability of the political elite to call upon the loyalty and integrity of crucial elements (not necessarily all) of the state techno-bureaucracy, so that the quality of policy implementation remains high.

These propositions (based on the work of APPP's Business and Politics stream)[2] have strong affinities with those being advanced by both Tracking Development and EPP, although based on different evidence. With Tracking Development, APPP research acknowledges that outcomes have been better under the regimes and during the periods in which policies have had the elements of economic freedom for smallholders and rural-biased public investment as well as macroeconomic stability. At the same time, the emphasis on selective protection of the integrity of the techno-bureaucracy is strongly consistent with the EPP findings about 'pockets of bureaucratic capability' in governments' management of favoured sectors, which is also a theme in Tracking Development's theorizing about successful implementation in Southeast Asia. The place of ethnic inclusiveness also draws on aspects of the Tracking Development research as well as on work on political settlements by researchers in the Crisis States Research Centre (Lindemann, 2008; Putzel, 2010).

APPP research into local governance and the provision of public goods has supported a further three propositions. Based on five-country research for the programme's Local Governance and Leadership, and Local Justice, streams,[3] provision is better and typical bottlenecks are more often overcome when:

- there is a minimum of policy incoherence of the kind associated with the combination of presidential populism and changing international policy mantras;
- providers are subject to strong corporate disciplines and are accountable upwards to political leaders, since accountability downwards (to voters or service users) is normally a weak source of the needed disciplines; and

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[2] Including Booth & Golooba-Mutebi (2012), Cammack & Kelsall (2011), Cooksey & Kelsall (2011), Dawson & Kelsall (2012), Kelsall (2011a; 2011b), and Vaughan & Gebremichael (2011).
[3] Including Booth (2011c), Cammack (2012), Chambers (2012), Crook (2011), Golooba-Mutebi (2011), Olivier de Sardan (2012a; 2012b), and Olivier de Sardan *et al.* (2010).

- there is room for local problem-solving initiatives (for example, to address problems created by policy incoherence) and the construction of practical hybrid institutions anchored in local realities.

The wider enabling conditions for local governance to work better in these terms include the macro conditions considered critical to the investment climate. They also include greater self-awareness on the part of official development agencies and international NGOs. The aid business is clearly in the frame when it comes to the sources of the typical policy incoherence. There is also evidence that the availability of external funding works against the two other prerequisites, first by a 'moral hazard' effect on the incentives of politicians (no need to deal with waste and indiscipline in public services when donors can be counted on to pick up the bill) and then by contributing to unfavourable conditions for problem solving and practical hybrids (Booth, 2010; 2011e).

While the core of this theory about institutions may appear abstract, its implications for policy and practice are quite clear and direct. Once they understand what really distinguishes a developmental leadership (or in Paris Declaration terms, country-owned development) under African conditions, domestic and international actors should be able to think in a coherent way about how they may be able to support, sustain, and even perhaps help to create such conditions. At a minimum, they will be better placed to deal with regimes that appear to have some of the right qualities but are otherwise the subject of controversy (e.g. Ethiopia and Rwanda). More ambitiously, they may be able to contribute to resolving the developmental impasse that has arisen in extreme form in countries like Kenya and Nigeria, and in a weaker form in Ghana, where competitive politics is well entrenched but in a form that does not deliver the conventionally expected benefits of democracy. A theme which unifies these conclusions about governance with the Tracking Development headline message about policy is the danger of complacency about Africa's current situation and future prospects, within Africa and in the global system (Booth, 2011d).

Remaining Questions

All of that having been said, there are a few key areas in which the practical implications of Tracking Development, EPP, and APPP research are not yet completely clear. In the immediate future, these unanswered questions are the focus of a new project funded by the Dutch Ministry of Foreign Affairs on 'Initiating and Sustaining Developmental Regimes in

Africa' (DRA for short), hosted by the Overseas Development Institute and involving core members of the former Tracking Development and APPP research teams.[4] The reason these issues remain unresolved is that the evidence on them is inherently incomplete, so that indirect methods and a good deal of ingenuity in research design is going to be required to settle them. For this reason, they are likely to remain on the agenda, inviting wider research collaboration, for some time to come.

