

The Richer Harvest

Economic development in Africa and Southeast Asia compared

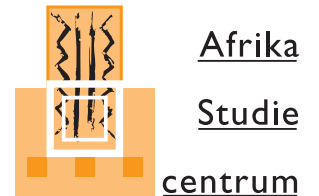
The 'Tracking Development' study

2006-2011

Dirk Vlasblom

A publication from the African Studies Centre

Leiden, 2013



African
Studies Centre
Centre d'Etudes
Africaines

| | | |
|----|---|----|
| 1. | Introduction – The Big Difference | 3 |
| 2. | Two oil-rich giants – Indonesia and Nigeria | 6 |
| 3. | Credit and collusion – Kenya and Malaysia | 13 |
| 4. | Easing back the state – Tanzania and Vietnam | 18 |
| 5. | The limitations of the market – Cambodia and Uganda | 28 |
| 6. | Discussion – Policy and interests | 36 |
| 7. | Conclusion – Development starts with agriculture | 44 |
| | Credits | 47 |

I. Introduction – The Big Difference

KUALA LUMPUR IS THE capital of the Federation of Malaysia and a prosperous metropolis. Its two million residents live in a well-organised space. The centre is home to colonial buildings in good repair and to austere skyscrapers, including the Petronas Twin Towers, which rise to a height of 452 metres. In a ring around the centre, there are the *shophouses* of Chinatown and Little India. And on the edges of the city, there are neat new areas and smartly swept kampongs. The city calmly gives way to the countryside.

Nairobi, the capital of Kenya, is a stranger to smooth transitions. The city is besieged by an impoverished countryside. In 50 years, its population has exploded from 500,000 to 6,000,000 and it can't cope. The slum district of Kibera, a few kilometres from the business centre, houses 600,000 people, maybe a million: nobody knows. It is a dangerous, dirty place. There are no pavements, hardly any lighting and no sewers.

When the two countries gained their independence from Great Britain – Malaysia (still Malaya then) in 1957 and Kenya in 1963 – they still resembled one another. The former colonies in Asia and Africa took up the reins of independence at more or less the same time and, in many respects, they got off to a similar start. At the end of the 1950s, they were in the same stage of economic development. Average per capita income in Africa and Southeast Asia was virtually identical.

Between 1960 and 2000, sub-Saharan Africa has stumbled from one economic failure to another, while some parts of Asia have booked spectacular growth. Particularly in the last 30 years of the previous century, the growth figures continued to diverge. As late as 1980, average per capita income in Southeast Asia was lower than in sub-Saharan Africa; by 1993, it was twice as high. In Africa, the percentage of people living in poverty between 1990 and 2002 – 44 per cent of the population – has remained unchanged against the backdrop of a rising population. In Southeast Asia, the poverty figure during the same period fell from 19 to 7 per cent.

So the World Bank's reference to the 'East Asian miracle' in 1993 was well justified. The term was used to describe the eight high performing Asian economies: Japan, Hong Kong, South Korea, Taiwan, Thailand, Malaysia, Singapore and Indonesia. With the exception of Hong Kong and Japan, all the rapidly-growing economies were newcomers. And five of them were in Southeast Asia.

In just a few years, they multiplied their food production and created successful export industries.

As these Asian Tigers started to roar in the 1980s, African exports were collapsing. What were the reasons behind this big difference? Was Africa failing to do something that Asia was doing right, or was it doing the same thing, but in the wrong way? Can Africa learn something from Asia? What actually gets development on the move? In 2006, the Dutch Ministry of Foreign Affairs initiated – and earmarked funding for – an international study with the aim of finding answers to these questions. The project was appropriately called 'Tracking Development'.

From 2006 to 2011, an international group of researchers – from Africa, Southeast Asia and the Netherlands – made a comparative study of half a century of economic development in four countries in sub-Saharan Africa and four countries in Southeast Asia. They focused primarily on the policies adopted over that period. In addition, the Asians also looked at an African country, while the Africans scrutinised a country in Asia. They were looking for turning points in development – bends in the growth curves – and for factors that could explain them.

The African researchers were coached by political scientist Jan Kees van Donge, an Africa expert affiliated to the African Studies Centre in Leiden, and previously to the International Institute of Social Studies (in The Hague: it is now part of the Erasmus University in Rotterdam). The Asians received support from social geographer David Henley, who was a researcher with the Royal Netherlands Institute of Southeast Asian and Caribbean Studies (KITLV) in 2006, and who is now a professor of Contemporary Indonesia Studies at Leiden University.

At the outset of the programme, Jan Kees van Donge described his view of the thinking behind the project. 'For Foreign Affairs, it's mainly about coming up with new ideas for their own policy. Many states in Africa depend on development aid from the Netherlands and elsewhere. For example, 52 per cent of Tanzania's budget is financed by foreign countries; in Uganda that figure is 48 per cent. It seems unlikely that this is sustainable.'

The spiritual father of the project is the historian Roel van der Veen, a diplomat with experience in Asia and Africa, the in-house academic at Foreign Affairs, and

a professor in Amsterdam and Groningen. Van der Veen admitted frankly at the start of the project that his ministry needed input for its Africa policy. 'The aid so far has not produced much development. Our thinking shouldn't get stuck in the African context because it doesn't have much new to offer. So it's a natural step to turn to the Asian success stories and look at the extent to which they can be used in Africa.'

* * *

THE TRACKING DEVELOPMENT PROJECT did not start off in a vacuum. Since the early 1990s, when the world realised how successful the Asian tigers were, people have been thinking a lot about why the Asians pulled it off, and Africa didn't.

In its report *The East Asian Miracle* (1993), the World Bank gave an explanation for the success of the tigers that has become an article of faith for donor countries. The countries in question had inflation under control. They nailed their exchange rates at a level that was good for exports. Their banking systems were operating effectively and that generated confidence in foreign investors. And they had even invested in education. The World Bank sketched a portrait of self-help and compared East Asia with Baron Von Münchhausen, who pulled himself out of the swamp by his own hair. A high internal savings ratio leads to investment, which leads in turn to economic growth, investment in education and the development of human capital. The tigers adopted exports as the goal, strategy and measure of development. Their first priority was: exports and integration in the global market. Western companies who moved their production activities en masse to low-wage countries in the 1980s went to Southeast Asia, not Africa.

Sub-Saharan Africa and Southeast Asia have a lot in common, starting with their colonial past. Both areas are also in the tropics, with all the ecological and medical problems that implies. Over the course of time, both of them have been integrated in the global economy as producers of raw materials and agricultural products for the rich countries. And both economies are dominated commercially by ethnic minorities: the Lebanese in West Africa, Indians in the rest of Africa, and the Chinese in Southeast Asia.

But there are also major differences. Some researchers point to geographical factors that affect economic development, concluding that Africa is worse off than Southeast Asia in that respect. The British political economist Paul Collier focused, in his article *Africa: Geography and Growth* (2006) on Africa's unfavourable physical and social geography. Collier breaks down countries into three categories: (1) resource-rich; (2) resource-scarce but coastal; and (3) resource-scarce and landlocked.

Globally, coastal countries without natural resources perform best. Landlocked, resource-scarce countries perform worst. In developing countries outside Africa, no fewer than 88 per cent of the population live in coastal countries with scarce natural resources. Eleven per cent live in resource-rich countries, and one per cent live in landlocked, resource-scarce countries. However, in Africa, the population is equally distributed over the three categories: only one third live in the most favourable category. Collier believes that this unfortunate distribution costs the continent 1 per cent growth annually.

Furthermore, sub-Saharan Africa is thinly populated. It is home to 650 million people in an area of 20 million square kilometres. The population of Southeast Asia, which covers only 4 million square kilometres, is almost as big (550 million). Sub-Saharan Africa is split up into almost fifty states with small, ethnically highly diverse, populations.

In 1997, World Bank economists William Easterly and Ross Levine developed an index for ethnic diversity: the probability that two randomly selected individuals in a single country will be members of the same ethnic group. Of the fifteen countries that scored lowest on this index – in other words, the most ethnically diverse countries – only one (India) was outside Africa. The authors calculated that 35 per cent of the difference in growth between Asia and Africa can be attributed to the difference in ethnic diversity. Greater diversity leads to more competition for natural resources, income and jobs with the government, possibly resulting in civil war.

In 2000, Easterly wrote that this link between diversity and growth is partly determined by the quality of the government institutions: 'Ethnic diversity has a more adverse effect on economic policy and growth when institutions are

poor. To put it another way, poor institutions have an even more adverse effect on growth and policy when ethnic diversity is high.' In 2006, the American economist John Morell published a model study of development in Africa and Asia in the years 1950-1972. He explained the gap, which was expanding even back then, by – indeed – the difference in the quality of state institutions.

The formulae from the 1980s and 1990s from the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO) amounted to free markets and a small state. Even so, more and more researchers have noted that the Asian states have been actively involved, for example by erecting protective barriers. The African failures, it is claimed, are largely attributable to the weakness of African states.

Jan Kees van Donge suspected, at the outset of *Tracking Development*, that Africa's biggest problem was to be found elsewhere. Agriculture, he told the *NRC Handelsblad* paper in October 2006, is Africa's weak spot. 'In recent years, growth has picked up slightly. But it is concentrated in export sectors with enclaves of relative prosperity: tourism, mining, fish farms and flower farms. They hardly stimulate the rest of the economy at all. And that rest consists of agriculture, a lot of agriculture.'

Support for his comments was not long in coming. Wageningen University organised a conference about the issue of 'Development in Africa?' on 10 October 2007. Hans Eenhoorn was a lecturer in Wageningen on Food Security and Entrepreneurship and a member of the Taskforce on Hunger established by the former head of the UN, Kofi Annan.

'An industrial revolution like in Southeast Asia', he said, 'is not an option for Africa. The continent cannot compete with India and China in the coming decades. In Africa, the rural population, which currently accounts for more than two thirds of the continent's inhabitants, will continue to be the majority for a long time into the future. Most people have access to land but the quality of the land is poor as a result of erosion, drought and exhaustion due to the repeated planting of the same crops. The same piece of land is split up into ever smaller sections as it is inherited. Raising smallholder productivity and improving access to the domestic market, which has been overrun by imported food, are the only ways to reduce hunger in Africa.'

The question is why this isn't happening. Niek Koning, a lecturer on agricultural economics in Wageningen, blames this on the imposition of the liberalisation agenda by international donors, who prohibit African countries from protecting their own agriculture: 'Tearing down tariff walls removes protection for farmers from falling global market prices. As a result, the agricultural societies get stuck in a downward spiral. Farmers have no margins to invest in sustainable land management. But that is what is needed when population pressure on land increases. That pressure leads to land degradation, which in turn pushes up poverty, reducing the margins for investment even further.'

In 2006, Van Donge put the blame for the stagnation in African agriculture mainly on politicians. 'The political elite in Africa is not really interested in the countryside. Barring an isolated exception, such as Kenya, there is no policy. African leaders often build houses, villas or palaces in their home villages, but not farms. In a country like Ghana, the entire economy is focused on migration, on getting away. There is a widespread feeling in Africa that you have to get out of your village, out of your country, if you want to get ahead in life. Perhaps people want to get away because the countryside has so little to offer and that, in turn, is caused by the fact that the policy elite turns its back on the villages.'

There were more than enough ideas. The study could start.¹

* * *

¹ The *Tracking Development* study produced a rich harvest. The coordinators Jan Kees van Donge and David Henley produced a special issue of the *Development Policy Review* (1/2012) with contributions from themselves, Peter Lewis, Riwanto Tirtosudarmo, Ahmed Helmet Fuadi, Othieno Nyanjom and David Ong'olo. Four doctorate students from Africa and Asia worked their findings up into doctorate theses: Ahmad Helmet Fuady looked at elites and economic policy in Nigeria and Indonesia, 1966-1998; Blandina Kilama discussed the cashew industry in Tanzania and Vietnam; Bethuel Kinuthia examined foreign investment in Kenya and Malaysia; and Leang Un studied educational policies in Cambodia and Uganda. An anthology will appear soon with articles from all the participants, including Kheang Un and Akinyinka Akinyoade. The latter is affiliated to the African Studies Centre and is the *Tracking Development* Nigeria coordinator. The anthology will be edited and provided with an introduction by the project's spiritual father Roel van Veen, the chairman of the Steering Group Bernard Berendsen, the director of the African Studies Centre Ton Dietz and a representative from the KITLV, Henk Schulte Nordholt. Development.

2. Two oil-rich giants – Indonesia and Nigeria

THE INITIATORS OF TRACKING Development had little difficulty in selecting the first pair of countries for a comparison of economic performance. Asia watchers and Africanists have been in agreement for some time on this issue: Indonesia and Nigeria are particularly suited for a comparison of this kind because they have a lot in common.

They are both regional giants. Indonesia is the largest country in Southeast Asia in terms of both surface area (1.9 million square kilometres) and population (230 million in 2009). Nigeria covers 933,000 square kilometres and, with 155 million residents in 2009, it is the giant of West Africa. Indeed: it is the most populous country in Africa. No less than 39 per cent of the total population of the ten member states of the Association of Southeast-Asian Nations (ASEAN) lives in Indonesia. Nigeria is home to 47 per cent of all West Africans. Both countries have very large cities. The Indonesia capital Jakarta has more than 9.5 million residents and Lagos, the economic metropolis of Nigeria, is home to 7.9 million. Approximately half of all Indonesians and Nigerians live in cities: 51.5 and 48.4 per cent respectively.

Indonesia and Nigeria each carry a lot of weight in their own regions. Indonesia is the centre of gravity of the Southeast-Asian economies. In 2009, 31.2 per cent of foreign direct investment in all 10 ASEAN countries went to Indonesia and the nine others account for more than 28 per cent of investment in the largest member state. The ASEAN secretariat has its offices in Jakarta. Nigeria has a similar position in West Africa. It is undisputedly the largest economy in the region and it is first fiddle in the regional organisation, ECOWAS.

The two countries are also comparable in terms of location and climate. Indonesia is an archipelago of 17,000 islands, 6,000 of which are inhabited. The long chain of islands straddles the Equator and the climate is damp and tropical throughout the country. Nigeria is also situated entirely in the tropics but there are variations in rainfall. The south has a tropical rainforest climate; the rest is predominantly savannah, from plains with tall grass and widely spaced trees in the middle of the country to Sahel savannah with shrub grasses and sand in the extreme north.

Both countries are extremely diverse, both ethnically and culturally. Nigeria is home to more than 200 ethnic groups and 500 languages are spoken in the

country. The largest ethnic groups are the Yoruba in the southwest, the Igbo in the southeast and the Hausa-Fulani in the north. Together, they make up 68 per cent of the Nigerian population. The dominant religions are Christianity (the faith of 48.2 per cent of the population, mainly Catholics, Anglicans and Methodists) and Muslims (50.4 per cent, mainly in the north). According to official statistics, only 1.4 per cent have other religions but, particularly in the predominantly Christian southeast, traditional beliefs are widespread.

Indonesia has more than 350 ethnic groups. The largest are the Javanese (45 per cent), Sundanese (14 per cent), Madurese (7.5 per cent) and coastal Malays (7.5 per cent). The population is unevenly distributed across the archipelago: 57.5 per cent of Indonesians live on Java, traditionally the centre of political and economic power. There are tensions between the ethnic Chinese, who account for 3 per cent of the population and 70 per cent of the capital, and the rest. Indonesia recognises six religions: Islam, Protestantism, Catholicism, Buddhism, Hinduism and Confucianism. Approximately 90 per cent of the population are Muslims, which makes Indonesia the country with the largest Muslim population in the world.

In constitutional terms, Indonesia and Nigeria are both products of colonial powers. In 1800, the Netherlands inherited the territorial possessions of the bankrupt East India Company (VOC). In a series of military campaigns, such as the Java War (1825-1830) and the Aceh War (1873-1914), the Dutch united the extensive Indonesian archipelago, with its hundreds of larger and smaller princedoms, into a single colony: the Dutch East Indies. The defeat of the Royal Netherlands East Indies Army (KNIL) by the Imperial army of Japan in March 1942 signalled the start of an occupation that was to last three and a half years. After the Japanese surrender, Indonesian nationalists refused to accept the restoration of Dutch sovereignty and declared independence on 17 August 1945. This was the beginning of four years of negotiations and military confrontation. Finally, in December 1949, the Netherlands relinquished sovereignty to the Republic of the United States of Indonesia (RSI).

In the pre-colonial era, the territory of what is now Nigeria was split up into different kingdoms: Bornu in the northeast, the Hausa and Fulani empires in the north, Benin in the south, Nri in the southeast and a number of small Yoruba empires in the southwest. In the early nineteenth century, British merchants

arrived in the Niger Basin. A Royal Charter dating from 1886 granted the Royal Niger Company the authority to set up an administration in the area and to regulate trade. In 1914, Britain united the various protectorates to form Colonial Nigeria. After World War II, there was a clamour for independence and, in 1954, Britain granted Nigeria self-government and the country became fully independent from the United Kingdom on 1 October 1960.

Both Nigeria and Indonesia had a centralist government in the first half century of their independent existence. Nigeria is admittedly a federal state, but the states were, and continue to be, highly dependent on funding from the centre, especially since the arrival of oil prospecting in the Niger Delta, the proceeds from which flow directly into the coffers of the central government. Just one year after the transfer of sovereignty, the Indonesian federal state RSI, in which the states enjoyed considerable autonomy, made way for the unitary state of Republik Indonesia. It had a centralist government that remained in place until the fall of President Suharto in 1998. In 1999, the regencies, a level of government between the districts and the provinces, were granted extensive autonomy.

Both countries had a long period of military government, or government dominated by the military. In Nigeria, this period lasted from 1966 to 1998, and was interrupted by five years of civil government only (1979-1983 and 1993). In the first four decades of its existence, Nigeria endured six successful and three failed military coups. Under the New Order (1966-1998), the Indonesian armed forces colluded with the President, former general Suharto, and the powerful civil service to play a leading role in the government of the country. It was only in 2000 that the military renounced their automatic representation at all levels of government.

Nigeria and Indonesia both have sizeable oil reserves. In the Dutch East Indies, the Royal Dutch Petroleum Company drilled the first major oil well in 1899 near Perlak, Sumatra. Since then, oil has also been found in Kalimantan and Indonesia became a major oil producer. Shell, the Royal Dutch Petroleum Company's British partner, discovered the first valid oil field in the Niger Delta in 1956 and, in the 1970s, Nigeria became Africa's largest oil-producing country. In both countries, the oil reserves are the property of the state and joint venture agreements with foreign oil companies are entrusted to state companies: the Indonesian company Pertamina (which was founded in 1957

when President Sukarno nationalised the oil industry) and the Nigerian National Oil Corporation (NNOC, founded in 1971 after General Gowon partly nationalised the oil industry in Nigeria). State income increased spectacularly in both countries during the 1973 oil crisis.

