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

To Conclude

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

2

Diverging Paths: Explanations and Implications

David Henley & Jan Kees van Donge

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

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

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

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

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

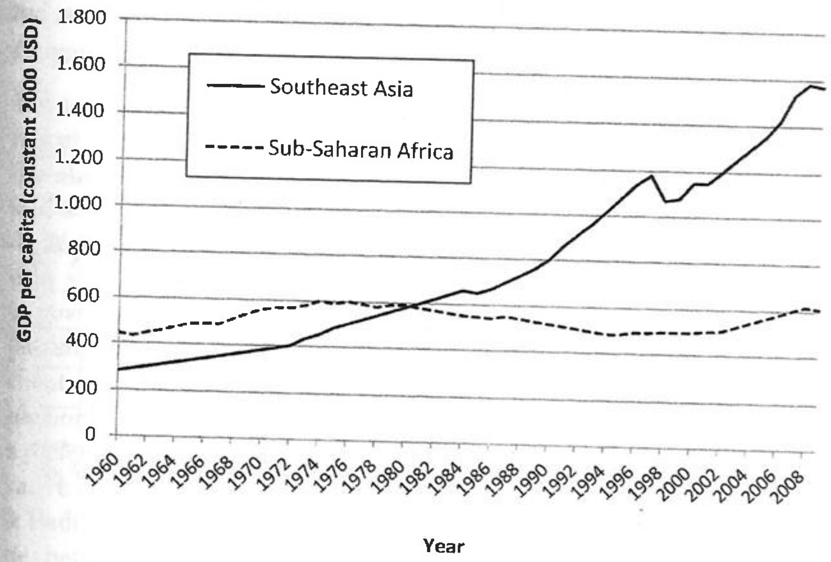
These historical and geographical similarities, together with the fact that since the 1960s both regions have been characterized by corruption and a notorious lack of 'good governance', make the comparison of Southeast Asia with Sub-Saharan Africa a sharp tool for the analysis of development issues.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

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

Scope of the Divergence

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

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

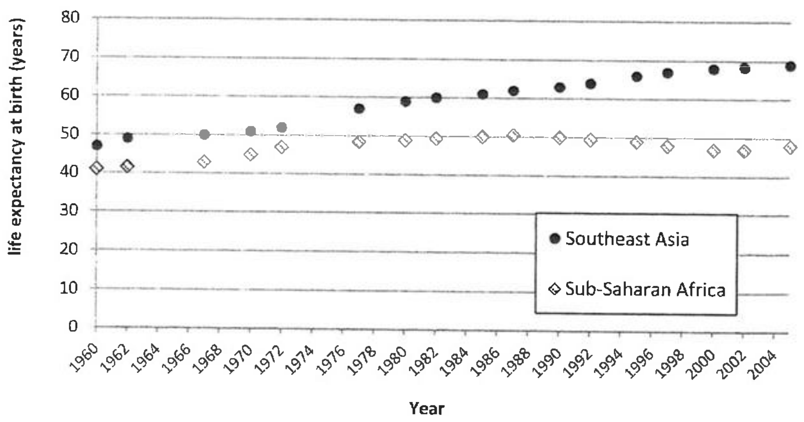


Source: Calculated from online World Development Indices / World DataBank (World Bank).

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

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

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



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

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

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

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

Origins of the Divergence

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

during the late 1980s and early 1990s, despite attempts to discipline the economy in the face of falling oil revenues, was strongly associated with negative economic performance (Figure 2.3).

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

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

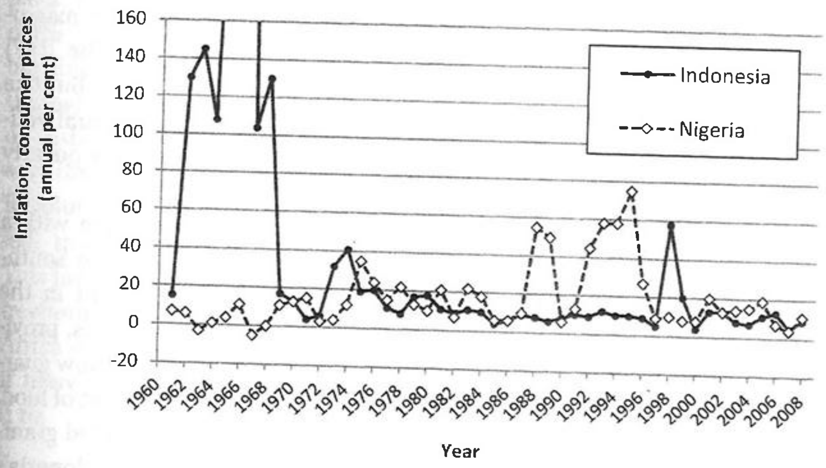


Figure 2.3 Inflation, consumer prices (annual per cent): Indonesia and Nigeria, 1960–2008 (Indonesia peaks off scale at 1136 per cent in 1966)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tracking Development Conclusions and Methodology in Comparative Perspective

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

In Southeast Asia the industrial export boom, when it came, was largely a private-sector response to macroeconomic stability, economic freedom, adequate infrastructure, and—perhaps above all—an already healthy rural economy. These conditions ensured political stability, private saving and

investment, enlarged domestic markets, and a cheap, reliable food supply for workers. It is important to note that when Southeast Asian governments have attempted to nurture specific manufacturing sectors to the point of competitiveness along Japanese or Korean lines, as in the case of the Indonesian and Malaysian car industries, they have generally failed (Jayasankaran, 1993; Aswicahyono *et al.*, 2000). The fact that this failure usually had to do with corruption and clientelism (Roemer, 1994) should make policy-makers in Africa—which, as noted, is much more comparable to Southeast than to Northeast Asia in terms of institutional quality—doubly wary of interventionist industrial strategies.

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

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

Factors Influencing Policy Choices

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

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

On close inspection, however, communism and anti-communism are not the whole story here. Communism in Malaysia was almost entirely an affair of the country's ethnic Chinese minority, whereas the beneficiaries

of the rural development effort were Malays who showed few signs of being attracted to communism anyway. By the time Indonesia adopted its pro-poor, pro-rural development policies under President Suharto, the Communist Party of Indonesia had already been bloodily and comprehensively destroyed during Suharto's rise to power in 1965. In interviews conducted by Tracking Development researchers, senior Indonesian technocrats of that time have strenuously denied that political considerations affected their policy choices, which they insist were based purely on economic logic, and indeed on common sense.

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

Implications for Development Cooperation

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

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

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

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3

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

Peter Lewis

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

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

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