As laid out in the DRA project proposal, the unresolved questions concern, respectively, the likely 1) structure, 2) sustainability, and 3) origins of developmental regimes in Africa; and 4) the changes in the global environment that would be more favourable to the initiation of such regimes.

First, the document says, there is a need to explore in greater detail some aspects of the relationship between good policy and institutional context. Policy thinkers need to know more about institutional effectiveness at a macro, systemic level, and micro, operational level, and the links between the two. As discussed in this chapter and elsewhere in the volume, Tracking Development research found that successful Southeast Asian states created 'islands of effectiveness' in small but crucial parts of the state apparatus. This has been picked up in APPP thinking, which identifies 'technocratic integrity' in key state apparatuses as a feature of the more developmental neo-patrimonial regimes. EPP's findings on effective state support to productive sectors emphasize the creation of pockets of bureaucratic capability which alter the terms on which industry leaders and state officials interact.

In the context of recent discussion about the strengths and limitations of 'pockets of effectiveness' in African administrations (Crook, 2010; Leonard, 2010; Blundo, 2011; Roll, 2011; forthcoming), it seems important to extract some further juice from these convergent Tracking Development, APPP, and EPP findings. For example, we might hypothesize that a critical limitation of extant examples of islands of effectiveness in Africa is that they do not include the key organizations supporting agriculture, a theme which has been pursued some way by other research (e.g. Poulton *et al.*, 2006; Poulton, 2010).

More specifically, we may ask what sorts of state—society and central—local structured interventions have been successfully used by protected technocracies to deliver 'outreach, urgency and expediency' and

[4] http://www.institutions-africa.org/page/initiating-developmental-regimes.

secure breakthroughs in outcomes? How have 'pockets of effectiveness' arisen or been created and protected? How do the approaches which have been successful over the long run compare with current approaches in Africa, with their emphasis on ring-fencing revenue authorities and ministries of finance but not agriculture, and their preference for 'democratic decentralization' with weak upward accountability?

The second unanswered question is about sustainability through time. A significant feature of the African post-independence 'developmental patrimonialisms' studied by APPP is that they eventually succumbed to the forces of normal neo-patrimonialism. This sometimes led to more or less serious national disintegration—the gravest case being Côte d'Ivoire following the decline of Houphouët-Boigny. The relative success of such regimes proved to have depended to a significant extent on the personal style of a dominant leader. There are equivalent questions about the current regimes that appear closest to the model. The long-term vision and robust management approaches observed in the current Rwandan and Ethiopian regimes have been associated by some observers with the individual inclinations and talents of their leaders. Even before the untimely death of Ethiopia's Meles Zenawi, the literature frequently dwelt on issues of succession.

In the successful Asian states, developmental regimes persisted for long enough for gains to become more or less self-sustaining, possibly because leadership took a more institutional form from the beginning. The outstanding question is whether we may draw some firm inferences from all of the available experiences about what it will take for African developmentalisms to become institutionalized. Where it exists, how can developmental leadership be assured beyond the lifetime or expected incumbency of the current figurehead—that is, long enough to consolidate progress and make it self-sustaining? What are the relevant first steps towards institutionalized drivers and "perpetually lived organizations" (North *et al.*, 2009)? Is the first step from personal dominance an institutionalization of party dominance? Can the international community play any constructive role in this?

A third question that is not fully resolved, although it has already been much debated, is the matter of what it takes to get such regimes started in the first place. Sooner or later, the comparative analysis of regime types brings the focus back to the question of whether the threat or actuality of a rural uprising is a *sine qua non* for the initiation of a developmental regime. This question cannot be considered settled by already completed work in either of the two programmes.

It is clear that in Asian history a range of different sorts of national 'shock' contributed to the key developmental turning-points, from Japan's Meiji Restoration onwards. As discussed briefly in this chapter, the pro-rural, pro-smallholder policy bias that Tracking Development finds in Southeast Asia but not in Africa seems to reflect, in some combination still to be determined, the influence of a peasantry mobilized under communist auspices and independent aspects of the elite mindset. In Africa, APPP finds that the shock effect of large-scale killing, including in rural areas, contributed to the genesis of the current regimes in Ethiopia and Rwanda, influencing elite attitudes towards rural development to a significant, if not yet, perhaps, sufficient extent.