The two countries have something else in common: political elites abuse their positions of public power to line their own pockets. President Suharto's regime built up a reputation in the 1980s for granting government work and other favours to the friends and family of the president, a practice referred to in Indonesia by three letters: KKN. In other words, 'Korupsi (Corruption), Kolusi (Collusion), Nepotism'. Successive – generally military – regimes in Nigeria have also dipped into the state coffers for themselves, their friends and their supporters, and negotiated sizeable kickbacks from oil companies. On the basis of their scores on the international Corruption Perception Index (CPI), Indonesia and Nigeria can reasonably be described as two of the most corrupt countries in the world.

* * *

BECAUSE INDONESIA AND NIGERIA are so alike, it is striking that they have performed so differently in economic terms over the past four decades. In the 1960s, Nigeria and Indonesia were a virtual match in terms of **gross domestic product** (GDP). The World Bank has stated that Nigerian GDP was actually rising faster than Indonesian GDP at that time: 5.07 per cent and 4.18 per cent respectively. After 1968, the figures started to diverge. Between 1968 and 1998, the Indonesian economy grew by 6-7 per cent annually, whereas Nigerian GDP increased by less than 4 per cent a year during those same 30 years.

The **per capita income** (GDP divided by the number of inhabitants) in Nigeria was not only higher than in Indonesia in the 1960s, it was also rising faster: 2.6 per cent a year; as opposed to 1.9 per cent in Indonesia. But the roles were reversed after 1968. From that point onwards, per capita income in Indonesia started to rise faster, matching Nigeria in 1982. Between 1971 and 1980, Indonesian per capita income rose by 5.4 per cent annually; the figure for Nigeria was 2 per cent. And the gap got ever wider: in the period 1981-1990, per capita income in Nigeria fell by 1.5 per cent a year; whereas that of Indonesia continued to rise at an annual rate of 4.5 per cent.

Growth figures and national average tell us little about **income distribution**. The contrasts are even more obvious when we look at the percentages of people in Indonesia and Nigeria living below the poverty line. According to the standards used by the World Bank, the poverty line is the income equivalent of 1 dollar per person per day. Anybody who has to manage with less is considered to be poor in absolute terms. The percentage of poor Indonesians has declined steadily since the 1970s. In 1970, 60 per cent of Indonesians – approximately 70 million people at the time – were living below the poverty line. In 1986, this percentage had fallen to 28 per cent; it had dropped to 17 per cent in 1993 and then to 14 per cent in 1996. In Nigeria, the percentage of poor people has risen since 1970. According to the World Bank, 40-50 per cent of Nigerians were living in poverty between 1973 and 1985, and this figure rose to 66 per cent in 1986 and 78 per cent in 1996.

8 A measure for development is change in the **economic structure** of a country, in other words in the percentage contribution made by agriculture, industry and the service sector to GDP, and in the range of goods exported. In the 1960s, Nigeria and Indonesia were both still agricultural countries; agriculture accounted for more than half of GDP. At the time, less than 15 per cent of GDP came from industry. In the 1970s, the share of agriculture in the GDP of both countries fell to 31 per cent and the contribution made by industry grew accordingly.

But this is where the similarity stops. Closer inspection shows that there were a number of major differences between the two economies. For example, Indonesian agriculture performed much better than its Nigerian counterpart in the 1970s. After the start of the oil boom in 1973, agriculture in Indonesia grew robustly by 4.5 per cent a year; whereas Nigerian agriculture failed to achieve even 1 per cent growth. In the African country, the expansion of the oil industry had a negative impact on agricultural performance.

There were also major differences between the two countries in the expanding secondary sector (mining and industry). In Nigeria, oil ruled the roost and manufacturing industry lagged behind, contributing only 5.3 per cent to GDP, less than one fifth of the secondary sector as a whole. Income from industrial products as a share of GDP continued to fall in the 1980s, reaching a level of less than 5 per cent in the first decade of this century. The Nigerian economy

has been entirely dominated since the mid-1970s by the oil industry, which has remained the source since then of 90 per cent of export income.

In Indonesia, the expanding role of the oil industry was accompanied by a rise in the production of industrial goods. In the 1990s, the latter accounted for more than half of the added value of the secondary sector. In 1991, exports of textiles, shoes and simple electronic goods made up the lion's share of total exports, generating more revenue than oil exports. Since then, industrial products have contributed most to Indonesian GDP. The Indonesian economy has, since 1970, changed from an agricultural economy into an industrial and service one, while Nigeria has remained entrenched in its monoculture: oil.

* * *

WHY DID NIGERIA NOT follow Indonesia's example, failing to transform its oil riches into growth and reduce poverty in that way? Some analysts believe that this is a result of the weak Nigerian state. They claim that the ethnic divisions in the country and its political elite have resulted in fragmentation and instability. They postulate that, in the absence of a dominant ethnic group and political consensus, successive governments have been more concerned about keeping their grip on power and their share of public income – in other words, short-term interests – than about a long-term strategy to boost economic growth in the interests of the country as a whole.

Tracking Development researchers Ahmad Helmet Fuady and David Henley do not believe that Nigerian institutions were responsible for the economic failures. They point out that the country, after the civil war with the secessionist Biafra (1967-1970), succeeded despite enormous ethnic diversity in maintaining national unity and that, in that respect, it has been as successful as the Indonesia of the New Order. Despite the economic meltdown of the 1980s, Nigeria has built a new and efficient capital: Abuja.

Notwithstanding the numerous military coups, Fuady and Henley found considerable continuity in Nigeria's political elite. For example, General Ibrahim Badamasi Babangida dominated Nigerian politics for 20 years before and after his coup in 1983, even though he stayed in the background after his resignation in 1993. President Olusegun Obasanjo, who was elected in 1999, was himself one of the military leaders of the country from 1976 to 1979, at a time when Babangida was a member of his High Military Council. Obasanjo's campaign for

the presidency in 1999 was financed by this godfather of Nigerian politics. According to the same 'institutional school', which attributes Nigeria's poor economic performance to weak state institutions, Indonesia owes its successes to three decades of political stability under Suharto's New Order. During that time, an influential group of economists trained abroad, the 'Berkeley mafia', was able to steer a consistent course in economic policy. Thanks to his long-undisputed position of power, Suharto was able to shelter these technocrats and prevent them from being subjected to political pressure by other players. And indeed, the technocrats did play a major role in developing economic policy in the years 1966-1998. Five of them were educated at the University of California in Berkeley, and two at the Netherlands School of Economics (NEH) in Rotterdam. The nestor was Soemitro Djojohadikoesoemo (1917-2001), who came from old Javanese noble stock. Before World War II, he studied at the NEH and, in the 1950s, he trained a generation of economists at the Universitas Indonesia in Jakarta, including the later Berkeley boys. Some of the economists, including Widjojo Nitisastro (1927-2012), taught at the Indonesian Army Staff and Command School (Seskoad) in Bandung prior to the change of power in 1966. One of their students was Suharto. When he came to power, these economists were given key posts in his cabinets.

But Nigeria also had a generation of economically educated technocrats and their careers more or less overlapped with those of their counterparts in Indonesia. Under the regime of General Yakubu Gowon, who took power in 1966, a number of economists trained in Great Britain were given high-ranking civil service positions where they had more or less a free hand. They included Allison Ayida, Philip Asiodu, Oletunji Aboyade and Olu Falae. They did not keep their posts as long as the Indonesian Berkeley mafia because they were moved aside gradually after Gowon was deposed in a coup in 1975. Even so, many in the Nigerian elite shared their economic ideas and they continued to exert an influence, even under post-Gowon governments.

It was when these Nigerian technocrats were determining policy in the 1970s that Nigeria and Indonesia began to diverge in terms of economic performance. The fact that Nigeria and Indonesia's results were so different, say Fuady and Henley, was not the result of different political constellations but of major differences in **policy**.

* * *

THE POLICYMAKERS IN Indonesia and Nigeria had, first of all, very **different priorities**. That Indonesian GDP started, after a long period of stagnation, to rise in 1967, the year when General Suharto became president, and continued to rise by contrast with Nigeria was attributable to a pro-poor, pro-rural development strategy. That strategy was primarily aimed at boosting the productivity of peasant farming, the sector of the economy upon which most Indonesians depended for their livelihoods.

In the 1970s, one third of the Indonesian development budget went to agriculture. Public resources were used to improve the irrigation system and new rice varieties became available with higher yields. Fertilisers and credit were highly subsidised. Furthermore, the state guaranteed a minimum price for the rice produced by all farmers. Between 1968 and 1985, yields per hectare rose by 80 per cent. In the 1960s, Indonesia was still the world's largest importer of rice; by 1984, the country was self-sufficient. Indonesia financed investment in agriculture and rural areas from foreign aid first, and later from oil revenue too when it boomed after 1973.

The new agricultural technology was labour-intensive and it did not result in large numbers of small farmers being driven off the land. Tens of millions of farmers and land workers benefited. The rural economy as a whole was dragged out of the swamps of stagnation because the development that started in the late 1960s and early 1970s in rule all areas did not remain confined to agriculture. The government also invested in roads, electricity, schools and health care in the rural villages, which were home to 70 per cent of the population.

The process of industrialisation based on exports that some economists now see as the key to Asian success was, in Indonesia, actually a secondary development that started only once growth had become firmly entrenched. Even in 1982, after fifteen years of sustained growth and poverty reduction, the production of industrial goods in Indonesia accounted for only 11 per cent of GDP and 3 per cent of exports. The trend of declining GDP was reversed in the direction of steady economic growth in the late 1960s, while export-driven industrialisation took off only in the mid-1980s.

Once industrialisation actually got started, it moved fast. Henley and Fuady point out in this respect that this was a response from the private business sector to results from the preceding phase of development: macro-economic stability, personal saving and investment, a large domestic market and a reliable supply of affordable food for industrial workers. Once the economy as a whole started

to grow, private parties started to have confidence in the country. During the course of the 1980s, they started to invest in labour-intensive industries for exports: clothing, shoes and electronics. Ultimately, this labour-intensive manufacturing industry contributed to a significant extent to the reduction of poverty in Indonesia by creating employment for hundreds of thousands of workers, usually for low wages. However, industrialisation only really took off when widespread poverty in rural areas had been pushed back by agricultural growth. Indonesia made most progress in combating poverty in the 1970s and the early 1980s, before there was any question of an export industry.

In one article, Henley sets out the two principles for successful development planning adopted by the Indonesian technocrats.

The first principle amounted to the following: development is above all a question of numbers and the most effective policy is what provides direct material benefits for the largest number of people. Widjojo Nitisastro, the leader of the Indonesian technocrats, provided an explanation in the First Five Year Plan (1967-1972) for the New Order of why efforts were concentrated on agriculture. It was very simple: the majority of Indonesians lived from agriculture, either as smallholders or as landless farm workers. Agricultural development raised the income of the majority of the Indonesian population and therefore led to an increase in national income. Widjojo and his colleagues started with 'shared growth'. Large swathes of the population benefit directly from economic growth and do not need to wait until the benefits from the activities of the rich 'trickle down'.

The second principle was: fast results. The Indonesian planners realised that what matters at an early stage of development is not long-term planning but a deliberate concentration on short-term goals. Widjojo and his colleagues did not look beyond the ongoing five year plan during the 1970s. And that first plan was so sketchy that it did not include any targets at all for growth, saving or investment. Their primary focus was on sticking with the priorities that had been set. And their first priority was agriculture, in Widjojo's words 'the central arena in which all efforts are concentrated and results expected'.

Fuady and Henley described the contrast with the Nigerian approach as 'dramatic'. Successive governments there saw 'development' primarily as rapid industrialisation to get ahead of backward agriculture. In Nigeria, the share of agriculture in the development budget fell from 10 per cent in the Second National Development Plan (1970-1974) to 6 per cent in the third National

Development Plan (1975-1980), which benefited hugely from oil revenue. Government investment in industry amounted to 16 per cent. Nigeria's priority was not agriculture, but industrialisation. The oil boom of the 1970s generated the resources needed to realise the planners' industrial visions. And they were able to go their own way because the military shielded them.

While Indonesia was spending its oil dollars in the 1970s on labour-intensive agriculture, Nigeria was using its oil revenue for capital-intensive industrial projects, including an enormous steel factory that has never produced any steel. Even when they produced something, these new industries employed very few people. They were like cathedrals in the desert. The theory was that they would result in more growth by stimulating other sectors of the economy and acting as 'growth poles'. But the planners did not really expect this to happen quickly. The Nigerian technocrats were primarily interested in added value, transferring technology and the Nigerian share in industrial investment. They based their thinking on the 'trickle-down effect' of industrial megaprojects, not on shared growth. They were not interested in the relationship between industrialisation and combating poverty. They accepted the fact that the gap between the rich and the poor would increase as their ambitious projects went ahead. That was, in the words of one of them, Allison A. Ayida, 'the price of rapid development'.

Henley believes that this, in somewhat simplified terms, is what the difference in thinking between the Indonesian and Nigerian planners in the 1970s amounts to. The Indonesians saw development as a process that would result in poorer people getting richer, whereas Nigerians saw development as a process of transformation in which poor countries acquire things that rich countries have, and poor countries haven't. The Nigerian planners saw heavy industry and higher education as talismans of development. They believed that you needed them to develop. Their point of reference was an idealised form of 'modernity', in other words industrial modernity, the desirable destination of the development process. The Indonesians, argues Henley, had another point of reference: the grim reality of rural poverty, the undesirable point of departure for the development process. This could only be tackled at root, using available resources, and not by planning for a distant future but by setting priorities and acting accordingly.

* * *

WHY DID THE INDONESIA of the New Order grant priority to farmers and rural areas, while the Nigerian government opted for industry and the cities? There are three explanations in circulation: (1) social pressure; (2) the social background of the political elites and (3) the intellectual baggage of the technocrats.

The first explanation argues that the political realities of the 1960s forced the military powers in Indonesia to take the interests of smallholders seriously. The communist party of Indonesia, the PKI, depended on the support of the Javanese rural poor and seriously threatened to become the largest party in the mid-1960s until it was crushed by the military in 1965. The development plans for rural areas served, in this view, to neutralise the appeal of political radicalism and therefore to safeguard the power of the elite.

The fact that the military in Nigeria did not feel any need to combat rural poverty may be due to the absence of any significant party in Nigerian politics that acted in the interests of the farmers. Rural Nigeria, and rural Africa in general, does not play any role in the political calculations of the elite. It was – and still is – ‘outside the public arena’. In that respect, Nigeria follows the African pattern in which governments see their power threatened primarily by unrest in the cities and conflicts within the elite, which generally erupt in the form of military coups, rather than by political activities involving farmers. African elites, in this first view, attune their policies to the interests of urban lobbies: civil servants, workers in state companies, unions and the armed forces.

Suharto, who was Indonesia’s strong man for more than thirty years, was the son of a Javanese farmer and he was fond of parading that fact. During his period in office, there were life-sized posters of the president as the ‘Father of Development’, wearing a hat of weaved bamboo and carrying a sickle and sheaves of rice. Nigerian rulers also have close links to the villages. In the 1970s, a survey in western Nigeria showed that 56 per cent of politicians and 59 per cent of civil servants were from farming families. Olusegun Obasanjo, who led Nigeria from 1976 to 1979 and from 1999 to 2007 was, like Suharto, a farmer’s son.

But that background is not particularly significant. Talking to his *ghost writers* G. Iwipayana and Ramadan K.H., Suharto shamelessly dwelt on memories of his childhood years: riding on the back of a water buffalo and playing in the mud of the paddy fields. Later, as president, he only really seemed to be in his element during working visits to the countryside. On those occasions, he would talk spontaneously to the drummed-up groups of farmers about the latest fertilisers and rice varieties. By contrast, Obasanjo’s biography exudes an air of disdain for his village roots. ‘His father’, writes his biographer Onukaba A. Ojo, ‘wanted his children to escape the drudgery that was peasant farming in Africa. (...) On their way home from the farm one day, Obasanjo said to his son: “Olu, is it this toilsome farming you would want to continue with in life?” ... “Would you like to learn a trade?”’ He answered: ‘Motor mechanic.’

Nor do the university backgrounds of the Indonesian and Nigerian technocrats provide a solution. The Berkeley-educated Indonesians primarily had a technical and practical view of national economies. As one of them, Mohammad Sadli, put it, their thinking was primarily pragmatic: what was good was what worked. In so far as they had been exposed to philosophical and political-economic ideas, they were mainly inclined to the left. When the Indonesian technocrats were studying in Berkeley, the Greek socialist Andreas Papandreou ruled over the Economics Department. Nevertheless, little could be seen of his influence once they became ministers.

The most influential Nigerian technocrats, Ayida and Asiodu, studied Politics, Philosophy and Economics in Oxford, a degree that prepares students for a career in public service. Benazir Bhutto and Aung San Suu Kyi also graduated from the same department. The curriculum covered political economics and that may have imbued the Nigerians with the idea that state power is needed to change existing property relationships and patterns of behaviour. Other Nigerian technocrats were also exposed during their studies in England to left-wing ideas about the need for state intervention. But that is also true of Sumitro, the *grand old man* of the Indonesian economists. In Rotterdam, he studied under Professor Jan Tinbergen, a social democrat who, in 1934, was one of the authors of the Labour Plan and who was the first director of the Dutch Central Planning Office after the war. Even so, Sumitro and his pupils at the Universitas Indonesia under the New Order clearly had considerable faith in the free market.

* * *

ALL THESE FACTORS MAY have played a role in the policy decisions made by the rulers of Indonesia and Nigeria. Nevertheless, Tracking Development researchers Fuady and Henley believe the most important is the wide gap in the personal backgrounds of Indonesian and Nigerian policymakers and the different lessons they adopted as a result.

The Indonesians went through the school with the hardest knocks. In the 1950s and 1960s, they faced the derailing of the Indonesian economy under Sukarno, the country's first president. He was a wily power politician and a gifted populist, but he knew nothing about economics. In 1957, he nationalised all Dutch companies, from plantations and sugar factories to banks and shipping lines, transformed them into state companies and imposed a permit system on international trade. His governments systematically spent more than they earned, particularly on national prestige projects, but not on services and infrastructure. The rupiah, the national currency, was overvalued by a factor ten. Smuggling, black market and corruption flourished and poverty took on terrifying dimensions. In the mid-1960s, Indonesia was plagued by hunger and hyper-inflation. By that time, it had become the world's largest rice importer and per capita income was lower than in 1930. Soemitro, Widjojo and their younger colleagues looked on, and concocted a way out of the crisis.

Since independence, Nigeria had not been faced by an economic crisis of similar proportions, despite three years of civil war (1967-1970). The country was less densely populated, it had more fallow agricultural ground than Indonesia, and no shortage of food. The overvaluation of the naira and state control of trade in agricultural products had not benefited exports, and high tariff walls to protect the new domestic industry pushed up prices. Even so, despite the high price of oil, Nigeria had no budget deficit or problems with declining infrastructure in the 1970s. As a result, the effects of policy did not get planners concerned. When the oil price collapsed in the 1980s, stagnating growth was blamed on over-spending, market vagaries and corruption, not on the adopted development strategy. The only problem, it was thought, was that the strategy was not being implemented in the right way.

Fuady and Henley arrive at a different conclusion in their comparative study. The policy decisions taken by the two countries in about 1970 were responsible for the Indonesian successes and the Nigerian failures.

* * *

3. Credit and collusion – Kenya and Malaysia

THE INTRODUCTION has already described how Kenya and Malaysia, two former British colonies, started their independent existence in comparable circumstances. In the 1960s, their economies remained in step. But in the course of the 1980s and 1990s, the trajectories diverged further and further. Malaysia was more successful than Kenya in combating rural poverty. The government in Nairobi did not back the masses of poor farmers, who required most attention, but put its money on a small group of 'progressive' agricultural entrepreneurs. The Malaysian efforts to improve rural conditions were more successful, but focused less on improvements in food crops than in Indonesia. Kuala Lumpur placed the long-term emphasis on palm oil, and production for export.

The under-performance of Kenya is often attributed to governance weaknesses such as corruption and nepotism. Malaysia's superior economic achievements were, it has been suggested, due to the country's ability to clamp down on the abuse of public office. Researcher Jan Kees van Donge conducted a comparative study for Tracking Development of Kenyan and Malaysian performance and arrived at a slightly different conclusion. He discovered that Malaysia was also afflicted by institutional shortcomings, such as the practices referred to there as 'money politics', with intimate relationships between politics and business. But Malaysia was able to limit the damage thanks to the revenue from oil. Oil not only provided the necessary investment resources, it also enhanced the country's credit rating, allowing it easier access to the international money markets. Kenya, Malaysia's counterpart in Tracking Development, lacked these rich resources and had difficulty in finding sources of foreign financing. The difference between Malaysian and Kenyan performance, says Van Donge, isn't a question of good governance and bad governance but, in highly simplified terms, of credit or a lack of it.

* * *

IN KENYA AND MALAYSIA, Marxist or radical socialist ideas never took root among the policy elite. After independence, state companies were established but governments preferred free enterprise; private ownership of the means of production was the norm. There was some state intervention in the economy in both countries. In Kenya, trade in agricultural products was managed by government authorities. And in the 1970s, Malaysia launched its New Economic Policy (NEP), a form of affirmative action favouring the largest ethnic group, the

Malays. The thinking behind that policy was that a counterbalance was needed to offset the economic dominance of the Chinese minority. Malays were given cheap shares and credit. A similar programme was a feature of the Kenyan landscape, where the government tried to encourage the formation of a Kenyan business class alongside the enterprising Asian minority. The programme was particularly beneficial for the largest ethnic group, the Kikuyu. Nevertheless, the two countries corrected state intervention from time to time by means of deregulation and privatisation. Foreign investors have always been welcome in both Kenya and Malaysia.

Despite occasional outbursts of political unrest, the two countries were relatively stable. Kenya had just two presidents in the first four decades of its existence: Jomo Kenyatta (1964-1979) and Daniel Arap Moi (1979-2003). The history of the Federation of Malaysia has been dominated by two prime ministers: Abdul Rahman (1957-1969) and Mahathir Mohamed (1981-2003). For 40 years, the two countries were de facto one-party states. In Kenya, the Kenyan African National Union (KANU) held the reins of power without a break until 2001. Malaysia has parties organised on ethnic lines. Since 1957, power has been held by a coalition of the United Malays' National Organization (UMNO), the largest party of Malays, and the Chinese and Indian political organisations.

Despite these similarities, economic progress in the two countries has been very different indeed. Since independence, the Malaysian economy has expanded exponentially, with the exception of brief intervals in the mid-1980s and during the Asian crisis of 1997. Average growth between 1961 and 2009 was 6.4 per cent. In Kenya, economic growth flattened out at the same level (4.6 per cent) after a promising start in the 1960s, with a peak at the height of the coffee boom in 1971 and an all-time low – with the economy shrinking by 4.7 per cent – after the outbreak of the oil crisis (1973).

* * *

VAN DONGE EXAMINED the histories of the two countries to see whether he could identify any turning points in economic development, looking for factors that might explain the discrepancy in performance. He looked first at gross investment. In the years 1981-1990, it accounted for 30 per cent of GDP in Malaysia and 20 per cent in Kenya. In the next ten years, the gap grew to 36

and 17 per cent respectively. This slow-down in investment suggests that Kenya had fewer and fewer sources of financing and that, as a result, growth stagnated. The pattern in Malaysia was the reverse.

Both countries relied heavily on foreign loans to finance their economic growth – alongside domestic economies, assistance and direct foreign investment. The result was increasing foreign debt as a proportion of GDP. In Malaysia, that percentage began to fall to a manageable level in 1988 – from 75.6 per cent in 1987 to 55.7 per cent – whereas it continued to rise in Kenya to no less than 131.9 per cent in 1993, after which there was a slight reduction.

The pattern is similar for debt servicing (interest and repayments) as a proportion of income from exports. In Malaysia, this figure fell to well below 10 per cent after 1986 but persisted at a level in excess of 20 per cent until 1993 in Kenya. This does not mean that Malaysian debt was reduced in absolute terms. In the years 1985-1995, long-term debt almost doubled, while Kenya's foreign debt rose by 55 per cent over the same period. Malaysia therefore had much more credit abroad than Kenya. The difference becomes even more pronounced if we turn to the size of the populations of the two countries. In 1965, they both had 9 million inhabitants. In 1993, the population of Kenya had risen to 26 million and that of Malaysia to 19.5 million. In the period 1988-1993 – when the debt positions started to diverge – per capita debt in Kenya was USD 195, contrasting sharply with the individual debt of Malaysians of USD 865. Malaysia was in a position to borrow more than Kenya, and it did so.

This seems contradictory: the debt-service obligations of Malaysia fell as a percentage of export income and GDP even though the debt increased in absolute terms. But this paradox is actually the key to Malaysia's success: the economy was pushed into a virtuous spiral in which rising debt-servicing was paid from growth. This was a feature of the mid-1980s in particular, when Kenya's debt rose to very high GDP percentages. At that point, the Malaysian economy was starting to grow rapidly, strengthening its international position: the financial world was confident that growth would continue – and credit is a question of confidence.

In Kenya, exactly the opposite happened: the economy moved into a downward spiral because debt servicing was swallowing up an excessive proportion of

export income. And the size of the debt handicapped Kenya in its efforts to obtain more long-term loans. As a result, in the mid-1980s, it had to turn to the International Monetary Fund (IMF).

Of course, countries do not rely exclusively on foreign loans to finance their development spending. Another important source of financing is development aid. Kenya received much more aid than Malaysia. If we look at aid received as a percentage of GDP, Kenya received an average of 9.5 per cent a year in the 1980s, compared with Malaysia's 0.6 per cent. In the years 1980-1994, aid to Malaysia was minor compared with Kenya, which, at that time, was receiving an annual USD 30.6 in aid per capita. The per capita amount received by Malaysia was USD 12.6.

Another source of investment is income from natural resources. The Kenyan resources in that respect are limited because the country has no mineral stocks of significance, whereas Malaysia's oil reserves generated income for that country of USD 133 per capita in the years 1982-1994. Furthermore, oil exports had a beneficial effect on the Malaysian balance of trade and payments. Between 1980 and 1994, Malaysia had an average surplus on the balance of trade of 5.8 per cent of GDP. Without oil, that would have been an annual deficit of 1 per cent. That positive trade balance had a favourable impact, in turn, on the ratio of debt servicing to exports and that is a factor that enhances a country's creditworthiness. During that same period, Malaysia repaid debts annually to a tune that exceeded its revenue from oil exports.

And during those years, Kenya had an annual trade deficit amounting to 7.1 per cent of GDP. The difference with the Malaysian surplus of 5.8 per cent was no less than 12.9 per cent.

Van Donge calculated the difference there would have been if Kenya had benefited from comparable oil income. The calculations took the difference in the size of the two economies into account; Kenya's economy is much smaller than Malaysia's and the hypothetical Kenyan oil sector was required to account for a share in the economy that was comparable to its actual Malaysian counterpart. The calculation indicated that, during the period in question, Kenya would have had a modest trade surplus: 1.4 per cent of GDP. The imaginary oil exports would have generated extra income for Kenya of 618 million US dollars; actual debt servicing amounted to 506 million dollars over that period.

The oil income of Malaysia also helped to balance the budget. Between 1980 and 1994, that income accounted for 20 per cent of government revenue, while the country had a budget shortfall averaging 0.4 per cent of GDP over the same period. Without oil, that deficit would have been much bigger: 5.1 per cent of GDP. Without the oil income, it would have been much more difficult to keep inflation low and stabilise the exchange rate of the ringgit, the Malaysian dollar. So oil was the bedrock of both monetary and exchange rate policy.

If Kenya had actually had Van Donge's hypothetical oil sector, it would have boosted not only the balance of trade on payments, but also public finances. During the period under consideration, 1980-1994, Kenya had an average budget deficit of 4.2 per cent of GDP. The hypothetical oil income would have provided Kenya with a modest average surplus of 1.3 per cent between 1980 and 1992. During the latter half of those years, Kenya's debt burden actually became unsustainable.

Van Donge's comparison brings him to the provisional conclusion that access to financing largely explains the difference between stagnation in Kenya and ongoing growth in Malaysia. It explains above all the divergent growth trajectories after 1985, when Kenya entered a downward spiral of problems with its balance of payments and low growth, and Malaysia picked up the spiral of expanding credit and accelerating growth. Malaysia's spiral was fuelled primarily by its oil, asserts Van Donge. Even so, he recognises that neither oil nor credit are adequate explanations for growth.

* * *

MINERAL RESOURCES can be both a blessing and a curse. Development literature even uses the term 'resource curse': a combination of rich mineral resources and low growth. Governing elites can be tempted by revenues from oil or minerals to turn to *rent seeking*. This is the unproductive use of government positions and schemes. In economic terms: value is extracted from a resource (for the classical economist David Ricardo, this was land) without compensation and without contributing to productivity. In short, fast profits without enhancing prosperity. For example, governments fail to invest in establishing the institutions that strengthen the state, such as an adequate tax system, and instead allow state institutions to grow in order to meet demand

for jobs from their own supporters. Development literature often claims that Malaysia escaped from this curse as a result of the quality of its institutions.

Access to financing, we read, depends on strong institutions and productive economic policy, regardless of whether a country has rich mineral resources. In its report *The East Asian Miracle* (1993) the World Bank devotes a chapter to Malaysia in which it claims that economic policies that furthered confidence were the reason for Malaysia's generous access to foreign credit. And, in a study from 2008, five development economists, including the Tanzanian Benno Ndulu and the Brit Paul Collier, argue that shortcomings in governance constituted the main obstacles to economic growth in Africa. They do not mention access to financing.

Did Malaysia perform so much better than Kenya thanks to the quality of its institutions, which ensured that the country made sensible use of its oil resources, escaping the 'resource curse' as a result? Or did Malaysia prosper so much because the country, in part because of its oil, had much more generous access to financing than Kenya?

Many politicologists and economists blame the economic decline of Kenya on inappropriate political meddling with the economy and poor governance. They seek the causes in Kenya's political system: parties are primarily ethnic coalitions that are kept together by handing out jobs, bribes and unproductive investments that generate short-term profits only. In Kenya, appointment to public office creates obligations, not so much to an anonymous public as to the people who have made the appointment possible and to the civil servant or politician's own ethnic and/or regional supporters. Public resources are not thought of as community possessions but as a pork barrel for officials that they can use to strengthen their networks and positions of power. This is a pattern that is thought to frighten off foreign investors.

Cashing in on public office and collusion between politicians, civil servants and entrepreneurs are well-established traditions in Kenya. Even back in the 1960s, the court of President Kenyatta was the place where favours were handed out. Financial institutions were always subject to political pressure and government bodies established to promote Kenyan enterprise were crippled by large non-performing loans granted to friendly, but dubious debtors.

In the early 1990s, the Kenyan economy went through its most severe crisis and there was certainly a link to machinations at the highest level. The macro-economic problems were partly a result of the Goldenberg scandal. A Kenyan company, Goldenberg International, that had been founded by a prominent businessman, diverted a government programme intended to earn foreign currency. Kenya grants fiscal facilities and, in some cases, export subsidies to companies that focus on exports. Exporters housing their dollar income with the central bank were given the equivalent value in Kenyan shillings, plus 20 per cent, by the government. Goldenberg reported fictitious gold exports as a way of extracting money from the public purse. In practice, between 1991 and 1993, the company actually obtained a bonus of no less than 35 per cent on its foreign exchange income. Kenya has just one operational goldmine and it is not a significant exporter of gold. So the scheme included importing gold from the neighbouring countries of Congo and Tanzania, which was then exported legally. It is entirely possible that, in fact, only minimal amounts of gold were exported. Members of Arap Moi's government and leading civil servants working for the central bank were involved in this scam, and they also shared in the profits.

According to a committee of enquiry, the affair cost the Kenyan state 800 million US dollars and it had disastrous consequences for the economy. To cap it all, it coincided with the elections of 1992, during which Arap Moi's regime pumped billions of shillings into the economy, resulting in hyperinflation in 1993. Industries were forced to close because of their debts with the banks as a result of price rises and a vicious rate of interest, the result, in turn, of large domestic loans taken out by the state to remove excess money from the economy. Those measures generated even more problems for the real economy.

In Kenya, the state is no match for wily elites looking to make a buck for themselves. However, the state in Malaysia also has its weaknesses. There, the boundary between the public and private sectors has been blurred by what is known there as 'money politics'. The many non-performing loans in Malaysia show that credit is often not granted for economic, but for political, reasons. It all started with a government programme intended to transform Malays, the largest ethnic group that traditionally had the smallest share in the economy, into successful entrepreneurs.

After the serious race riots in 1969, the governing party UMNO launched the New Economic Policy (NEP) with the aim of emancipating the Malays. The

NEP was intended to give the *bumiputra* (the sons of the Earth, the 'native' population) the opportunity to catch up with the enterprising Chinese, who dominated the economy. The aim was that the Malays would have a share of 30 per cent in the national economy within twenty years. They were given access to cheap credit, shares were offered almost free and quota systems were established giving them a fixed number of places at institutions of higher education. Foreign companies operating largely on the domestic market were required to grant 30 per cent of shares to Malays.

To manage the shares of the economically inexperienced Malays, 'bumiputra' holding companies were set up that were managed by government, effectively the governing party, the UMNO. In the absence of a native business class, the UMNO acted as the collective minder, guardian and patron of the Malays. Individuals sold their shares to settle debts, or because of a lack of business interest or talent, and the new riches accumulated in the bumiputra holding companies. As a result 'native' capital was gradually entrusted to a small new elite. In the first half of the 1980s, UMNO-controlled holding companies invaded the corporate sector (which was primarily in Chinese hands). Backed up by loans from state banks, government contracts and blocks of shares awarded to them, they gained control over some of the country's largest listed concerns. A spectacular example of nepotism, Malaysian-style.

Bank Negara Malaysia, the national bank, set the percentage of loans that had to be granted to Malays. That percentage increased from 4 per cent of the total number of approved bank loans in 1968 to 28 per cent in 1985. The 'native' share in the economy expanded thanks to the NEP and the economic growth in the 1970s fuelled by the development of the oil industry and rising foreign investment.

The NEP resulted in a larger public sector and a bureaucracy that had more favours to grant than ever. Another result was the emergence of the *New Malays*, no longer dressed in sarongs, but in tailored suits; no longer village teachers, but economists and accountants. A new class of businessmen who depended on their UMNO connections. The New Malay is not a businessman interested in risk but a rent-seeker: he acquires government orders without open tenders, is first in the queue when state companies are privatised, receives loans and subsidies with soft conditions, and enjoys political patronage. The bumiputra holding companies regularly got into difficulties as a result of

inefficient and parasitic business practices, and had to be bailed out by strong state companies. Petronas in particular, the oil company in which the state has a 75 per cent stake, had to intervene frequently. The most spectacular bailout was for Bank Bumiputra, which had been Malaysia's largest bank since the mid-1980s. It got into financial difficulties because a subsidiary, BMF, had major, non-performing loans outstanding as a result of property speculation in Hong Kong in the early 1980s. A swindler in Hong Kong had tricked people into making major investments in dubious, or non-existent, real estate. Two Malaysian members of the BMF board had teamed up with the swindler. Bank Bumiputra also suffered painful losses when it had to save the skin of a political friend of Prime Minister Mahathir Mohamed by taking over his shares in a bankrupt bank at a high price. Bank Bumiputra then had to be kept afloat with major cash injections from the sizeable Petronas coffers. The oil company was the owner of the bank from 1985 to 1990.

* * *

VAN DONGE DRAWS two conclusions from the governance shortcomings in Kenya and Malaysia. In the first place, the weaknesses appear to be very similar and they would appear to have had a major macro-economic impact in both countries. Economic growth in Kenya over the period 1990-1995, the time of the Goldenberg affair and its aftermath, was weak. Growth in Malaysia was also relatively low between 1985 and 1990, when the Bank Bumiputra scandal was a factor. In the years about 1990, both countries saw their debt burden increase as a percentage of GDP, and their budget deficits also rose.

Secondly, there is little reason to see Malaysia as a country that is exceptionally well governed, or Kenya as exceptionally badly governed. They both suffer from governance problems that have a negative economic impact. The big difference is that Malaysia managed to surmount the problems, while Kenya did not. In Malaysia, it was possible to limit the damage through the intervention of the state oil company Petronas. Malaysian oil was of crucial significance for public finances in a more general sense. In short, Malaysia could permit itself the indulgence of weaknesses in governance because of the availability of generous public resources.