To be useful for policy, however, thinking about shock effects needs to encompass possible functional equivalents which are both less devastating in their effects and closer to the levers actually available to specific policy actors. Are there other 'threats' that would be less intrinsically harmful than genocide or civil war but would nonetheless have equivalent effects? Historical experiences that would bear closer scrutiny in this context include the motivating effects of late-colonial crises in Malaysia and Botswana (Lang, 2009); the impending end of US aid to S. Korea in the 1960s (Weiss & Hobson, 1995; Cumings, 2005), and the ending of budget support to Kenya in the late 1990s and mid-2000s.

It may be that the only practical option is doing whatever is possible to change elite mindsets. If so, it is worth considering what mileage there may be in promoting the lessons of Southeast Asia in the context of the monitoring processes of the Africa Union's Comprehensive Africa Agriculture Development Programme (CAADP), a question being asked by other research using a similar political economy lens (http://www.future-agricultures.org/research/policy-processes). Alternatively, a better point of entry may be the way the pattern of electoral politics in most African countries imparts such a weak incentive to political leaders to confront long-term national challenges, the transformation of agriculture among them. The multiple costs of political short-termism are quite apparent to thinking members of national elites and their diasporas. That being the case, it may be easier to win the argument for ring-fencing core development functions of the state from the ebb and flow of politics than to get agreement on the principle of putting agriculture ahead of other priorities. At any rate, these questions need to be asked and confronted with whatever evidence can be mustered.

A final question which is scheduled to get further attention within the DRA project is how the international system might become less unfriendly and more conducive to the emergence of developmental regimes. There is an increasingly recognized argument for donor countries to pay more attention to the non-aid policies through which they influence, mostly for the worse, the incentives of the rulers of poor countries (Moore *et al.*, 2009; Brown *et al.*, 2010). The Tracking Development and APPP research suggests in addition the need for fresh attention to reversing the tendency of ideological globalization to promote mimicry as the standard approach to policy choice and institutional design in the South.

As well as removing incentives for civil war and predation, can international actors, including mass media, do more to refrain from 'kicking away the ladder' (Chang, 2002)—that is, explicitly or implicitly promoting policies and institutional norms that do not correspond to the stage of development that low-income Africa is at? How can such a message be articulated persuasively, so that African leaders and intellectuals look for their models in the right places (such as Southeast Asia) and not the wrong ones (such as today's UK or Netherlands, or within Southeast Asian city states like Singapore and Hong Kong)? Last but not least, how can this be done without prompting the flawed but crowd-pleasing response that advocating appropriate models of African governance and development is equivalent to short-changing a continent?

Conclusion

The Tracking Development headline findings about the economic transformation policies that Africa needs are extraordinarily important, as is the connected conclusion that Africa does not need 'good governance' in order to advance socially and economically. But it is important to be clear that sophisticated research questions about governance institutions gain more salience, not less, in the light of the Tracking Development research. It is relevant, therefore, that the results of other recent research shed useful light on matters that have been put into relief by Tracking Development. The Danish-led EPP programme offers a coherent middle-range theory about the conditions under which African ruling elites give effective support to productive sectors, including agricultural and livestock sectors. The Africa Power and Politics Programme has advanced equivalent propositions about the form developmental regimes are likely to take, focusing on national business—politics relationships and the local governance of public-goods' provision. All three programmes coincide on certain points, including the observation that technocratic bodies awarded selective political protection and support are key factors in the right sort of policy implementation.

None of these findings are particularly congenial either to incumbent leaders in Africa or to the international community and development cooperation agencies. They challenge in rather sharp ways some of the easy consensus among ruling elites and the aid community, about policy choices and about priorities for improving governance. Partly for that reason, it is important for researchers to do as much as they can to hammer down the rough edges that their policy messages currently exhibit. That includes finding satisfactory answers to the questions reviewed in the final section of this chapter. It is encouraging that it has been possible to secure support for continuing research and policy engagement on these important topics.

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