Even so, there are differences between Malaysia and Kenya in terms of the vulnerability of their public institutions. In Malaysia, one government body was

able to evade inappropriate political pressure. Petronas remained an enclave of efficiency and was therefore able to play a role in limiting the economic damage when other institutions succumbed to the temptations of 'rent-seeking'. The role of the central bank was also different in the two countries. Bank Negara Malaysia kept well away from political manoeuvring, maintaining strict financial discipline over the years, and so Malaysia had a stable exchange rate.

The Central Bank of Kenya, by contrast, was at the heart of the Goldenberg affair which inflicted so much damage to the country's economy in the early 1990s. Government bodies responsible for trading in agricultural products, which are strategic institutions in a country that depends on agricultural exports, were also frequently used as pork barrels by Kenya's civil servants.

* * *

4. Easing back the state – Tanzania and Vietnam

THE THIRD COUNTRY PAIR compared in the Tracking Development project – Tanzania and Vietnam – was selected for different reasons than the first two. Indonesia, Kenya, Nigeria and Malaysia followed a capitalist development strategy from the 1960s onwards, with predominantly private ownership of the means of production. Tanzania and Vietnam (North and South) both opted for a socialist course, in which state institutions were the motor of economic growth, as soon as the countries achieved independence in 1961 and 1954 respectively. In the 1980s, both countries got into difficulties when agricultural production – and therefore economic growth – stagnated and foreign exchange reserves were no longer adequate to finance imports. As a result, Tanzania and Vietnam started down the path of reform in about 1986, and liberalised their economies. The role of the state was rolled back in favour of private initiative.

The results achieved by the two countries with these reforms were very different in terms of growth, balance of trade and payments, agricultural production, food security and poverty alleviation. In 1988, in the early days of the reforms, per capita GDP in Tanzania was higher than in Vietnam: USD 255 and 210 respectively. From that point onwards, Vietnam caught up and, by 2006, per capita income in Vietnam was USD 575 as against USD 334 in Tanzania. The researchers led by Jan Kees van Donge looked at whether this divergence in economic development trajectories was caused by policy differences or other factors.

* * *

TANZANIA AND VIETNAM have both similarities and differences. They both have a colonial past. Tanzania resulted from the merger in 1964 of Tanganyika and Zanzibar. Prior to 1918, Tanganyika was a part of German East Africa before becoming a British colony until independence in 1961. Zanzibar, at one time an enclave of Arabian slave traders, was formally ruled by the sultan of Oman until the merger. The undisputed leader of Tanzania was Julius Nyerere (1922-1999), a chief's son who graduated in economics and history at the University of Edinburgh in 1952. He was the first president of Tanzania from 1961 until he voluntarily stepped down in 1986.

Vietnam was an independent kingdom until it was annexed by French Indochina in 1887. During World War II, the French Vichy regime handed over Indochina to Japan, Nazi Germany's ally. The Japanese occupation saw the emergence

of a nationalist and communist resistance movement opposing Japan and the French. After the French army had been defeated at Dien Bien Phu in 1954 by the left-wing nationalist Viet Minh, Vietnam was split into two at the Conference of Geneva: North Vietnam under the communist leader Ho Chi Minh (1890-1969) and South Vietnam under Emperor Bao Dai. After the withdrawal of the American troops from South Vietnam, the North Vietnamese People's Army moved into the South Vietnamese capital Saigon in 1975 and Vietnam was re-united under Communist rule.

Both Tanzania and the re-united Vietnam are predominantly agricultural countries; most of the population live from farming. The staple crop in Vietnam is rice and most agricultural land depends on irrigation. In Tanzania, the staple crop is maize, which is cultivated extensively and depends on rainfall.

Tanzania and Vietnam both subjected agriculture to a socialist experiment, each in their own way. In the 1950s, Ho Chi Minh had implemented radical land reform in the north, resulting in the deaths of thousands of feudal landowners and prosperous farmers. After Vietnam was re-united, farmers were also organised in cooperatives in the country's rice barn in the southern Mekong Delta, and the rice trade was taken over by state companies.

In 1967, President Nyerere, in the Arusha Declaration, set out the principles of his development strategy for Tanzania: African socialism (in Swahili *Ujamaa*: familyhood, solidarity) and self-reliance. Instead of focusing on urban society and industrialisation, he opted for rural society and agriculture. The diffuse rural population was required to live closer together in larger villages so that they would have easier access to modern facilities such as education, health care and good drinking water. They were to be connected to the rest of the country through links to the road network. In two stages, more than eighty per cent of the rural population was moved in the 1970s. There was considerable resistance to this policy, but it did deliver results. According to the UN, educational and medical facilities in rural Tanzania were among the best in Africa. Collective farms were also established, but only as a complement to small private farms. Whatever the case, the adopted model did not generate economic growth.

The main reason why Vietnam and Tanzania were selected for a comparative study is that the problems they faced, and that ultimately led to radical reform, were so similar. At the end of the 1970s, Tanzania was hit by a currency crisis

that climaxed in the early 1990s. The country responded by turning to the IMF but it was not willing to comply with the conditions attached to loans, in particular the freeing of the exchange rate. As a result, donor countries lost confidence in Tanzania. It took until 1995 before agreement was reached about economic reform by the donors and the Tanzanian government.

Vietnam ran into currency problems as a result of international developments. Since the Vietnam War, the country had been cut off from Western aid – Sweden being an exception – and it had no access to international financial institutions. The Vietnamese incursion into the neighbouring country of Cambodia in 1978 not only signalled a low point in relationships with the West but also a worsening of relationships with the People's Republic of China. Vietnam was completely dependent on the Soviet Union and the Soviet-led Council for Mutual Economic Assistance (Comecon). That was its main source of aid and investment (particularly in tropical crops, which the Comecon countries did not have). But Vietnam was swimming against the tide. At the end of the 1980s, the Comecon member themselves became enmeshed in economic difficulties. And the Soviet Union collapsed in 1990.

The currency problems facing both Tanzania and Vietnam were the result of poor performance in agriculture, the principal sector in both their economies. Tanzanian export revenues came almost exclusively from crops such as sisal, tea, coffee, cashew nuts, pulses and sesame seeds. After 1970, agriculture started to suffer from the consequences of the heavy hand of state intervention: production fell. In Vietnam, the crisis was mainly the result of stagnation in the production of rice, the staple food crop. In 1985-1986, famine hit and the country had to turn to the international community for food aid.

Why did things go so wrong in agriculture? Most economists have pointed to the lack of incentives for farmers to produce more. In Tanzania, this was accompanied in a few cases by the plummeting of agriculture prices, particularly for sisal. But the most convincing cause of falling agricultural productivity in Tanzania was the widening gap between global market prices and the prices farmers received from the state companies who bought their crops. In effect, farmers were taxed by these state companies and they responded by producing less. The subsequent decline in exports was the main cause of the currency crisis.

According to economists, the collapse of rice production in Vietnam was also a result of the lack of incentives for farmers. The exchange rate (the price ratio between purchased and sold goods) between agriculture and the rest of the economy became increasingly unfavourable and the share of the cooperatives in production became ever larger. As inflation rose, there was less and less reason for the farmers to work on cooperative land and to sell to state companies because the latter kept a lid on prices. And taxes on agriculture were high, with farming households receiving between 13 to 15 per cent only of the crop return.

The Vietnamese government attempted to collectivise agriculture as a whole. There was opposition from the farmers, among other reasons because of the poor management of collective farms, resulting in regular production crises. From time to time, these resulted in reforms involving concessions to private initiative which were often reversed later. In the past, it had been possible to offset production crises of this kind with food imports from Comecon countries, but this avenue was shut off as the end of the 1980s approached.

Both Tanzania and Vietnam expected farmers to respond to liberalisation methods by raising food production because of the immediate profit incentive. In Vietnam, the shift was massive and dramatic but, in Tanzania, agricultural production recovered hesitantly and patchily. Food production in Vietnam was a lot lower in 1990 than in Tanzania, but it had caught up by 2001. After 2001, food production in Tanzania not only lagged behind Vietnam, it also fluctuated, whereas Vietnam achieved a consistent, gradual rise in production.

How did the two economies develop after the reforms in the late 1980s? Let us look at their performance in greater detail.

* * *

IN 1985 TANZANIA CONCLUDED an agreement with the International Financial Institutions (IFIs), including the World Bank. That had an immediate positive impact on the flow of aid and so Tanzania had more to spend. However, this flow of aid did not lead to macro-economic stability. In the years 1985-1998, inflation persisted at more than 10 per cent, with a peak in 1990 at 35.8 per cent. Tanzania failed to rein in spending by ministries and state-owned enterprises. Their deficits were covered by the National Commercial Bank,

a state company, and financed monetarily (by printing money). Tanzania was pressured by donors to cut back on government expenditure and to tackle the corruption that had crept in over the years. Even in the absence of new aid on the horizon, the spending of aid in the pipeline continued.

In the 1990s, Tanzania took leave of the one-party state, with multi-party elections being held for the first time in 1995. That year, the country agreed with the donor community to face up to the main causes of macro-economic instability. Ministry expenditure was curbed and the banking sector was reorganised. The Bank of Tanzania, the central bank, ceased acting as the government's banker and was given more autonomy in terms of regulating the exchange rate and bank supervision.

As inflation fell, economic growth recovered: during the years 1991-1999, it was still 2.8 per cent but it had already risen to 6.7 per cent in 2000-2008. Furthermore, the foreign currency problems were resolved. The Bank of Tanzania, in the years 1999-2006, had on average enough funds to finance imports for seven months. The international standard is three months.

Since the start of the new millennium, Tanzania's trade balance has been transformed. The value of exports tripled between 2000 and 2007: from USD 335.8 to 942.1 million. Income from new export products, including Nile perch from Lake Victoria, cut flowers, vegetables and gold, outstripped traditional exports such as coffee and tea, traditionally Tanzania's most important source of foreign currency. In 2007, non-agricultural goods made up 81.4 per cent of total exports. Of these, mining products – mainly gold – accounted for 44.5 per cent. The current account of the balance of payments was boosted by the rapid expansion of the tourist industry after 2000.

The economic recovery of Tanzania would not have been possible without major donor involvement. In the years 2000-2006, the government received approximately USD 10 billion in balance-of-payments support, which more than made up for the deficits in the negative goods and services balance. At the same time, more than half of Tanzania's debts were written off so that debt servicing in 2006 amounted to only 1.2 per cent of export income. The improvement in the balance of payments was therefore not so much a question of better economic performance but of donor support.

This dependence on donors is also seen in the foreign share in soft loans and contributions to government spending – 40 per cent in the budget for 2004-2005 – and in the proportion of development spending accounted for by aid: 50 per cent in 2006. If this flow of aid were to dry up, Tanzania would be in serious financial difficulties.

* * *

VIETNAM STARTED IN 1986 with what became known as Doi Moi (Innovation). The stated aim of the reforms was the formation of a 'socialist-oriented market economy'. Private manufacturing was permitted, and later actually encouraged, by the Communist Party of Vietnam. In addition, that party put a stop to the collectivisation of agriculture and encouraged independent farming activities. The official short-term goal of Doi Moi was 'stabilisation of the economy, which is suffering under high inflation and severe economic imbalances'. That is a genuine difference between Tanzania and Vietnam. Whereas Vietnam tackled inflation straightaway, it took years before Tanzania made serious work of financial reform. In 1995, the prices in Tanzania rose by 27.4 per cent and economic growth was 3.6 per cent. In Vietnam, inflation that year was 12.7 per cent and growth reached 9.5 per cent.

When Vietnam started to reform, it could not, unlike Tanzania, count on donor support. In the late 1980s, Vietnam was still an international pariah. The state companies were mandated to go looking for foreign investors but Europe and the United States were not open to them. To break out of this international isolation, they established contacts with countries in Southeast and Eastern Asia. Even now, most foreign investment in Vietnam comes from South Korea, Singapore, Taiwan and Japan. The importance of those investments emerges from the level of direct foreign investment in GDP, which increased from 4 per cent in 1990 to 50.6 per cent in 2003. In most cases, investments took the shape of joint ventures involving foreign enterprises and Vietnamese state-owned companies.

This inflow of foreign capital restored the balance of payments and Vietnam continued to be dependent on foreign investors, and even more so because, like Tanzania, it had a stubborn current account deficit. Nevertheless, Vietnam not only turned around its currency crisis using foreign capital, exports also expanded impressively. Export value rose by more than 550 per cent between

1987 and 2006. On the other hand, imports rose by 300 per cent and the cost of imports exceeded export revenue. Even so, Vietnam's structural deficit on the current account has not pushed it into debt as deeply as Tanzania. Vietnam's total foreign debt in 2006 was 32.2 per cent of GDP, as compared to Tanzania's 72 per cent. Aid for Vietnam has increased in recent years but it started at zero and it continues to be relatively modest. In Tanzania, development aid in 2006 was 14.4 per cent of GDP, compared with 3.1 per cent in Vietnam. The Vietnamese economy's weakness is not its dependence on donors but on foreign investment capital.

* * *

IT IS STRIKING THAT THE positive direction taken by the Tanzanian balance of payments after 1995 has hardly made any contribution to poverty alleviation. This was mainly a feature in Dar es Salaam, the economic metropolis, and other urban areas, but not in rural parts of the country. The percentage of Tanzanians living below the poverty line did fall slightly countrywide: from 38.6 in 1991-1992 to 35.6 in 2000-2001. The poverty index fell in ten years from 35 to 32.2 per cent in urban areas, and from 40.8 to 38.6 per cent in rural areas.

Economic growth in Tanzania is confined to a small section of the real economy. Mining is the main growth sector, and it makes the biggest contribution to exports (24 per cent in 2000). Even so, its share of GDP is only 3 per cent and it accounts for only 1.75 per cent of salaried employment. Mining companies enjoy generous fiscal facilities, they are capital-intensive and they have trained staff who often come from outside Tanzania. The second largest growth sector is the tourist industry. It would appear to contribute more to Tanzanian income. In 1995, it employed 96,000 people; by 2004, this number was 160,750. Approximately 10 per cent of Tanzanians in paid employment work in this sector. Even so, a lot of income from tourism goes abroad, in part because of the luxury consumption pattern of tourists, and in part because foreigners have a large finger in this particular pie.

Poverty is in retreat faster in the towns than in the countryside, with urban drift as a result. In 1985, only 15 per cent of Tanzanians lived in cities; this figure had already reached 25 per cent by 2007. But there is still a lot of poverty in the cities. The percentage of poor people in the years 1990-2005 rose from 22 to 26 in Dar es Salaam and from 6 to 10 in other cities. Most of the

urban population find precarious employment in the informal sector: from microtrading, with things like bottles of water and individual cigarettes, to small services like cleaning car windscreens. Average income in this sector is less than half of what people earn in salaried employment. It has been estimated that the informal sector accounts for 60 per cent of the urban economy.

In the meantime, in rural areas, income from agriculture is continuing to fall. According to a study from 2003 looking at a random sample of Tanzanian villages, only half of domestic income came from crops and cattle, with the other half coming from wage work, self-employed crafts and money transfers. The expectation was that the liberalisation of the economy would result in a rise in agricultural production because a larger proportion of the global market price would go to the farmers. This did not happen. Most Tanzanians living in rural areas who are largely dependent on agriculture have failed to benefit from the improvements in the macro-economic situation. The situation was very different in Vietnam.

* * *

IN VIETNAM, POVERTY was reduced dramatically after reforms started. The process was faster in the cities than in the countryside but poverty there also fell sharply. During the years 1993-2002, the national poverty index halved: from 58.2 to 28.9 per cent. In cities, it fell from 25.1 to 6.6 per cent; and from 66.4 to 35.6 per cent in rural areas. These are impressive figures.

Vietnam is, like Tanzania, still a predominantly agricultural country; less than a quarter of the population live in cities. In Tanzania, the share of agriculture in GDP has remained constant in recent decades at 45 per cent. The structure of the Vietnamese economy, by contrast, has undergone far-reaching changes since 1990. At the time, agriculture was good for 32 per cent of GDP, industry for 25 per cent and the service sector for 43 per cent. In 2006, the share of services was still about the same (40 per cent), but agriculture had declined to 20 per cent and industry had risen to 40 per cent. This suggests a link between industrialisation and reducing poverty.

Industrial growth is directly linked to the export successes of Vietnamese industrial products. Exports rose from 34 per cent of GDP in 1990 to 77 per cent in 2007. In the years 1997-2007, just under a quarter of exports (22.4 per

cent) came from oil, 21.9 per cent from food and 47.6 per cent, approximately half in other words, from industrial products. The last of these categories consisted primarily of textiles and clothes. Both foreign and Vietnamese companies are involved in exports, even though foreign involvement is on the increase: from 27 per cent of all exports in 1995 to 57 per cent in 2007.

The development of an industrial export sector using foreign capital has certainly contributed to the reduction of poverty but that role is a limited one. It is possible that industrialisation has also led to the formation of economic enclaves in Vietnam, with weak linkage to the rest of society. The clothing industry in particular is highly dependent on imports. Industries with foreign involvement are concentrated around the large cities and they employed skilled staff only.

The conclusion must therefore be that it is not the growth of manufacturing industry and foreign investments that have made the largest contribution to the enormous reduction of poverty in Vietnam, but agriculture. By contrast with Tanzania, smallholders, and particularly rice farmers, achieved massive increases in production after the reforms. The explanation for the differences in development success between Tanzania and Vietnam can be found in agriculture. Before Doi Moi, Vietnam could just manage to feed itself in normal years. In the early 1990s, it moved up the field, becoming the world's third largest rice exporter, and sometimes occupying second place on the global market. The country's main food crop is therefore in abundant supply and this contributed to the reduction of poverty because rice is the staple food of the poor: This applies both to cities and countryside because there are also many households in rural areas that are not food self-sufficient and that buy rice. The production of cash crops such as coffee and cashew nuts has also expanded enormously.

* * *

AGRICULTURE COULD PLAY the same role in Tanzania, because most people live in rural areas and this is where poverty is concentrated and where agriculture is the main economic activity. Why did agriculture in Tanzania perform so badly after the reforms compared with Vietnam, where this sector was responsible for the lion's share of poverty alleviation? In Tanzania, growth in agriculture lags a long way behind other sectors. Why is it that the improvement in the macro-economy and economic growth failed to result in agricultural growth?

The first important difference with Vietnam is the food supply. In Tanzania, this is still problematic. Since the reforms started, more food has been imported. The total amount of available food is generally adequate to feed all the country's mouths but distribution throughout the country is very uneven. Every year, dozens of districts report food shortages and even more do so when there are long periods of drought. Malnutrition in children under the age of five is common. In 2005, growth in almost four out of five children was retarded as a result of chronic undernourishment. The problem is linked to poverty and is probably more severe in rural than in urban areas.

The contrast with Vietnam could not be greater. As pointed out above, that country was just about able to feed itself before the reforms and it is now a major rice exporter. By contrast with Tanzania, food production was assigned a larger role in the economic recovery of Vietnam than was food security alone. As the Vietnamese author Nguyen Do Anh Tuan found in 2006: 'In fact one main reason [before the reforms] for high inflation and limited contribution of State Owned enterprises to the state in the pre-reform period was due to agricultural stagnation, food shortage, high relative prices of agricultural goods, and hence low profitability of SOEs. In contrast, food availability in the post-reform helped reduce inflation and set the sound base for growth of non agricultural output and employment.' Increasing agricultural production not only boosted farmers' income but also kept consumer prices low, as in the 1970s in Indonesia (see Chapter 2).

Whereas the production in Vietnam of cash crops such as coffee and cashew nuts rose rapidly, the picture in Tanzania was one of stagnation. That country once had relatively prosperous farming communities growing cash crops such as coffee, cotton, cashew nuts and tea. When Tanzania started to reform its economy, the expectation was that this would lead to better prices for farmers and higher production. In normal competitive conditions, small producers would, it was thought, receive a higher share of the global market price and this would encourage them to increase their production of cash crops. A response of this kind was mainly expected when the government bodies for trading in agricultural products were dismantled. But supply was disappointing. It did recover slightly, but it then stuck at a low level.

Part of the explanation is that the farmers' share of the export price hardly rose at all. It was low in the years 1994-1999: 21.8 per cent for pyrethrum (a natural

insecticide obtained from chrysanthemums) and 34.5 per cent for tea. The farmers' share was high for cashew nuts (64.7 per cent) and dried tobacco (74.9 per cent). However, in most cases, they received 50 per cent of the export price in the years 1994-1999. By comparison, 1980 was a low point: 41.7 per cent for all export crops.

The fact that export crops proved not to be the source of income for Tanzanian farmers that they might have been has been attributed by researchers to the local market, which was certainly not free. Liberalisation, they noted, failed to put an end to the exploitation of farmers by local bureaucrats. In 2010, only cashew-nut buying was restricted to private traders. Cooperatives muscled in as buyers for other crops alongside private traders. In some cases, farmers received advances from those cooperatives but sold their crops to traders later. In response, the government tightened up the reins again. While market authorities were in a position to regulate the market alone after the reforms, new legislation was put into place that allowed them to buy crops themselves. At the same time, local leaders, who were under pressure to raise their income, started to tax export crops – which was the easiest solution to their problems. In recent years, there was considerable legal uncertainty in Tanzania and a random approach to trading in cash crops, and that has not encouraged farmers to make increases in production.

* * *

THERE ARE NO SIMPLE explanations for the gap in economic performance between Tanzania and Vietnam. The literature on the Vietnamese reforms is now extensive, and it places a strong – and one-sided – emphasis on one specific factor: market forces. The idea is that they reduced poverty. Where poverty has proved persistent, the claim is that this is due to shortcomings in the market. If the poverty statistics are broken down by region, we see that remote areas have not performed as well as areas close to centres of business activity. In the north, the latter overlap with the Red River Delta, with its intensive, irrigated rice farming. In the Southeast, where most districts are relatively prosperous, the idea is that this is a reflection of the proximity of Ho Chi Minh city (the former Saigon). And most districts in the Mekong Delta are thought to be doing well, with the exception of a few coastal districts and districts near the Cambodian border.

Seen in these terms, the Vietnamese economy would make more progress if it were to dispense with the remnants of socialist inefficiency. These 'remnants' are considered to be the continuing domination of state-owned enterprises; a banking sector in the hands of the government, shoring up those state-owned enterprises; and market regulation for rice using export quotas. All these things are seen as obstacles to the further development of an entrepreneur class driven by profit and loss accounts, rather than administrative influence.

Jan Kees van Donge has a different view. He believes that the workings of the Vietnamese rice market actually show that a spectacular growth of production can only be explained if one takes state intervention in that market into account.

It is no coincidence that the rapid increase in rice production started in the Mekong Delta. There, it was possible to profit from earlier government investment in infrastructure, such as irrigation and drainage, soil improvement and the development of rice varieties that made several annual harvests possible. In the central planning days, the state had made large-scale investments in agriculture but this did not result automatically in increases in production. To make the most of these investments, it was necessary to provide stronger incentives for the farmers and that was only possible by running down collectivised production. Observers often miss the important role played by agricultural credits and inputs from the state (such as seeds, fertilisers and pesticides).

Most commentators see state-owned companies as parasites. They believe that the way to eliminate the final obstacles to entrepreneurial initiative is to liberalise Vietnam further. A frequently-quoted report from the International Food Policy Research Institution (IFPRI) from 1996 argues that state intervention in the Vietnamese rice trade results in the wrongful appropriation of agricultural surpluses by state-owned companies. The state monopoly on the rice trade between the Mekong Delta and areas with rice shortages, it is argued, generates major profits. This is thought to be even truer of state involvement in rice exports. The suggestion is that the difference between the lower domestic price for rice and the export price rice amounts to an export levy of 30 per cent. The general drift of these comments is that liberalisation leads to higher productivity. The freer the market, the higher the gain in productivity.

Van Donge has pointed out that these arguments virtually disregard the way in which the government bodies in question operate. He quotes from a 2003





article from Luu Thanh Duc Hai, a lecturer in economy at the Cantho University in Vietnam, who gives a detailed description of the rice trade in the Mekong Delta and sketches a picture of a flourishing private sector of private buyers, wholesalers and millers, a very competitive environment. Nevertheless, '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.'

Two state companies, Vinafood I and Vinafood II, dominate rice exports, but not only that. According to Duc Hai, 'more than 56 per cent of white rice from State owned enterprises is exported and around 14 percent is sold to the domestic market. About 80 percent of the supply sold on the domestic market is transferred to deficit regions in the North as part of the National Food Security Program.' Private traders can obtain export licences but they are minor players (accounting for 6.5 per cent of rice exports in 2001). In 2008, the government imposed a general ban on exports. The state-owned enterprises are of course also buyers and the government wants them to buy, especially when prices drop, in order to maintain a floor price.

Duc Hai believes this is how the price for rice is formed: '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.'

The Vietnamese policymakers had, in the early days of the Doi Moi, a 'socialist-oriented market economy' in mind. What seemed to be an ideological alibi in 1986 for what were, in effect, capitalist reforms have now taken shape in what Van Donge describes as a managed market. Price considerations play a role in that market, but a limited one. Van Donge suggests that it was not so much liberalisation that was the driving force behind the growth of the Vietnamese economy since 1990, but a unique combination of state intervention and market forces. The state-led economy has not been pushed out, he says, but adapted creatively.

The Vietnamese economy has probably never been the centrally led, monolithic, entity propagated by the Marxist-Leninist catechisms. There are indications that

the leadership engaged in reform as a result of domestic pressure. Provincial governments probably had more autonomy than was considered possible in a framework of central control. The fact that Vietnam suffered from hyperinflation in the 1980s suggests that price formation was not a monopoly of central planners and that independent economic players were also active.

The reforms did not explode the state sector; they introduced gradual change. The involvement of the state in the economy was gradually run down. In 1995, 67 per cent of the industrial companies were state-owned; by 2007, that figure fell to a – still substantial – 57 per cent. Nevertheless, this sizeable state sector did not prevent rapid growth. Although there are still stories to be told about shocking cases of inefficiency, there are also many examples of successful joint ventures and productive contributions from the public sector.

Maintaining a – relatively inefficient – state sector and subsidy mechanisms on the food markets is expensive. Fortunately, liberalisation in Vietnam coincided with the start of oil prospecting. Oil revenue helps the government to obtain the required currency and to stop gaps in the budget. Van Donge: 'The state had the resources to control the market.'

* * *

THE COMPARATIVE STUDY by Tracking Development exposed major differences in the economic performance of Tanzania and Vietnam after the introduction of reforms. The researchers also listed four factors that provide a provisional explanation for those differences.

First of all, Vietnam made macro-economic stabilisation a priority and tackled its enormous inflation. This was an essential component of the liberalisation programme. The Tanzanian economy started to grow only after 1995 when the country got a grip on inflation.

Other researchers have frequently missed the second important factor: the role of government. Vietnam reformed its state institutions but left them in place, while liberalisation in Tanzania after 1995 was located in an institutional vacuum. Vietnam imposed budgetary limitations on the state institutions in order to safeguard their continued existence. Tanzania failed to impose discipline on the

public sector; with all the inevitable waste as a result. As soon as discipline was imposed on Tanzanian state-owned companies, they collapsed.

The third factor is the Vietnamese food policy. Well-planned state intervention keeps the prices within a bandwidth that guarantees farmers a minimum income and caps price rises for consumers. The regulation of food exports plays a key role here. The people of Vietnam are well fed by comparison with their Tanzanian counterparts. Ample supplies of affordable food were an important way of reducing poverty and, at the same time, an instrument for suppressing inflation. Food supply and consumption are erratic and unpredictable in Tanzania. The fourth factor is probably the oil revenue available to the Vietnamese government, contrasting with access to mineral resources in Tanzania, which is much more limited. Oil income compensated for a shortage of currency and budget deficits in Vietnam. But the main benefit was that the income from oil allowed Vietnam to subsidise rural areas and that is probably the key factor in Vietnam's successful development.

Incidentally, as we now know, mineral resources are no guarantee of economic success. That depends to a large extent on the policy determining whether bonuses of this kind place a 'resource curse' on a country.

* * *

5. The limitations of the market – Cambodia and Uganda

CAMBODIA AND UGANDA, the fourth pair of countries studied by Tracking Development to compare economic performance, are latecomers in terms of economic development. Both countries were afflicted by civil wars in the 1970s and 1980s. In Uganda, growth only resumed when Yoweri Museveni came to power in 1986. In Cambodia, reconstruction and economic development made their way onto the agenda only after the provisional reconciliation between Hun Sen's socialist party and the Royalists in 1993. These relatively short periods of time make it more difficult to arrive at far-reaching conclusions about the effectiveness of the policies in place than in the case of the other country pairings. Tracking Development researchers André Leliveld and Han ten Brummelhuis looked at the question of whether the differences between countries in Southeast Asia and sub-Saharan Africa noted elsewhere also applied to Cambodia and Uganda.

Both countries were, after hostilities ended, still poor agricultural economies and their governments repeatedly pointed to the importance of agriculture in combating poverty. The researchers therefore concentrated primarily on the agricultural policies and the results of those policies, focusing on the 'post-war' period: 1990-2010. At the time, both countries had crippled economies and lacked resources. These factors were one reason they opted for market-driven development in the agricultural sector and in the economy as a whole, with government playing a modest role. Agricultural production in the two countries developed along similar lines for a long time after 1960, but started to diverge in 2005, when growth in Cambodia accelerated and agricultural production in Uganda stagnated. The researchers hoped to find an explanation for this development gap.

* * *

UGANDA, A COUNTRY in East Africa with a multi-ethnic population estimated at 35 million souls (2012), was a British protectorate from the end of the 19th century until independence in 1962. The territory of Uganda comprises five traditional kingdoms: Toro, Buganda, Bunyoro-Kitara, Busoga and Ankole. The early years after independence were overshadowed by a power struggle between Prime Minister Milton Obote, a Lango from the north, and the President, the King of Buganda Edward Muteesa II. The parliament, which was dominated by Obote's party, then amended the constitution. In 1967, the traditional kingdoms were 'abolished' and, without new elections being

held, Obote became president with far-reaching executive powers. He was deposed in 1971 by Major General Idi Amin, who had built up a career in the King's African Rifles, the colonial army. That signalled the start of a dictatorship that was to last eight years. In 1972, Amin forcibly expelled the Asian business community, which played a key role in trade and industry. The result was the total meltdown of the Ugandan economy.

Amin's regime fell in 1979 during the war between Uganda and the neighbouring country of Tanzania. After provocations from Amin's army, which wanted to appropriate a part of Tanzania, the Tanzanian forces, working together with Ugandan exiles, invaded Uganda and deposed Amin. However, this did not signal the end of domestic unrest. Obote was appointed president again and exacted bloody revenge on his political opponents. After five years of *bush war* (1981-1986), a civil war involving several militias organised on ethnic lines, the National Resistance Movement (NRM) led by Yoweri Museveni gained the upper hand. In 1986, he was declared president.

Museveni wanted to put an end to the persistent ethnic disputes and he therefore trimmed the wings of the political parties, which were mainly groupings on tribal lines. They were not banned, but local organisations were shut down and they were not allowed to choose their own candidates; party members were allowed to participate in elections in a personal capacity only. In 1993, the old kingdoms were restored, with the exception of Ankole. In the 1990s, Museveni was seen in the West as an exponent of a new, democratically-minded generation of African leaders who were concerned about the plight of the poor. As a result, he could count on generous financial support; by that time, 48 per cent of the Ugandan budget was financed by funds from abroad. Museveni was able to restore domestic calm, with the exception of the north, where the Lord's Resistance Army (LRA) was active. In response to pressure from donor countries and after a domestic referendum, the restrictions on political parties were lifted in 2005.

* * *

CAMBODIA, AFTER SIX CENTURIES as the independent Khmer kingdom, had been the vassal of neighbouring countries from the 15th century until the mid-19th century, when it was colonised by the French. In 1954, the French protectorate achieved independence as the kingdom of Cambodia under King

– later Prince and Prime Minister – Norodom Sihanouk. During the Cold War, the country preserved its neutrality until, despite its best efforts, it became involved in the late 1960s in the war in Vietnam. When Sihanouk turned a blind eye to the presence of the North Vietnamese army in Cambodian territory, the pro-American Prime Minister, General Lon Nol, organised a coup in 1970. He deposed Sihanouk and declared the Khmer Republic, which was immediately recognised by the United States. The Prince fled to Beijing, where he formed a royal government-in-exile and supported the communist Khmer Rouge, which was engaged in a guerrilla war against the regime of Lon Nol. As a result, the ranks of the Khmer Rouge were strengthened by thousands of non-political farmers who had only a vague idea of what communism was, but who wanted to support their sovereign.

After the American withdrawal from Vietnam (in 1973), the Khmer Rouge entered the capital Phnom Penh two weeks before the fall of Saigon in April 1975. The regime of the Khmer Rouge under Pol Pot modelled the country on the lines of Mao Tse-tung's China during the Great Leap Forward. As soon as it took power, it evacuated the towns and sent the entire population on forced marches to rural work projects. The Khmer Rouge razed temples, libraries and anything considered Western to the ground. About one and a half million Cambodians (out of a population of 7 million) were executed, or perished from exhaustion, hunger and disease.

After the Khmer Rouge launched raids in Vietnamese territory, the Vietnamese army invaded Cambodia in November 1978. It expelled the Pol Pot regime and installed a puppet regime under the Khmer Rouge dissident Hun Sen, who had fled earlier to Vietnam. The regime was internationally isolated throughout the 1980s and was completely dependent on Vietnam and its Eastern European allies. It was opposed by a government-in-exile consisting of the Khmer Rouge and monarchists, which exerted control over parts of Cambodia through armed units. This opposition government was recognised by the United States and supported by China, the USA and the United Kingdom, which imposed an economic boycott on the Phnom Penh regime. Peace talks began in 1989. The Vietnamese army withdrew from Cambodia after the fall of the Soviet Union and a UN peace force monitored the ceasefire between the opposing parties. In 1993, Hun Sen and Sihanouk buried their differences. The ageing Prince returned to the throne. When one of his sons, who was also the joint Prime Minister, Prince Norodom Ranariddh, established contacts in 1997 with

remaining Khmer Rouge rebels, Hun Sen withdrew from the coalition with the royalist party (FUNCINPEC). He formed a government that relied entirely on support from his own Cambodian People's Party (CPP). Sihanouk, who was old and ailing, abdicated in 2004 in favour of his son Norodom Sihamoni.

* * *

IN THE MEANTIME, what was the situation of the economies of Cambodia and Uganda? They were, and still are, predominantly agricultural and small farms still hold sway. This is a common feature of the two countries, but there are also major differences. The soil and climate in Uganda favour agriculture. It depends on rainfall, which is generous in most of the country. As a result, double cropping is possible, particularly in the central and western districts, which are home to 55 per cent of the population and most agricultural production. Ugandan farmers generally grow several crops at the same time: bananas, cassava, millet, sorghum, sweet potatoes, beans and maize, in combination with one or two export crops such as coffee, cotton, cocoa and tobacco. In recent times, Uganda has seen a rise in livestock farming and dairy production.

Although Cambodia has more options in terms of irrigation, conditions are less propitious for agriculture than in Uganda. The soil is not very fertile. Agriculture in Cambodia consists almost exclusively of rice, and it is concentrated around the Tonle Sap lake and along the rivers, which is where 90 per cent of the population live. Rice, which is a thirsty crop, depends on rainfall in most places and so the harvest is just once a year. Double cropping is possible only in areas where irrigation is feasible, which was only 14 per cent of the area under cultivation for rice in 2010. Although rice is king, Cambodia also has *chamcar*: farming on rivers involving crops other than rice such as maize, sugar cane, tobacco, cotton, pumpkin, watermelon, soya beans, sesame and mung beans.

In Cambodia and Uganda, agriculture is the domain of smallholders, who work with cheap inputs and labour-intensive techniques. During colonial times, the British decided not to set up any large-scale plantations in Uganda, with the exception of tea and sugar companies. Instead, they introduced cotton and coffee in a system of 'forced farming' for smallholders. In this way, the latter had regular contacts with colonial administrators. After independence in 1962, the state remained actively involved in agriculture in Uganda. Government services played an important role in the selection of crops, trade and price regulation

for export crops, the establishment of research and education services, and infrastructure for processing and trading. These last activities were dominated by the Indian minority in Uganda, a legacy of the colonial age.

During the same period, the French were developing large-scale enterprises for rubber production and commercial rice cultivation in Cambodia. The French did not get involved with smallholders growing rice for their own use, and that policy continued after independence in 1954. In the 1960s, Cambodia became the world's third-largest exporter of rice. Even so, agricultural development was never the target of systematic policy from either the colonial or post-colonial governments. That explains why Cambodian farmers hardly got involved at all in cash crops in the early years following independence.

The violent conflicts in both countries led to a dramatic fall in agricultural production in the 1970s. The Khmer Rouge completely overturned the organisation of Cambodian rural society, forcing people into new social arrangements with a hard hand. This all led to a demographic meltdown from which the country has recovered gradually over the past three decades. In 2012, Cambodia had a population of 15 million. The dislocation of the Ugandan rural economy started in 1972 with the violent expulsion of 92,000 Indians by the Amin regime. That led to the total collapse of processing and trade in agricultural products. In the years 1972-1979, the campaign of domestic terror and armed conflicts resulted in the deaths of half a million Ugandans out of what was then a population of 12 million.

After Idi Amin and Pol Pot were pushed out (both in 1979) agricultural production increased in both countries, albeit by fits and starts. In the 1980s, the regime in Cambodia attempted to reorganise rural areas by following the example of Vietnam. But planned rice cultivation was a paper reality: in practice, farmers did as they liked. Even so, Cambodia managed to raise agricultural production during this 'Vietnamese period' (1979-1989). New rice varieties were introduced and, with help from Australia and the International Rice Research Institute (IRRI), a research service was established to support rice farming.

In Uganda, the government resumed its active involvement in agriculture, mainly in the trade of export crops, but its hands were tied by the structural reform programme imposed on the country in 1981 by the IMF and the World Bank.

The recovery in agricultural production did not last long because the 'bush war' broke out in 1983. Most farmers stopped with the production of export crops and switched to food crops such as cassava.

* * *

THE NEW GOVERNMENTS that came to power in about 1990 in Cambodia and Uganda had very little policy latitude after a long period of civil wars. Effectively, they were bankrupt and so they were dependent on foreign aid. The donor agenda at the time was dominated by the 'Washington Consensus' (IMF, World Bank and the American Ministry of Finance). That amounted to extending the role of the market and pushing back government involvement in the economy, and it afforded few openings for state intervention in production sectors.

In Uganda, agriculture was largely privatised and deregulated in line with the IMF programme of structural reform. The government opted for a market-driven development model. Agricultural production in the years 1987-2005 far exceeded the level in the years 1960-1987. Until the mid-1990s, bananas, followed by dairy, maize and cassava, were dominant. The production of coffee, the export crop, remained erratic. Attempts to introduce more variety to the export package with the introduction of high-grade products such as vanilla, silk, flowers and red peppers achieved only partial success or ended in total failure.

The rise in agricultural production was mainly the result of the extension of the area under cultivation, not in improvements in productivity, with the exception of the dairy sector and cassava cultivation. The increase in productivity was only between 13 and 49 per cent of what was achieved at testing stations, and productivity in the leading crops stagnated or fell after the early 1990s. Smallholders were still making only scarce use of purchased inputs. Only 1 per cent were using chemical fertilisers and 6.3 per cent said they were using improved seed.

In 1989, the Vietnamese left Cambodia but that did not result in the stabilisation of the country. International isolation came to an end only in 1991 with the Paris Agreements, and domestic quiet returned only after the 1993 elections. Agricultural production in Cambodia started to rise from 1995 onwards. Like Uganda, the country opted for a market-driven development model for the agricultural sector and the economy as a whole. Most success was achieved

in rice production. Production volume *and* productivity increased dramatically between 1991 and 2010 as a result of a major extension of irrigation, the introduction of improved rice varieties with high yields and the intensification of cultivation with two harvests in the rainy season. Productivity in rice cultivation rose from 2.12 tons per hectare in 2000 to 2.97 tons per hectare in 2010. Even so, rice farmers in Cambodia lagged behind their counterparts in Vietnam and Indonesia in terms of productivity.

The rise in agricultural production in Cambodia and Uganda was both a peace dividend and a response by the farmers to market liberalisation. From 2005 onwards, levels of agricultural production in Cambodia and Uganda started to diverge. Growth in Cambodia accelerated, catching up with Uganda within a year. There, the increase in agricultural production came to a halt in 2004. This applied to all the major crops; only the livestock and dairy sectors have managed to grow slightly since.

What are the reasons for these different development trajectories? Ten Brummelhuis and Leliveld took a closer look at agricultural policies and practices on the ground in the two countries.

* * *

THE SUCCESSIVE GOVERNMENTS led by Museveni's NRM, and also the President himself, have been firm in their statements about the importance of agricultural development. From 1987 onwards, reforms in the agricultural sector were a recurrent component of economic policy. After hesitating initially, Museveni, a former Marxist, accepted the conditions of the World Bank and the IMF in 1987. He liberalised foreign trade, abolished import taxes and freed the exchange rate. Price formation for agricultural products, including export crops such as coffee, cotton, tea and tobacco, was left to the market. The goal of the agricultural policy was to improve the income and living standards of poor farmers by boosting productivity and leaving a larger share of production to the market. The market, not a policy targeting self-sufficiency, was to improve the food security of households. In about 1994, trade in agricultural products was entirely in the hands of local traders and private exporters. The number of outreach workers was reduced from 15,000 to 3,000. The traditionally important role played by government in agriculture was reduced to 'facilitating private initiative'.

The year 2001 saw the launch of the Plan for the Modernisation of Agriculture (PMA), with full support from the President and the technocrats of the Ministry of Finance, Planning and Economic Development (MoFPED). The underlying thinking was that the fight against poverty would be conducted using 'a profitable, competitive, sustainable and dynamic agricultural and agro-industrial [processing] sector'. Agriculture was to be reformed by raising productivity using crop varieties with high yields that were also resistant to disease, using sound agricultural techniques and by maintaining soil fertility with animal and chemical fertilisers. The supply of seed, inputs and credits was left to the private sector. Agricultural outreach work, with visits to and training for farmers, was dismantled and replaced by decentralised National Agricultural Advisory Services (NAADS). The idea was that farmers would henceforth hire advisors from this organisation.

Until 2005, this policy was supported by a coalition of the president, the technocrats of the MoFPED and a few important donors. That year saw the end of the political monopoly of Museveni's NRM. After a national referendum, the restrictions on political parties were lifted. Multi-party elections were to be held for the first time since 1986. That meant that Museveni and the NRM had to compete for the votes of rural electors, and the President was not satisfied with the results of the PMA. The NRM's manifesto included more state intervention in some areas: it called for the appointment of trained staff in every village as driving forces for local development. The NRM won the elections and the new programme was launched in 2008. The distance between Museveni and the technocrats grew, even though that coalition had been fruitful in the 1990s.

* * *

THE RESEARCHERS ATTRIBUTE the stagnation of agriculture in Uganda after 2005 to two factors: a limited budget and inconsistencies in policy implementation.

Notwithstanding the rhetoric from Museveni and his government, only a small proportion of public expenditure went to this sector. Although agriculture accounted for approximately half of GDP, the share of the budget devoted to this sector was 4.7 per cent in the years 1991-1992, falling to 3 per cent in 1994-1995 and then to less than 2 per cent in 1997. It then rose for some time but, even though Uganda signed the Maputo Declaration in 2003, in which

the member states of the African Union undertook to devote 10 per cent of their annual expenditure to agriculture, that percentage has steadily declined in Uganda: from 8 per cent of the budget in 2001-2002 to 5.7 per cent in 2005-2006, 4.1 per cent in 2007-2008, 3.7 per cent in 2008-2009 and 3.1 per cent in the draft budget for 2009-2010.

The researchers list three reasons why government expenditure on agriculture is so low in Uganda. First of all, donors, who finance almost half of the Ugandan budget, prioritised education and health care for a long time. Secondly, relations between the Ministries of Finance, Planning and Economic Development (MoFPED) and of Agriculture and Fisheries (MAAIF) are thought to be strained. The technocrats of MoFPED are convinced that the civil servants at MAAIF cannot muster the financial discipline required to use more resources responsibly. Furthermore, it is claimed that salaries account for an excessive share of the MAAIF budget so that not enough is left over for other areas. Finally, there was a consensus from the 1990s onwards – involving the president, the technocrats in his government and the donors – that agriculture should be left to private initiative.

The second explanation given by the researchers for stagnation in Ugandan agriculture is the way the policy impacts farmers, and the politicisation of implementation. Political loyalties have played an ever larger role in this area. The researchers take agricultural outreach work as an example. The National Agricultural Advisory Services (NAADS) is a semi-autonomous body with a mandate to provide, on an entirely demand-driven basis, farmers with services, to encourage them to farm a wider range of crops and produce more for the market. It has been partially successful. A World Bank evaluation dating from 2007 stated that crops under cultivation had become more diverse and that more of the harvest was going to market. The gross income of farmers using the services of the NAADS increased by between 32 and 63 per cent. No information was provided about how many farmers qualified for this assistance and how they were selected.

NAADS has been the target of criticism recently, both in the local press and in professional journals. It is claimed that the service is not well informed about Ugandan agricultural practice. Most farmers are not interested in courses in classrooms. It is claimed that many participants do not realise that they will later have to pay back 70 per cent of the purchased inputs. Farmers are said to

feel that certain crops, such as cassava, are being forced on them for no good reason. Furthermore, NAADS does not target entire villages; it selects only six farmers in each settlement. Only rich NRM supporters are selected. Another criticism in the press is that only people with capital that can be cashed in, like a cow, benefit from the NAADS. Although the NAADS is active in all districts of the country, it therefore fails to reach the critical mass of farmers.

Under the direct authority of Museveni, a non-transparent parallel structure was established in the NAADS that targets NRM farmers. He poses as a father figure who wants the best for the people, but hands out envelopes to his supporters when he stops off during tours of the provinces. Farmers are also approached by civil servants with promises of improvements to their farms if they sign a form stating that they have received 100 kg of seed, even though they only receive 30 kg. These corrupt practices and this bargaining of favours are an increasing obstacle to the consistent implementation of the agricultural policy. They explain in part why agriculture in Uganda stagnated after 2005, while Cambodia performed better and better in the same period.

* * *

IN CAMBODIA, IT TOOK longer for agricultural development to acquire an important position on the political agenda. During the early years after the departure of the Vietnamese (in 1989), farmers were allowed to sell their products freely at market prices. In 1994, Cambodia received a loan from the IMF in exchange for structural reforms. The ban on rice exports was lifted in December 1995 and rubber exports were liberalised. In the 1994 Development Plan, improvements to rural living conditions were an integral part of development policy for the first time. The thinking was that this would be largely left to market forces.

Until 1998, the Cambodian elite earned hardly anything from the agricultural sector. The lax attitude of the Ministry of Agriculture was also linked to donor priorities, which focused more on education and health care than on state intervention in agriculture. The Ministry suffered constantly from a lack of funds. Furthermore, the department was run by a royalist politician in the years 1993-1998, and the civil servants answerable to him were monitored by Hun Sen's CPP, which was not happy for royalist ministers to get in the good books of the electorate with successful policy initiatives; that was the preserve of the CPP. The

royalist politicians complained that their civil servants provided them with no information whatsoever.

In 1998, Hun Sen manoeuvred FUNCINPEC, Prince Ranariddh's royalist party, out of the government. From that point onwards, he was the sole Prime Minister and he no longer needed to devote energy to the power struggle with the royalists. As a result, the conditions were more favourable for public investment in agriculture, particularly in boosting rice production. The increased government interest was linked more to the prospect of profitable international transactions involving locally produced rice than to concern for the plight of poor farmers. After the Asian financial crisis of 1997-1998, the government needed extra income and agriculture could provide it. The increase in the budget for the Ministry of Agriculture coincided with a shift in donor priorities. From 2000 onwards, international aid organisations turned to combating poverty, and agriculture was a priority in that area. Cambodia's Second Development Plan for the years 2001-2005 stated that the country's agricultural potential was a tool for economic growth and the fight against poverty.

In 2002 and 2003, Cambodia faced local and national elections. The CPP had to do something for the large numbers of rural electors. The fact that the party gained an overwhelming majority in both elections shows that this approach worked.

In the 2000-2003 and 2003-2004 seasons, when rice harvests were threatened by drought, leading CPP officials regularly visited rural constituencies bringing 'gifts', such as water pumps and diesel, making it possible to save the harvest. They came not only from the Ministry of Agriculture but also from Foreign Affairs and other ministries. In the run-up to the national elections of 2003, CPP politicians demonstrated an entirely new interest in rural development by building roads and irrigation facilities. Prime Minister Hun Sen himself set an example. Once again a candidate for prime minister, he focused all his attentions on a development zone to the west of Phnom Penh and on his own constituency. That inspired other members of the party to make similar efforts for their rural electors.

The revival of interest in agriculture was also due to the commitment of the new Minister of Agriculture, Chan Sarun. He had already spent time as a civil servant at the ministry in the 1980s, and subsequently as the Chancellor of the

Royal University of Agriculture. He had the technical expertise required to set out a more effective agricultural policy geared towards 'the reform of the entire sector in accordance with market principles'. He organised regular meetings with the heads of provincial departments of agriculture, for example about their experience with the Systematic Rice Improvement (SRI) programme. The idea behind this programme was to convince rice farmers to use seeds and water more efficiently and, at the same time, to teach them techniques for enhancing crop sizes per cultivated area. The result was an improvement in yields. The minister himself checked to make sure that civil servants enjoyed the farmers' confidence and that they trained them in the new techniques.

It should be pointed out that government expenditure on agriculture in Cambodia is as unimpressive as in Uganda. In the past 15 years, it has lagged a long way behind spending on education and health care. It did more than double in the years 2004-2007: 1.7 per cent of the budget for 2010 was devoted to agriculture. Adding the 0.7 per cent for water management and 1.7 per cent for rural development results in a meagre 4.1 per cent. The reasons for this modest percentage are approximately the same as in Uganda. Donors long believed that agriculture had to be left to private initiative and, for a long time, the elite had hardly any agricultural interests. This situation has changed in recent years. Politicians had to bid for votes and they drew on private funds from outside the budget to do so. The researchers suspect that considerable sums were invested in informal ways, which is something that is difficult to quantify. This is a difference with Uganda, where politicians, led by the president, carried favour with the electorate from public funds.

Agricultural outreach work in Cambodia has, since 1997, been in the hands of the Centre for Study and Development in Agriculture (CEDAC) which, since 2002, has been the largest non-governmental organisation in Cambodia providing training and education for farmers. The Systematic Rice Improvement (SRI) programme, which was launched in 2000, brings together the government and CEDAC. The activities of CEDAC cover villages as a whole, not just selected farmers in each village as in the case of the NAADS. CEDAC also has closer ties with the farmers than NAADS, where the largest part of the budget is spent on salaries.

CEDAC is effective. A recent evaluation of the SRI programme found that 'programme farmers' had produced 1.16 tons of rice per hectare more than

farmers who stuck to conventional farming methods, raising the average yield to 3.5 tons per hectare. Farmers who followed the programme managed to achieve a cutback of 50 per cent in chemical fertilisers compared with conventional farmers and saved 55 kg of seed per hectare compared with non-participants.

There are other reasons for the relative success of educational activities in Cambodia compared with Uganda. The NAADS has to spread its work across a range of different crops. This fragmentation of experience, knowledge and research is not needed in a rice-based society such as Cambodia, where 'eating rice' is equivalent to survival, and where farmers cultivating cassava, maize or potatoes are viewed with contempt. The fact that rice dominates both consumption and exports is an advantage in that technical and economic efforts can concentrate on a single crop. In addition, rice can be stored for a longer period of time. Furthermore, rice farming in Cambodia has been able to benefit from knowledge and experience in the region, particularly from the International Rice Research Institute (IRRI). In Uganda, raising agricultural productivity is much more challenging because introducing improved varieties is complicated by the variety of crops involved.

* * *

IN THE COUNTRIES OF Southeast Asia that led the way in terms of government investment in agriculture, those investments were a significant factor, as we have seen, in reducing poverty. The question now is whether the market-driven agricultural policies of Cambodia and Uganda have benefited the rural poor. World Bank figures from 2011 show that Uganda has performed better in this respect than Cambodia, while agricultural production in the latter country has risen faster since 2005. In Uganda, the percentage of poor people between 1992 and 2009 fell from 60 to 27; in Cambodia, this figure fell from 40 per cent in 1997 to 35 per cent in 2009. How can this apparent paradox be explained?

First of all, in both countries, only a small proportion of total development expenditure goes to agriculture and the effects of agricultural policy on the income and prosperity of farmers should not be overestimated. The impact of other forms of rural development are, so far, more evident in Uganda than in Cambodia because they have a longer history there. Uganda received

international aid for education, health care and infrastructure back in the early 1990s, while large-scale development aid for Cambodia became available after 2000 only. In Cambodia, the reduction of poverty is primarily a result of the resumption of economic activity after the restoration of peace, and not so much the consequence of a specific strategy.

Secondly, the smallholders of Uganda have been exposed to the workings of the market for much longer than their Cambodian colleagues. Back in colonial times, they were already cultivating cash crops alongside crops for their own consumption. While some Cambodians were working on French rubber and rice plantations, most smallholders were growing rice for themselves. In a less distant past, the experiments with collective agriculture in the 1970s and with socialist planning in the 1980s devastated healthy markets for agricultural products. Those markets had to be rebuilt before a substantial improvement in former income and a reduction in poverty could become apparent.

Thirdly, the Cambodian rice monoculture has its drawbacks. The fact that farming income is dependent upon a single crop, which is also traded internationally, makes it vulnerable to fluctuations in the market price. As a rule, Ugandan farmers not only grow several crops, making them less dependent upon a single crop, bananas and cassava are also less vulnerable to price shocks. Furthermore, this diversification allows them to switch quickly from crops with low cash yields to crops with higher ones.

* * *

THAT POLICY MAKES A DIFFERENCE, as emerges from other country comparisons, is confirmed by the findings of Leliveld and Ten Brummelhuus in Cambodia and Uganda. There is one reservation: the margins for policy effects there are smaller than in the countries discussed earlier. Both Cambodia and Uganda have, in part as a result of donor pressure, left agricultural development to the market. As a result, policy initiatives that achieved such striking results in Indonesia, Thailand, Malaysia and Vietnam were not deployed in Cambodia and Uganda.

In Cambodia, there was a successful agricultural education programme for rice farmers conducted jointly by government and an NGO. But the agricultural policies of both Cambodia and Uganda lack an effective supply of subsidised

inputs (fertiliser, seeds, pesticides), subsidised credit and the stabilisation of food prices for farmers. The farmers of Cambodia and Uganda are exposed to the whims of the markets for inputs and agricultural products, and that makes them vulnerable.

Ten Brummelhuis and Leliveld therefore raise the question of whether agricultural policy that focuses exclusively on deregulation, as in Cambodia and Uganda, creates adequate conditions for an agricultural economy at a higher level of intensive production. The researchers see strong indications that the market cannot resolve the coordination problems in poor agricultural economies. Policymakers elsewhere in Southeast Asia are thought to have understood this at an early stage.

* * *

6. Discussion – Policy and interests

ON 12 AND 13 DECEMBER 2011, the organisers of 'Tracking Development' arranged a final conference at the Dutch Ministry of Foreign Affairs in The Hague. The two coordinators, David Henley and Jan Kees van Donge, both addressed the meeting, summarising the main conclusions. It is worth comparing their findings with the 'canon' of the World Bank, the 1993 report entitled *The East Asian Miracle*.

The World Bank praised the Asian tigers primarily for their macro-economic policy (controlling inflation and the sound adaptation of exchange rates to market conditions). Macro-economic policy also played an important role in recent decades in development policy in Africa. Henley and Van Donge confirm the importance of financial discipline but show that this went hand in hand in Southeast Asia with government incentives for smallholders to raise food production, higher rural incomes and poverty reduction. In Africa, there was a corresponding policy of poverty reduction. 'The East Asian Miracle' devotes just five pages to 'Dynamic Agricultural Sectors'. Experience in Southeast Asia, according to the Tracking Development researchers, has shown that agriculture is much more important than is suggested by this scant coverage.

At the same time, 'The Miracle' spends 88 pages on 'Markets and Exports'. The World Bank suggests that export-driven industrialisation is the key to Southeast Asian success. The researchers of Tracking Development demonstrate that experience in Southeast Asia actually demonstrates the limitations of a policy of forced industrialisation. Industrialisation there, they say, was more the result of an appealing investment climate than of industries established and protected by the state. Income development in agriculture led to the creation of a domestic market, and management of urban food prices kept wages and salaries low, making it appealing for industry to move into the area.

Without trivialising the importance of good governance, the researchers conclude from their comparison of sub-Saharan Africa and Southeast Asia that policy decisions are more important than good governance as an explanation of development. To adopt the jargon – but certainly not the arguments – of the World Bank: *policies* weigh stronger than *governance*.

Henley and Van Donge drafted their conclusions as a '3 x 3' formula: three policy components in combination with three implementation principles. They

list, as the main elements of successful development policy, in other words of policy that results in economic growth and poverty alleviation: (1) adequate macro-economic management; (2) pro-poor, pro-rural public spending and (3) economic freedom for peasant farmers and small entrepreneurs. The two researchers also list three implementation principles underlying both these policy decisions and the successful implementation of that policy in Southeast Asia: (1) outreach; (2) urgency and (3) expediency.

The researchers use the term 'outreach' to refer to the number of people who benefit directly from measures, not to the level of individual benefits and certainly not to the theoretical elegance, technical perfection or aesthetic value of the intervention. 'Urgency' refers to *priorities*, not *plans*. At the start of the process, at the point of transition from persistent poverty to steady growth, successful development strategies do not involve meticulous long-term planning based on what is desirable in the future. They involve establishing clear priorities based on what is undesirable in the present, and acting quickly on those priorities using the resources immediately to hand.

The researchers use the term 'expediency' to refer to *results*, not *rules*. This principle is reminiscent of the expression 'the end justifies the means' and it is therefore perhaps the most controversial component of the 3 x 3 formula. In his paper for the final conference, David Henley put it as follows: 'In successful developmental states, legal principles, administrative procedures, and political rights 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.'

For the final conference, the Ministry of Foreign Affairs had sent out a lot of invitations: diplomats, economists, researchers, people with practical experience in the field of economic development and also a few politicians. Over a period of three days, they discussed the Tracking Development project and the results of the research. There was a lot of praise for the work that had been done. Many people were very appreciative of the adopted method – paired comparisons of countries in Africa and Asia – and the clarity of the conclusions. However, there were some reservations about the three 'policy preconditions' of successful economic development.

Agriculture

The least controversial conclusion from Tracking Development was that widely supported development is possible only by making investments in small-scale farming and rural facilities. Van Donge discussed this with Akinwumi Ayodeji Adesina, Nigeria's Minister of Agriculture. The latter was born in Ibadan and his doctoral thesis in the USA was in the field of agricultural economics. His past employment included the post of director of the Rockefeller Foundation in Malawi.

Why would a young, promising Nigerian opt for a career in agriculture, was Van Donge's question for the Minister. Adesina: 'Because agricultural development is the fastest way of alleviating poverty. Look at China. That country lifted 440 million people out of poverty by concentrating on agriculture. Africa cannot develop without investment in neglected rural areas. About 80 to 90 per cent of Africans depend on agriculture. In Nigeria, 70 per cent of the population works in that sector. We must invest in peasant farmers to improve production and create jobs.'

In answer to the question of what Nigeria's biggest mistake was from the point of view of development, Adesina answered without hesitation: 'Turning our back on agriculture. Nigeria stopped investing in agriculture when we started exporting oil. The proportion of the budget spent on agriculture dropped to 1 per cent, for a sector that accounted for 44 per cent of GDP at the time. And by maintaining the naira exchange rate at an artificially high level, we blocked our own exports. Instead, the state invested exclusively in the oil industry. And we paid a high price. In 1961, Nigeria supplied 41 per cent of the world's groundnuts. At present, we supply 0 per cent. At the time, 80 per cent of global cocoa production came from Nigeria; that figure is now 8 per cent. We produced large quantities of palm oil, which now generates billions of dollars in income for countries in Southeast Asia. We earn nothing at all. Even in the 1970s, we were self-sufficient in food; now we are a net importer. Nigeria is now the world's second largest importer of rice and its largest wheat importer. That cannot continue, because it is fiscally unsustainable and economically unacceptable.'

Van Donge asked the Minister who was responsible for neglecting agriculture. Adesina: 'In Nigeria, we have had a long succession of military regimes who

made one ideological U-turn after another. The policy was completely inconsistent. Since 1998, we have had only civil governments. Democracy has stabilised. Our citizens now hold the government liable for the results of economic development. That is very important, and it was not possible when the military was in power. There is a much stronger emphasis now on development planning. The current government is targeting economic growth of 11 per cent in 2020. Our current growth rate is approximately 7.5 per cent. But that growth needs to be shared fairly and so we need to get agriculture out of the doldrums.'

Van Donge also wanted to know whether Adesina had learnt something from the experiences of Southeast Asia. The Minister: 'The most important factors I pick up from the experience of Southeast Asia, which has been phenomenal, are the importance of political leadership, a determination in the pursuit of development goals, and government investment in infrastructure. I am happy indeed to adopt general principles like these. But I don't think we should follow Asia's example slavishly. The public sector played a very large role indeed there and I don't think we should go back to those days.'

Back? 'Yes. In 1960, the private sector was weak in all developing countries. The government did everything: from food production, to transport, storage and processing. These days, the private sector is more vigorous and it is the motor driving growth. The job of the state is now to create the conditions that allow the private sector to perform effectively. By means of research, education and investment in infrastructure. For example, the state will have to improve the electricity supply because that is still a major problem. At the moment, we generate 4500 megawatts annually; by 2015, we want to triple this to 14,000 megawatts. That involves building gas- and coal-fired power stations, but also solar energy and hydro-electric power.'

'Agriculture', said Adesina, 'was often seen as a development project in the past. Agriculture has become a business, with the private sector driving growth. The farming population is ageing rapidly and so we have to make agriculture appealing to younger people. At the moment, that is not the case because they have no access to credit or land. So we want to start selling sections of state-owned land that have fallen into disuse. If we fail to make the sector profitable, young people won't want to work in it. And they often find the work to be too demanding physically and so we need modern equipment.'

Adesina talked about his view of government's role in agricultural development. 'Take farming prices. At the moment, we have food exchanges and a market information system that helps to stabilise prices. We don't always have to use public institutions. The government's role is to introduce quality standards and regulate. Take seeds and fertiliser. In Nigeria, fertilisers have always been supplied by the state. But that channel always reached only a limited number of farmers. As minister, I took the purchasing and distribution of fertilisers out of state hands within a month, and entrusted it to the private sector. The same applies to seeds. Our current role involves reducing banking risks by providing our banks with the financial instruments they need to give loans to seed and fertiliser companies. We tell them: if you loan money to those companies, we will cover 70 per cent of any losses you make. If fertiliser and seed companies are left with stocks on their hands at the end of the season, we buy back 30 per cent. And if those companies reach 100 per cent of our farmers, we give them a 10 per cent bonus. In other words, I am transforming the private sector from a supplier for state warehouses into a direct supplier for farmers.'

38

The minister concluded by saying: 'My government wants Nigeria to be a powerhouse for food production and exports. There is no choice, because 72 per cent of the population live on just 1 dollar a day. We must create jobs quickly, and the fastest way to do that is in agriculture. However, at present, only 3 per cent of our budget is spent on agricultural policy, even though the sector accounts for a quarter of GDP. That is still much too little.'

Macromanagement and financing

The ingredient on which the World Bank and the Tracking Development researchers agree is macro-economic stability. None of the participants at the conference argued with the importance of controlling inflation, financial discipline and a sensible exchange rate policy. Even so, some of them pointed out that, in *all* cases in which macro-economic management in developing countries contributed to economic growth, this was associated with considerable financial injections from the outside: loans, investment and aid.

Many African countries turned to international financial institutions like the IMF and the World Bank in the 1980s, and were then subjected to restrictive conditions such as drastic cuts in the public sector and less state intervention. These formulae have become infamous as 'structural transformation'.

Nigeria under General (President) Babangida also found itself in this situation. Akinwumi A. Adesina, Nigeria's Minister of Agriculture, remembered the 1980s: 'Of course, a lot of market organisations in Nigeria were much too bureaucratic. Of course, public spending got out of hand. But the programme of structural transformation was disastrous for our rural economies. Agricultural research? There was no more money to fund it. Agricultural education? We had to fire advisors throughout the country. Price support for agricultural products? We didn't have the money, while countries in Southeast Asia were receiving generous funding from the international community.'

Jan Kees van Donge, who found during the course of the Tracking Development project that Malaysia had much more access to international financing than Kenya, admitted during the final session: 'When I hear now that macro-economic stabilisation is a prerequisite for growth, I am much more sceptical because I now realise the extent to which that growth is dependent on injections of capital!' He reminded the participants that foreign donors had brought together large sums of money in 1985 to help Indonesia through an economic crisis. The thinking was that the crucial role played by donors at the time had received too little attention in discussions about Indonesian development.

Jan Pronk was the Dutch Minister for Development Cooperation in the years 1973-1977 and 1989-1998. In that capacity, he was also the chairman of the Intergovernmental Group for Indonesia (IGGI), the donor organisation. Pronk once commented that Indonesia was offered more aid after General Suharto came to power than it actually asked for. Why did some countries get so many soft loans and others none at all?

Jan-Paul Dirkse, a historian, diplomat and Indonesia watcher, suggested part of the answer. In his contribution, he asked for attention to be paid to factors that are not straightforward for economists: culture, contacts, language. In particular, he discussed the relationships between the Netherlands and Indonesia in the quarter century between 1967 and 1992, the peak years of Suharto's New Order: 'Suharto was a soldier with a gift for selecting the right advisors. He surrounded himself with a group of technocrats who talked the same language as just about every significant donor. They were trained in the United States and so the Americans had a soft spot for them, as did the World Bank in Washington. Others were trained at the Netherlands School of Economics (NEH) in Rotterdam and they could still swap ideas in Dutch with Dutch

people interested in Indonesia. Turning to development in Indonesia since 1967, we cannot escape the prominent role played by the donor community. This same room in The Hague hosted frequent IGGI meetings in the latter half of the 1980s, when donors made increasingly larger sums available to the Indonesian government. The process was led by the Netherlands, which in itself was remarkable. Other donor consortiums were generally presided over by the World Bank. In effect, this was a clever strategic move by Widjojo [Widjojo Nitisastro, the leader of the Indonesian technocrats, ed.], who did not like the Dutch much, but who was keenly aware of the Dutch tendency to be guided by postcolonial reflexes. He knew this would always work in Indonesia's favour and that Pronk would convince major donors such as Japan, the USA and the World Bank that the Indonesian proposals were sound and that their approach was the right one. Interestingly enough, a large proportion of the policy measures proposed by Widjojo and his colleagues had already been developed in 1930s by a Dutch economist, Julius Herman Boeke [1884-1956]. He had, in different conditions, already placed the emphasis on agriculture and self-sufficiency in agricultural products.'

The cultural factor, the fact that people talk the same language, is important, said Dirkse. For his book about Dutch-Indonesian relations in the years 1962-1992, he talked to the American Robert McNamara, who led the World Bank from 1968 to 1981, a few years before his death in 2009. Dirkse: 'He was still upbeat about the World Bank's work in Indonesia. He said, in as many words, that the fact that "we talked the same language" generated a great deal of development funding for Indonesia, even though it was not always spent as wisely as it may have been.'

Minister Adesina responded enthusiastically: 'I'm happy somebody has brought up McNamara. At the time, he told the Indonesians: "If you don't produce as much rice as you want, I'll find the funding you need." The World Bank paid for everything, and most of it was free. In the meantime, development aid for Africa was cut back for three decades. Including aid for agriculture. You can't get water out of a stone!'

The second day of the final conference was devoted to a debate between the researchers of Tracking Development and development economists, chaired by the director of the Africa Studies Centre, Ton Dietz. One of those debates looked at the thorny issue of the importance of external financing – aid *and*

investment. Some participants were convinced that the countries of Southeast Asia would never have achieved their economic breakthroughs without a massive inflow of foreign funds, either from aid organisations or foreign investors. In this area, the differences between Africa and Southeast Asia are undeniable. The discussion focused on the 'crucial moments', the role of outside capital as an acceleration factor; and also on the causal link. Did economic growth start after a major wave of investment or did foreign investors arrive because they were optimistic about growth? And when do foreign investments actually promote growth, and do they subsequently maintain steady growth? A lot depends on the relationship between local and foreign capital, and the performance of financial systems.

'Freedom'

The third element of successful development policy identified by the Tracking Development researchers was 'economic freedom for peasant farmers and small entrepreneurs'. This has the ring of an article of faith. In the Asian countries examined during the project, we see much more state intervention, both in agriculture and industry, than would be expected on the basis of the definition of this 'third precondition'. State involvement is not the same a *lack* of freedom, but the term 'economic freedom' does not do full justice to the complex Southeast Asian reality of state-owned enterprises, market regulation, subsidies and price policies. There were lively discussions during the final conference about the relative importance of market forces and state intervention.

Under the heading 'experience', Jan Kees van Donge led a debate between Akinwumi A. Adesina, Nigeria's Minister of Agriculture, Do Duc Dinh, the director of the development studies department at the Institute of World Economy in Hanoi, and Arie Kuyvenhoven, emeritus professor of development economics at Wageningen University with past experience as a teacher and consultant in Nigeria and Indonesia.

Minister Adesina pointed out that the state had played a very active role in the success of Southeast Asia: 'The institutions that made agriculture work were all state-run. They regulated financing, price stability, inputs, education, purchasing and distribution. Without active state intervention, Asia would never have worked.'

The same applies to Indonesia, which Tracking Development identified as the showpiece of successful poverty reduction. Minister Adesina mentioned the controversial *Bulog*, an Indonesian acronym for Public Body for Logistics, which played a major role in Indonesian food policies. According to Kuyvenhoven, this was an example of justifiable state intervention: 'In the 1960s, many Asian countries were food importers. For Indonesia, turning that situation around was vital. That explains the creation of Bulog, a government institution for buying and distributing basic food supplies. You can say all you like about Bulog – there were quite a lot of irregularities – but it gave Indonesia the opportunity to set stable floor prices for rice and ensured that people had enough rice. Notwithstanding the problems, Bulog was very important for the Indonesian poor.'

Van Donge pointed out that the state-owned enterprise Vinafood played – and continues to play – the same role in Vietnam as Bulog did in Indonesia. Professor Do Duc Dinh agreed but left unresolved the question of how long this would continue to be the case: 'In Vietnam, since the reform era, we have had state-owned enterprises, collective enterprises, cooperatives and private companies. The state sector plays a fundamental role but the private sector is good at producing and distributing food, and it will acquire an ever larger role. Vinafood will still have a role to play, but it will be less important than in the past.'

In 1998, the donors lined up to tell Vietnam that it needed to privatise its economy. However, their calls fell on deaf ears. Van Donge asked Do whether the secret of Vietnam's success was perhaps the fact that it did *not* privatise. Do: 'The IMF, the World Bank and other donors did indeed urge us to reduce the state-sector burden. But we thought it was useful. The state sector is not very efficient by comparison with the private sector but it did lay the foundations for the industrialisation of Vietnam. We now have an oil industry, a steel industry and a range of construction contractors for infrastructure projects.'

When Indonesia started out on the road to industrialisation in the 1980s, there was a tendency to support domestic industries through subsidies and to shelter them using protectionist tariffs. Kuyvenhoven was appointed as a consultant by the Ministry of Industry at the time. 'Indonesia achieved an enormous boost in agricultural productivity – fewer people were producing more – and jobs

were needed for the people who were turning away from farming. There was only one solution: industrialisation. Indonesian policymakers initially adopted the classic model of import substitution. Thanks to all sorts of protective measures, cement factories, steel plants and textile mills all saw the light of day. But this protective approach failed to take comparative benefits and competitive strength into account.'

'We were sent to Indonesia,' recalled Kuyvenhoven, 'because the Ministry of Industry was not satisfied with the results of the industrialisation policy. It was failing to generate enough employment, it was costing too much foreign currency, and the emphasis was on capital-intensive industry. An aeroplane factory was even built near Bandung, even though Indonesia lacked the required know-how. We were asked to advise alternative strategies that would make better use of the country's own natural resources and cheap labour. We thought Indonesia would be better off turning to the processing of agricultural products. The idea was that this would attract private investors. At the time, there was a power struggle at the Ministry of Industry between advocates of protected heavy industry and import substitution, and supporters who were more concerned about creating employment.'

Asia is now advising Africa not to cut back on state intervention too quickly. The Vietnamese participant at the conference, Do Duc Dinh, had travelled far and wide in Africa in recent years, and his journeys included Tanzania and Zimbabwe. Van Donge asked him what Africa can learn from Asia.

Do: 'Africa now is very much like the Vietnam of the 1980s. Vietnam got moving back then, and it's time for Africa now, too. And it can draw on our experience. Africa must start by setting priorities: agricultural development, the production of consumer goods and export development. And as for market forces: in Vietnam, we have learnt that state-owned enterprises do not generally make profits. But you should not hive them off too quickly, because they can help to establish an industry. In Tanzania, all industrial state-owned enterprises were shut down when the reforms started. For example, the only paper factory in the country, the state-owned enterprise, was sold to a South African company for one dollar. Even though they could have earned millions from that factory. In some sectors, you need state-owned enterprises; in others, you actually need market competition.'

Good governance

The most surprising conclusion from 'Tracking Development' is that the quality of public administration, in development jargon *governance*, is less important as an explanation of policy successes and failures. 'Governance' covers a whole range of factors that combine to form the environment in which development policy is created, such as the integrity of the civil service and politicians, formal and informal rules, and the performance of financial institutions and public services. Development economists, policymakers and international financial institutions have started to find these factors increasingly important in recent decades. Accordingly, a few participants at the final conference found this Tracking Development conclusion difficult to accept.

Peter Lewis, a lecturer in Africa Studies at the Johns Hopkins University in Washington DC, was the first to state his objections. 'We mustn't be too eager to disregard institutional issues, such as governance, as a factor in development. Once we have found that particular policy decisions have been effective, we still have to explain why those decisions have been made, why they were implemented and why, even if complete consistency was sometimes lacking, people have stuck with them for decades. Was that perhaps because the institutions were good enough? Because teachers were paid on time, agricultural advisers did their work, and because the banking sector operated efficiently enough? These are all features of both public services and the overall institutional environment in large parts of Africa. We must ask ourselves what improvements are needed in the quality of governance to achieve results in terms of shared economic growth.'

Seth D. Kaplan, an American consultant in the field of development issues and the author of *Fixing Fragile States* (2008), looked in greater depth at a widely-discussed governance problem: corruption. 'We assume that the numbers supplied by some international think-tanks about phenomena such as "corruption" and "governance" provide an adequate picture of corruption in a particular country. But I believe they misleading and even deceptive. Everybody who does business in Asia and Africa will agree: corruption is not a simple phenomenon. Corruption is several things at the same time. Corruption in China costs money but it doesn't affect results. Corruption in Africa costs money *and* it has a dramatic impact on results. Bad governance in China is not

as bad as in any given African country, even though the international scores may be the same. So the numbers are virtually meaningless.'

Both coordinators responded. Jan Kees van Donge had the following to say: 'As an Africanist looking at the reality of Asia, you see enormous waste. For example in steel plants, which are extremely inefficient. Malaysia has its own car industry, which produces a car called the Proton, and this is not exactly an industry which performs optimally. The prevailing idea is that Southeast Asia is a smoothly operating development machine, but that is not the case. That is the reality I am trying to capture when I talk about the quality of governance. The Malaysian government lost an estimated \$350 million speculating in tin in the 1980s. But Malaysia also has the national oil company Petronas, which is exemplary in terms of efficiency. In Indonesia, the national oil company Pertamina fell into the hands of the Suharto clan in the 1980s and flirted with catastrophe as a result. In Africa, it is not difficult to find examples of wasteful plans and projects. And a lot of personal enrichment is involved. The question now is why Southeast Asia survived these squanderous practices, while Africa did not. Yes, institutions are important but they are not as decisive as many people think.'

David Henley agreed with Seth Kaplan: not all corruption is the same. 'The difference,' he said, 'is a question of predictability. Many people feel that this is the most important difference between corruption in Africa and corruption in Asia. When corruption is completely predictable, it turns into taxation, and investors can take taxation into account. When we turn to development policy, we can see corruption as a given to be included in investment decisions. We can also see corruption as a factor that affects the implementation of policy. Africanists are obsessed by this latter area: the degree to which the hands of government are tied during the determination of policy or to which they are simply ineffective because the policies they draw up are simply not implemented. I would be more impressed by that argument if African leaders had seriously tried, with the same urgency we have seen in Asia, to implement the right policies. As far as I know, that has been the case so infrequently that there is little reason to see corruption as a serious obstacle to implementation.'

In the economists' debate on the second day of the final conference, putting 'governance' into perspective was a widely supported approach. One question that emerged was the degree to which 'bad governance' can go hand-in-hand

with economic breakthroughs and whether it may not even be a precondition. Stability and confidence in the continuity of leadership were seen as more important for steady growth than compliance with all the criteria of good governance. Some forms of authoritarian, even corrupt, governance that benefit the poor and provide for stability can be the backdrop to long-term growth. This is a familiar controversy in political economics: does economic growth create a middle class that then demands transparent government and more liberal conditions for its urban lifestyle and economic behaviour? Or is 'good governance' required first, together with freedom for business and the middle class in general before steady growth can be achieved? The Tracking Development findings tend towards the first position, although the question that then inevitably emerges is which forms of corruption and lack of freedom further growth, and which get in its way.

Policy and interests

42

It is all about making the right policy decisions, conclude the Tracking Development researchers. But then the inevitable question is: why was it precisely the leaders of Southeast Asia who made the right decisions over the past half-century? That question, which addresses the motives underlying policy decisions, was stated most powerfully by Seth Kaplan. He had been somewhat irritated by the paper in which David Henley set out the three policy preconditions for successful development policy: outreach, urgency and efficiency. Kaplan: 'The final paragraph, in the last sentence but one, of the paper says: "It [the paper] has not yet attempted to specify the political conditions under which regimes emerge that are likely to commit themselves to these goals." That one sentence sums up my frustration immediately. The question is left open of why government A does do something and why government B doesn't.'

'I always wonder: what role does the socio-political dynamic play? What is the role of the regime's ideology? Has it worked as a bonding factor, as an engine? What role does national cohesion play? In Southeast Asia, Myanmar is the only country with major ethnic tensions. It may be a coincidence, but that is precisely the country where development has almost completely failed to take off. In Africa, Botswana has been the most successful country economically and it is also the country where internal cohesion is highest.

'And what is the effect of the environment? Are there successful countries in the vicinity from which these countries in Southeast Asia have learnt? Was there aid or investment from those countries? I do not believe that China would be in its current position without that "neighbour effect". Looking at Africa, I see major similarities between the development ideology there and the Europe of the 1950s, 60s and 70s. Those ideas are still leading. Is that why the Africans have learnt the wrong lessons? And is that the mistake of the donors? In short, was there an element in Southeast Asia in the ideology of the elite or the government, something in national cohesion, that propelled the process and that is difficult to reproduce in Africa? You need pulling power to get the bandwagon rolling.'

Henley took up the gauntlet: 'Of course we've thought about this and we have had long and lively debates. And in future publications we do indeed discuss the political background to decision-making in Southeast Asia. In somewhat simplified terms: there are two types of state in the area that have been successful in economic development. On the one hand, there are the counter-revolutionary states – Indonesia, Malaysia and Thailand – and, on the other, there are the post-revolutionary states that have implemented market-driven reforms – Vietnam and its neighbours. Nevertheless, in both cases, the legacy of socialism and of the armed struggle was crucial. And that does not bode well for Africa because socialism as an ideology has not played any significant role in most African countries and where it did, as in Kenya, it was no more than nationalist rhetoric.

'Other factors are slightly more complex. They are, I believe, linked to the way in which the world view of African policymakers has been formed in the past by idealistic notions. The cultural gap between African policymakers and rural areas, as well as experience with rapid changes in the colonial period, have imbued African politicians with a sense of development as a radical metamorphosis, by contrast with the gradual model of economic development adopted by Asians.

'So a range of factors are involved and we are certainly not ignoring them. Even so, the issue remains of how relevant all this is. If we want to draw conclusions that are significant in terms of future policy, conclusions about what has to be done, then the question of why Asians and Africans have taken particular decisions in the past is less relevant. What matters is whether people can be prompted to take the right decisions in the future. Nobody believes this will

be easy. The best avenue open to us is to show policymakers in Africa that pro-poor policy is not just good for the poor. That it is development policy, and that it will in time benefit both the urban elites and the rural masses. The least we can say is that it has worked in Southeast Asia. And that must surely influence policymakers in Africa and the members of the donor community who influence them.'

David Booth made the concluding remarks to this theme. He works as a researcher for the Overseas Development Institute (ODI) in London, where he manages the 'Africa Power and Politics Programme'. His contribution was therefore about politics and power:

'We started this meeting this morning with a crystal-clear message. Of course, we can all make that message better; even more robust, but it can also become less clear. Tracking Development must stick with the message we were given this morning: that the right policy decisions do indeed make a difference.

'That raises the question – and that is what the discussion increasingly centred on – of how rulers arrive at these decisions. Well, some opt for sensible policies, and others don't. It's about priorities. If I may sum up the thinking, not just with respect to Southeast Asia, but more or less for all fast growers in Eastern Asia, it is ultimately about a fundamental challenge to national security in a critical period. In many, but not all, cases, this was the dynamic of the Cold War. That dictated the overriding priority for economic development: to face up to a major challenge to national security. And such a powerful political motive means that a particular policy will be adopted and institutionalised over the course of time. So you cannot just import packages of policies. But nor can you throw up your hands and say that every situation is unique and that no lessons can be learnt. Of course lessons can be learnt. But when it comes to the crunch, a particular policy will generate support and priority only if it furthers the political survival of the most important decision-makers, the top leaders. Leaders will try everything, but only things that actually help their political survival happen.'

* * *

7. Conclusion – Development starts with agriculture

CHINA IS INVESTING IN African roads, mines and agricultural land, and India is following that example. Africa, which started out on the road of independence of a century ago in the same circumstances as Asia, has lost the initiative. Its failure to keep up is particularly painful when we compare sub-Saharan Africa with the countries of tropical Southeast Asia, which acquired the honorary title of 'tiger economies' in the 1980s. Africa still has no economic tigers.

In 1960, Africans were richer on average than Southeast Asians. In about 1980, Southeast Asia overtook Africa in terms of growth, and per capita income there is now twice what it is in Africa. In the 1990s, there was some growth in Africa thanks to improved macro-economic policies and rising demand for mineral resources. But that growth has not helped to cut poverty levels. In Southeast Asia, economic growth was associated with a spectacular reduction of poverty. In Indonesia, the percentage of people living below the poverty line fell from 60 in 1970 to 22 in 1984. Other countries in the region booked similar achievements, albeit at different times. The latest winner is Vietnam.

44

Many Africanists attribute Africa's failure to corruption and 'weak institutions'. David Henley, the Tracking Development researcher, is sceptical about this explanation: 'Indonesia, during the period of its greatest development success in the 1970s, ran neck-on-neck with Nigeria for the title of most corrupt country, with Thailand as a close runner-up. The reason for Africa's failure, we would argue, is not corruption and is not the failing implementation of potentially successful development policies. Rather it lies in the fact that Africa's governments have actually never tried to implement the kinds of policies which proved successful in Asia.'

In Indonesia, incomes started to rise, after a long period of stagnation, in 1967 when General Suharto took over the presidency. In Nigeria, which the project compared with Indonesia, among other reasons because both countries are major oil producers, the economy also continued to grow for some time because of its oil revenues. But that growth was not maintained. In Southeast Asia, the economy continued to grow due to a development strategy that favoured rural areas and the poor.

Indonesia initially financed investment with foreign aid, and later from its oil revenues. A third of the development budget went to agriculture. The irrigation system was improved and new rice varieties with high yields were introduced.

Fertilisers and credit were subsidised. The state guaranteed farmers a minimum price for their rice. Between 1968 and 1985, yields per hectare rose by 80 per cent. In the 1960s, Indonesia was still the world's largest importer of rice; by 1984, the country was self-sufficient.

The new agricultural technology was labour-intensive. Tens of millions of farmers and land workers benefited. The government also invested in rural roads, electricity, schools and health care in rural areas, which are home to 70 per cent of the population. This was mostly financed from aid. The economy as a whole started to grow, and private parties began to have confidence in the country in the 1980s. They started to invest in labour-intensive industries for export: clothing, shoes and electronics. Elsewhere in Southeast Asia, something similar happened.

In Malaysia, steady growth began in 1958, when the government of the newly-independent Federation of Malaya announced that it would 'give top priority to the task of improving the lot of the rural inhabitants.' Within fifteen years, high-yielding rubber trees had been planted in two thirds of small rubber plantations using government subsidies. At the same time, rice production doubled, again within fifteen years, thanks to new irrigation projects which made it possible to grow two rice crops in the same paddy each year instead of just one.

In Vietnam, rice production doubled between 1975 and 1990. This is the same development, but later. By contrast with the usual thinking, that increase in production was not so much a result of deregulation. Production rose during that period mainly as a result of the extension of the irrigated area under cultivation, making double cropping possible, as in Malaysia.

In Cambodia, everything happened later because of the disruption caused by the Pol Pot regime. But in Cambodia too, particularly since 2005, we have seen steady growth and poverty alleviation, as well as an increasing government emphasis on agriculture and rural development.

Everywhere in Southeast Asia, steady growth and poverty reduction started with an agricultural revolution supported by peasant farmers but made possible by high levels of government investment. The exact causal link between this agricultural revolution and later industrial development is unclear but we do know that the transformation of farming was the first step on each occasion.

The policy measures unleashing this revolution were based on the understanding among Southeast-Asian policymakers of the two principles of successful development planning. The first principle is that development is, in the first place, a question of numbers and that the most effective policy measures are those that benefit the largest number of people. The second principle amounts to a sense of urgency: the awareness that what matters in the early stages of development is not meticulous long-term planning, but priorities.

Why was this? The political realities of the 1960s forced Asian elites to take the interests of peasant farmers seriously. Malaysia (and Thailand) faced Communist uprisings after the war. The Communist party of Indonesia depended on the support of the Javanese rural poor and seriously threatened to achieve dominance until it was crushed by the military in 1965. The development plans for rural areas served to neutralise the appeal of political radicalism and therefore to safeguard the power of the elites.

African governments saw 'development' primarily as rapid industrialisation to get ahead of backward agriculture. While Indonesia was spending its oil dollars in the 1970s on labour-intensive agriculture, Nigeria was using its oil revenue for capital-intensive industrial projects, including an enormous steel factory that has never produced any steel. Even when they produced something, these new industries employed very few people. They were like cathedrals in the desert. Nigerian planners saw the growing gap between rich and poor as 'the price of rapid development'.

A few African countries such as Kenya, another country that Tracking Development has scrutinised, did focus on agriculture. The agricultural sector was not neglected to the same extent as in Nigeria. But even in Kenya, economic growth was hampered by an elitist view of the development process. The Kenyan government did not back the masses of rural farmers, who demanded most attention. The government thought they were 'conservative' and not sufficiently innovation-minded. The authorities actually put their money on a small group of 'progressive' farming entrepreneurs. In the 1960s, agricultural subsidies went to 3 per cent of farmers, an elite.

The African pattern of state spending on different economic sectors has not changed in recent years from the situation in 1980. It closely resembles the expenditure pattern in the present, industrialising, Southeast Asia. But it is very

different from the Asian pattern in 1980, when there was massive investment there in the two sectors that Asian policymakers considered crucial to launch economic development: agriculture and the transport infrastructure. In Asia as a whole – including India – 15 per cent of public spending in 1980 was on agriculture. In 2005, the same figure for Africa was 5 per cent. The other sector, transport and communications (mainly road construction), accounted for a much higher proportion of Asian spending in the 1980s than we are currently seeing in Africa. These patterns have therefore hardly changed at all.

Even so, many observers think that recent developments in African agriculture are promising. They think that the policy mistakes of the past can finally be corrected. In 2003, the member states of the recently established African Union (the successor to the Organisation of African Unity) resolved to devote at least 10 per cent of government spending to agriculture. So far, only eight countries have actually done so. And the target of 10 per cent falls a long way short. Indonesia, where the conditions for agriculture are much more favourable, earmarked 22 per cent of public spending for that sector in 1979.

* * *

What can Africans and donors learn from Tracking Development?

Mercy Karanja, a Kenyan who worked for the Ministry of Agriculture for many years, leaving her post with considerable reluctance to start a second career with the Kenyan National Farmers Union, had the following to say at a conference at Wageningen University in October 2007: 'It is not just the donor community, that keeps harping on about pulling down tariff walls, but also our own political leaders who need a wake-up call. And that is only possible if farmers have more power. Since the arrival of multi-party elections in 2002 in Kenya, our voice is being heard. Really, without strong farmers unions, there will be no change of course in Africa.'

Jan Kees van Donge had the following to say after the project finished: 'Without the threat of communism and of a potentially powerful, rebellious farming community, you cannot understand Southeast Asia. That does not, incidentally, mean that African leaders are unable to understand that it is also in their interests to give priority to raising farmers' incomes.'

According to David Henley, electoral democracy does not put the same pressure on African governments as the Asian uprisings did in the past. 'But donors can prioritise the right activities. They can call the attention of African elites to the fact that successes elsewhere have been achieved by pro-poor, pro-rural strategies. Those strategies not only alleviated poverty but also initiated processes that brought prosperity to entire countries.'

The message would appear to be getting across. Ruud Treffers, the Dutch ambassador to the World Bank, had the following to say at the Tracking Development final conference: 'It is of course very logical to prioritise agricultural development when most people live in rural areas and depend on agriculture for their livelihoods. It is strange that we have forgotten about this over the course of the years.'

* * *

Credits

| | |
|---------------------|------------------------|
| Author | Dirk Vlasblom |
| Assignment | African Studies Centre |
| Layout and printing | UFB / Grafimedia |
| Translation | Pete Thomas |
| Number of copies | 1,500 |
| ISBN | 978-90-5448-126-3 |
| Photos | Blandina Kilama |

| | |
|-------------|--|
| Photo p. 24 | Women shelling cashew nuts at Premier in Dar es Salaam, Tanzania |
| Photo p. 25 | Women sorting cashew nuts at My An Company in Long An, Vietnam |

The Tracking Development project was conducted by the African Studies Centre in partnership with the Royal Netherlands Institute of Southeast Asian and Caribbean Studies, which are both located in Leiden. It was financed by the Dutch Ministry of Foreign Affairs.



African Studies Centre

| | |
|------------------|---|
| Post address | P.O. Box 9555 2300 RB Leiden The Netherlands |
| Visiting address | Pieter de la Court building Wassenaarseweg 52 2333 AK Leiden The Netherlands |
| Telephone | +31 71 527 3372/3376 +31 71 527 3354 (library) |
| E-mail | asc@ascleiden.nl asclibrary@ascleiden.nl (library) |
| Website | www.ascleiden.nl |
| Twitter | www.twitter.com/ASCLeiden |
| Facebook | www.facebook.com/ASCLeiden |